XL CAPITAL LTD

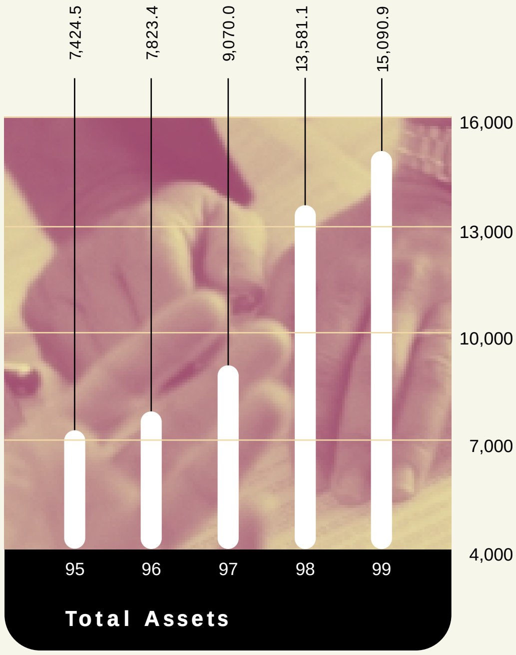
1999 ANNUAL REPORT

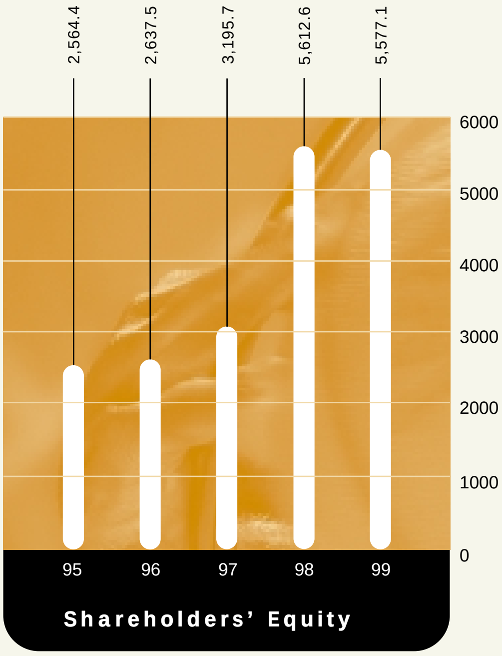
excellence

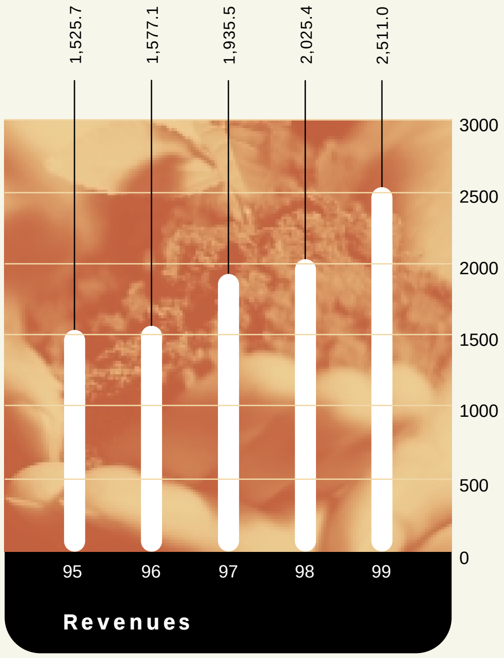
Seizing Opportunity

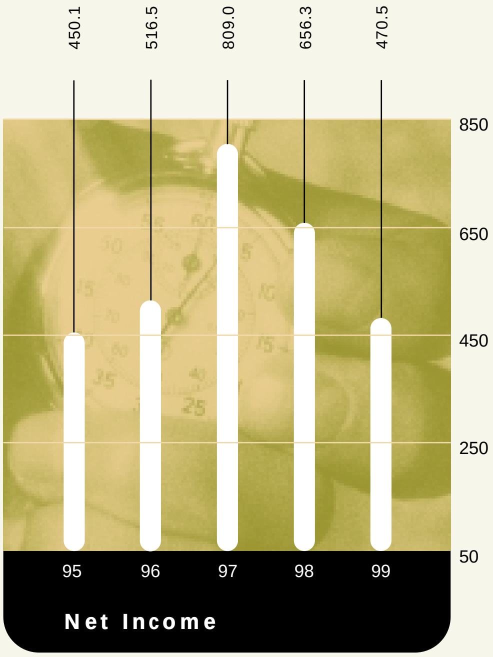
FINANCIAL HIGHLIGHTS

(at December 31, in millions U.S. Dollars)









financial strength + superior execution

VISION

To be the best at building superior shareholder value in multinational insurance, reinsurance and specialty financial services through an innovative culture that values integrity, professionalism and teamwork.

MISSION

To create profitable growth through the efficient delivery of value-added products and services to our quality franchise customers. We will optimize our competitive advantages, through continued investment in our people and by leveraging our unique combination of structure, entrepreneurial culture, balance sheet and intellectual capital.

"XL", "XL Capital" and the "Company" all refer to XL Capital Ltd and its subsidiaries.

SEIZING OPPORTUNITY / SEEKING EXCELLENCE

XL CAPITAL'S SUCCESS HINGES ON A CORPORATE CULTURE THAT IS BUILT FOR TRANSFORMATION – ONE THAT IS OPPORTUNISTIC, SMART AND AGILE, THAT IS CONTINUALLY LEARNING AND ABLE TO RECONFIGURE AND REFINE ITSELF IN THE FACE OF FUTURE CHALLENGES AND OPPORTUNITIES, AND THAT IS, ABOVE ALL ELSE, DEDICATED TO THE PURSUIT OF EXCELLENCE. THE COMPANY HAS PROSPERED THROUGH A SOPHISTICATED COMBINATION OF PRECISION, IMAGINATION AND ENTREPRENEURIAL DRIVE, AND CONTINUES TO GROW AND DIVERSIFY THROUGH STRATEGIC MERGERS, ACQUISITIONS AND PARTNERSHIPS WITH LIKE-MINDED COMPANIES. THE ABILITY TO ANTICIPATE AND SEIZE OPPORTUNITIES ENABLES XL CAPITAL TO CONTINUE TO RE-DEFINE THE EXPECTATIONS AND PRACTICES OF THE INDUSTRY.

Ability to Seize Opportunity

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EXECUTIVE MANAGEMENT BOARD

Richard R. Morano
President
XL Global Services Inc.

K. Bruce Connell
Executive Vice President
XL Capital Ltd
President and Chief Executive Officer
XL Capital Products

Robert R. Lusardi
Executive Vice President
and Chief Financial Officer
XL Capital Ltd

Nicholas M. Brown, Jr.
Executive Vice President
XL Capital Ltd
President and
Chief Executive Officer
XL America Inc.

Clive R. Tobin
Executive Vice President
XL Capital Ltd
President and
Chief Executive Officer
XL Insurance Ltd

Fiona E. Luck
Executive Vice President
Group Operations
XL Capital Ltd

Brian M. O'Hara
President and Chief Executive Officer
XL Capital Ltd

Michael A. Butt
Director
XL Capital Ltd

Henry C. V. Keeling
Executive Vice President
XL Capital Ltd
President
Chief Executive Officer
XL Mid Ocean Re

Mark E. Brockbank
Executive Vice President
XL Capital Ltd
Chief Executive Officer
The Brockbank Group, plc

Paul S. Giordano
Executive Vice President
General Counsel and
Secretary
XL Capital Ltd

Christopher V. Greetham
Executive Vice President
and Chief Investment Officer
XL Capital Ltd

XL Capital – born out of opportunity in 1986, it continues to grow from strength to strength

creative

foresight + imagination

1999 was a year of tremendous development and progress for XL Capital Ltd. Our primary focus during the year was on expanding our presence and capabilities in North America. The Company continued to put in place the platforms necessary for ongoing success in a multinational and more financially-oriented business environment. XL Capital now has more than 2,000 employees in nineteen countries offering specialty insurance, reinsurance and financial services to our superior franchise customers and clients.

Revenues exceeded $2.5 billion for the first time and total assets increased to a record $15.1 billion. Shareholders' equity was $5.6 billion at the end of 1999. Net income declined to $470.5 million from $656.3 million, reflecting primarily a reduced level of realized gains on investments and increased competition in most of our businesses. Economic operating income reached $522.4 million, which included the impact of two European windstorms in the last week of 1999, resulting in the Company's first underwriting loss in our fourteen year history. The combined ratio for 1999 was a disappointing 103.4 percent. The Company's total economic return on tangible equity, excluding goodwill, was 15.9 percent, achieved under difficult market conditions.

KEY ACHIEVEMENTS We further positioned the Company for future growth by achieving the following in 1999:

- Introducing a new name for the holding company, XL Capital Ltd, and launching our first advertising campaign *Turning Risk into Return*;
- Creating four distinct business reporting segments: Insurance, Reinsurance, Lloyd's and Financial Services to focus on the Company's key business strengths;
- Merging with NAC Re Corp., the leading independent U.S. casualty reinsurer;
- Completing our acquisition of Intercargo Corporation, a leading U.S. logistics and customs bond insurer;
- Acquiring ECS, Inc., one of the largest managing general underwriters in the U.S., specializing in environmental and other commercial insurance coverages;
- Strengthening our presence in the international reinsurance market through investment in Le Mans Ré;
- Launching a new Executive Liability Underwriting Division in the U.S.;
- Selling the Company's U.K. motor insurance business to focus on specialty commercial business lines underwritten by The Brockbank Group, plc at Lloyd's;
- Continuing the expansion of our financial guaranty business and forming a new U.S. company, XL Capital Assurance Inc. based in New York;
- Entering the asset accumulation business;
- Adding to XL's investment management capabilities through additional ownership positions in high quality specialist investment management firms;
- Adding key executives with focused expertise to enhance group capabilities;
- Introducing a new executive compensation plan strengthening linkage of management remuneration to corporate performance and shareholder value;
- Increasing the quarterly dividend paid to our shareholders to $0.45 per share, maintaining one of the highest payout ratios in the industry; and
- Enhancing our Board of Directors with the addition of two new directors resulting from the merger with NAC Re Corp.

XL CAPITAL The new name and logo for the Company was introduced in this report last year. Although in some instances it is important to retain the brand value of those companies that we acquired during 1999, the XL name was added

A SKILLFUL ALIGNMENT OF INTELLECTUAL CAPITAL, STRATEGIC PARTNERSHIPS AND VISION HAS ALLOWED THE COMPANY TO CONTINUE TO DO WHAT IT DOES BEST: INVEST IN OPPORTUNITIES TO TURN RISK INTO RETURN.

Seeing Opportunity Where Others See Risk to or linked with nearly all of the members of the group. Also, as a result of the launch of our first advertising campaign, the XL Capital brand is now more widely recognized and has brought all of our employees closer together as valued members of a dynamic multinational organization.

The theme of this year's report is *Seizing Opportunity/Seeking Excellence*, which is illustrated by key words and word equations in this report. These words not only spell out the name XL Capital but represent the very essence of what the Company stands for. The Company was created as a result of a unique *opportunity* to provide excess liability insurance for a specific franchise group and continues to seek those opportunities where it can provide value to selected customer groups. Throughout XL Capital *excellence* is a key objective, whether it be in underwriting, product innovation, customer solutions, claim resolution, accounting, marketing, or information technology. To quote Aristotle: "We are what we repeatedly do. Excellence, then, is not an act but a habit."

REPORTING SEGMENTS As the Company has grown, its individual units have become more distinct. During 1999, four distinct operating segments were identified for financial reporting purposes, recognizing the principal types of operating businesses within the organization. The Operations Report will provide further detail on each of the four operating segments: Insurance, Reinsurance, Lloyd's and Financial Services.

BUILDING THE XL FRANCHISE

MERGER WITH NAC RE CORP. The Company completed its merger with NAC Re Corp. in June, which was accounted for as a pooling of interests. NAC Re has provided XL Capital with an outstanding U.S. platform, bringing critical mass and infrastructure to XL America.

Headed by Nick Brown, NAC Re was the leading independent casualty reinsurer in North America and the parent of two important operating insurance subsidiaries, Greenwich Insurance Company and Indian Harbor Insurance Company. This combination of operating companies, along with our other two key U.S. acquisitions in 1999, Intercargo and ECS, gives XL the licenses and skill sets to build a profitable specialty business in this important market.

INTERCARGO In May 1999, Intercargo Corporation became a wholly-owned subsidiary of XL Capital. Intercargo is licensed in 48 U.S. states and writes a specialty book of logistics, or transportation-related coverages. In addition, it is a preferred market for U.S. Customs bonds and selected commercial lines. This organization has been recently renamed XL Specialty Insurance, combining Intercargo's operations with XL's original U.S. insurance platform, and is led by Stan Galansky. Taking advantage of a renewed awareness of corporate risks facing key executives and directors in the U.S., the Company formed Executive Liability Underwriters (ELU) and was fortunate to find a team with outstanding prior experience who have joined XL. ELU will underwrite a directors and officers book for the Company.

ECS, INC. Uniquely positioned in the commercial insurance market, ECS, Inc. is a leading producer of environmental liability insurance products and services. Since being acquired by XL mid-year, ECS has moved rapidly as part of the Company's U.S. operations to transform itself from a managing general underwriter into a full-service insurance provider writing business on Best's A+ rated XL affiliate paper. Bill Kronenberg, CEO of ECS, has built a premier organization that has been awarded numerous quality awards for its best practices.

LE MANS RÉ In July, we entered a joint venture agreement to form a new French reinsurance company, Le Mans Ré. XL owns 49 percent with the balance being owned by Les Mutuelles du Mans Assurances Group. Le Mans Ré, capitalized at 1 billion French francs, will give us immediate access to

Continental Europe, the second largest reinsurance market in the world.

SALE OF U.K. MOTOR BUSINESS The Company's U.K. motor business, underwritten by Brockbank's subsidiary, was identified in our strategic review as non-core and subsequently sold in a management led buy-out. This was a direct sale operation offering motor insurance to individuals utilizing telemarketing techniques and as such did not fit with XL's focus on commercial or corporate customers.

FINANCIAL SERVICES The Company is expanding its capabilities and the range of products it offers its customers in response to a rapidly changing market. As the insurance and financial markets continue to converge, the Company's customers increasingly are demanding more sophisticated products.

The Company entered the financial guaranty insurance business a year ago, focusing on the asset-backed segment of this market, utilizing the all-important detailed credit analysis and surveillance techniques necessary to successfully underwrite this business. In its first year of operations, XL Capital Products has originated approximately $125 million of present value premiums and, in addition, has also acted as a reinsurer to other monoline financial guaranty companies. We continue to be pleased with the results of our joint venture with Financial Security Assurance Holdings Ltd.

In addition, during the year, the Company further expanded into the asset accumulation business, including assuming loss portfolios from other insurers seeking to sell blocks of business. This business has limited underwriting risk but involves increasingly more complex investment techniques.

STRATEGIC INVESTMENTS XL has made strategic investments in a number of specialized investment managers to gain access to unique investment skill sets. In addition, it expects to share in the success of these managers through its equity in the earnings of these affiliated organizations.

DIVIDEND POLICY In January, the Board increased the quarterly dividend paid to shareholders from $0.44 to $0.45 per share. XL has among the highest payout ratios in the insurance industry. As a result, the Board of Directors has reviewed and refined the Company's dividend policy to provide for more modest increases over time, thereby placing more emphasis on share repurchases rather than significant dividend increases to return capital to the Company's shareholders. In the first quarter of 2000, the Company commenced a new share repurchase program, acquiring approximately 3.7 million shares through early March.

FOCUSED COMPENSATION In 1999, the Company conducted a review of its compensation plans and policies in light of its growth and expansion from what was initially a single business in one location to several businesses operating throughout the world. As a result, the Company has introduced a new global compensation plan, further strengthening the alignment of management compensation with corporate performance, business segment accountability and shareholder value. Incentive compensation under the plan is based on four performance measures which we believe are the key drivers of shareholder value: (i) growth in economic earnings per share; (ii) economic return on tangible equity; (iii) total return on tangible equity; and (iv) growth in book value per share. Performance is measured on absolute performance relative to targets approved by the Board and performance relative to our peers.

CENTERS OF EXCELLENCE As XL expands its product capabilities, we have identified a number of 'centers of excellence' where we have focused expertise in specialized areas of insurance, reinsurance and financial services. It is our intention to continue to identify those areas where XL is able to underwrite to the highest standards and to utilize our best practices approach to all our classes of business. One of the recent additions to our senior management is a chief credit officer to coordinate and implement best practices in our group-wide risk management.

EXECUTIVE LEADERSHIP One of the key aspects of the Company's success is the strength of its management team. As the organization grows, it is important to have in place the intellectual capital to be a leader in our industry. In 1999, in a series of internal meetings involving our most senior employees, referred to as the Leadership Forum, we identified several strategic initiatives involving e-commerce and technology, cross-selling, branding and communications, and the continued development of our outstanding professionals.

In its merger and acquisition activities, XL seeks organizations with strong leadership and endeavors to retain the management of its acquired entities. Nicholas M. Brown, Jr, NAC Re's Chairman and Chief Executive, is a welcome addition to XL Capital and serves as President and Chief Executive Officer of XL America, Inc., the Company's U.S. holding company, as well as continuing in his role as CEO of NAC Re.

During the year, Clive R. Tobin was appointed President and Chief Executive Officer of XL Insurance, the Company's principal Bermuda-based insurance unit. Clive had been an Executive Vice President of XL Insurance and was responsible for developing many of XL's financial products.

Paul S. Giordano, XL Capital's general counsel, was also appointed an Executive Vice President, in recognition of his valuable contribution to the Company during a period of rapid growth.

Fiona E. Luck joined the Company as Executive Vice President responsible for Group Operations, including corporate strategy, human resources and marketing. She brings extensive management experience in public accounting, insurance brokering, financial and specialty underwriting.

The Board of Directors was further strengthened following our merger with NAC Re Corp. with the addition of Ronald Bornhuetter, former Chairman and Chief Executive of NAC Re, and Daniel McNamara, a director of NAC Re and former Chairman of the Insurance Group Practice at the law firm of Hughes Hubbard & Reed LLP and President of the Insurance Services Office, Inc.

vision + drive

Robert V. Hatcher and Robert J. Newhouse, Jr. are both retiring from the Board this year. Although Bob Hatcher, former Chairman of Johnson & Higgins, has only been on the Board for a short period, he has been a valuable contributor at a time when the Company was expanding rapidly. Bob Newhouse, the founding Chairman of Mid Ocean Limited and former Chairman and Chief Executive of Marsh & McLennan Inc., has been a strong supporter of XL from its formation and has provided leadership for both XL and the industry for many years. They are giants of this industry and we will miss their invaluable contributions.

The Company is blessed with a strong and experienced Board of Directors, led by Michael P. Esposito, Jr. Mike and the Board have again provided management with invaluable advice and support during the past year. In particular, Mike's financial acumen has continued to be invaluable in the strategic development of our financial services segment.

In a difficult year, XL's employees have again shone and risen to the challenges of an unrelenting competitive environment. Our intellectual capital and the energy of our employees are unmatched in the industry.

XL was born out of opportunity and change. The Company welcomes the challenges that our customers present us with and look forward to meeting their evolving needs. On the following pages is an extract based on the theme of recent speeches in which I explore the impact of change on our industry.

As we enter 2000, we continue to build our culture and pursue new avenues of opportunity – such as e-commerce – through our investments and working relationships with Cybersettle.com and LiveCapital.com.

At XL Capital, we are focused on expense control and improving our results in 2000 and beyond. We have three main goals: one, maintain the integrity of our underwriting, which in turn, two, protects the integrity of our balance sheet; and, three, grow our financial services businesses. Achieving these goals will lead us to our vision of building superior shareholder value.

Brian M. O'Hara
President and Chief Executive Officer

THE CHALLENGE OF CHANGE

(Based on the theme of recent speeches by Brian M. O'Hara)

"We're not in Kansas anymore," was the observation of a bewildered Dorothy, the heroine of the play, The Wizard of Oz, when she first surveyed the Land of Oz. A similar sentiment is often heard these days being expressed by insurance company chief executive officers as they try to explain a property and casualty ("P&C") insurance landscape radically re-shaped by over-capacity, consolidation and convergence.

The P&C insurance industry, to state the obvious, is clearly not in Kansas anymore. That much is quite certain. The mere provision of capacity is no longer guaranteed to attract buyers. What is less clear, however, are the answers to the questions: Where are we now, and how do we differentiate ourselves in this new environment?

Part of the answer to the first question is reflected in most of the current industry statistics. The situation in the United States, for example, is reliably spelled out in the Insurance Information Institute's year 2000 Fact Book, which states: "A combination of factors including record-low premium growth, surging catastrophe losses and reduced investment income cut U.S. property/casualty insurers' 1998 net after-tax income by 16.3 percent. As earned premiums grew only 2.3 percent and catastrophe losses rose from $2.6 billion to $10.1 billion, the industry's underwriting losses nearly tripled."

A recent study by Conning & Co entitled "As The Cycle Turns", provides another telling set of statistics describing the current state of the industry, this time describing merger and acquisition ("M&A") activity in the U.S. non-life sector. According to the study, a total of 117 insurance-related M&A transactions valued at $55.8 billion were announced in 1998. This was a 5.4 percent increase from the 111 deals announced in 1997 and an 81 percent jump in the $30.9 billion in value represented by the 1997 transactions. A similar pattern of consolidation activity is reflected in the Insurance Information Institute's year 2000 Fact Book, which defines convergence in the U.S. as "reuniting functions that were separated by the 1933 Glass-Steagall Act, enacted in response to bank failures following the stock market crash of 1929." Most banks in the U.S. that sell insurance products other than annuities have entered the insurance market since 1994. Similarly, of the 81 applications for new thrift charters filed by non-banks between January 1997 and September 1999, 53 percent were made by insurance companies.

The consolidation of the financial services sector has gained momentum worldwide. In some European countries, banks now account for as much as 25 percent of total life insurance sales. Some insurers have also purchased stakes in banks in Europe, in some cases merging with banks. Indeed, according to a recent M&A review by Clarus Research, there were more mergers in the worldwide financial services arena than any other industry in 1998. A total of 86 M&A deals valued at $403.3 billion were completed in 1998 in the world's financial services industry.

I believe that, due to the continued difficulties associated with achieving the benefits of scale through significant organic growth, mergers and acquisitions will continue to characterize the non-life insurance world, leading to the emergence of fewer but much bigger players. While consolidation alone is unlikely to solve the problem of over-capacity, consolidation will help P&C companies weather some of the storms caused by over-capacity. Consolidation is all about scale, and the advantages of scale and critical mass are what help companies to compete and offer a variety of products instead of applying a one-size-fits-all approach, which can only work in hard markets. Companies need to have a range of distribution systems as well as access to the latest technology and other resources and consolidation can be expected to help meet these needs.

Other factors acting as transformation drivers, or agents of change, for the industry in the future will include Information Technology ("IT") advances, the changing face of risk and risk management, regulatory reforms and the continuing need to provide shareholder value.

On the IT side, microprocessors are doubling their performance every 12 to 18 months while their cost is dropping at the rate of 20 percent or more a year. Add in the fact that digital bandwidth is rapidly expanding and it becomes obvious that our use of the Internet for e-business opportunities can only be expected to accelerate sharply in the near future.

Companies are also developing new ways of looking at risk. Managements of the future will no longer limit their consideration of risk to the traditional separate towers of coverage. Instead of traditional event risk, companies will take a more comprehensive or holistic view of the exposures they face, considering risk across their entire business enterprises, including such operational issues as interest rate and currency risk or commodity price fluctuations or, on a macro level, economic downturns. Integrated, multi-year programs will be designed to accommodate this wider view of risk.

There will also be fewer brokers in a smaller distribution system in future. This does not mean buyers will not need brokers. There will continue to be a need for brokers to service their clients, especially in the area of complex commercial transactions. Buyers will also need expert assistance to evaluate the proliferation of products offered them.

Moving on to the second question: How can companies differentiate themselves in an industry in which the boundaries between insurance, banking and securities markets continue to blur?

Clearly, the differentiation challenges facing insurance carriers are not in pricing alone. Though losses will at some point impact pricing dynamics, the market is what it is and pricing is only one of the issues now confronting us.

According to a recent study by Deloitte Consulting, major challenges of the future include shifts in the world economy and, fuelled by the freer flow of capital worldwide, the increasingly apparent trend of globalization.

XL Capital's own developmental story indicates how we think the markets have changed, and will continue to change and how a company can set about re-positioning itself in order to cope with these changes.

XL Capital's merger and diversification strategy has helped the group develop from an essentially monoline, excess liability insurance carrier into a multi-line, multi-disciplined, multinational organization with a workforce of more than 2,000, assets of $15 billion and operations in nineteen countries. Having started as a high-layer excess liability insurer, we now offer a wide range of insurance and reinsurance products, while our XL Financial Products unit focuses on financial guaranty, or credit enhancement, insurance products for asset-backed, future flow and municipal obligations. As a result, financial engineering, credit analysis, accounting, actuarial and legal expertise is now even more in evidence in the new XL Capital, in addition to the traditional underwriting skills common to professional insurance and reinsurance corporations.

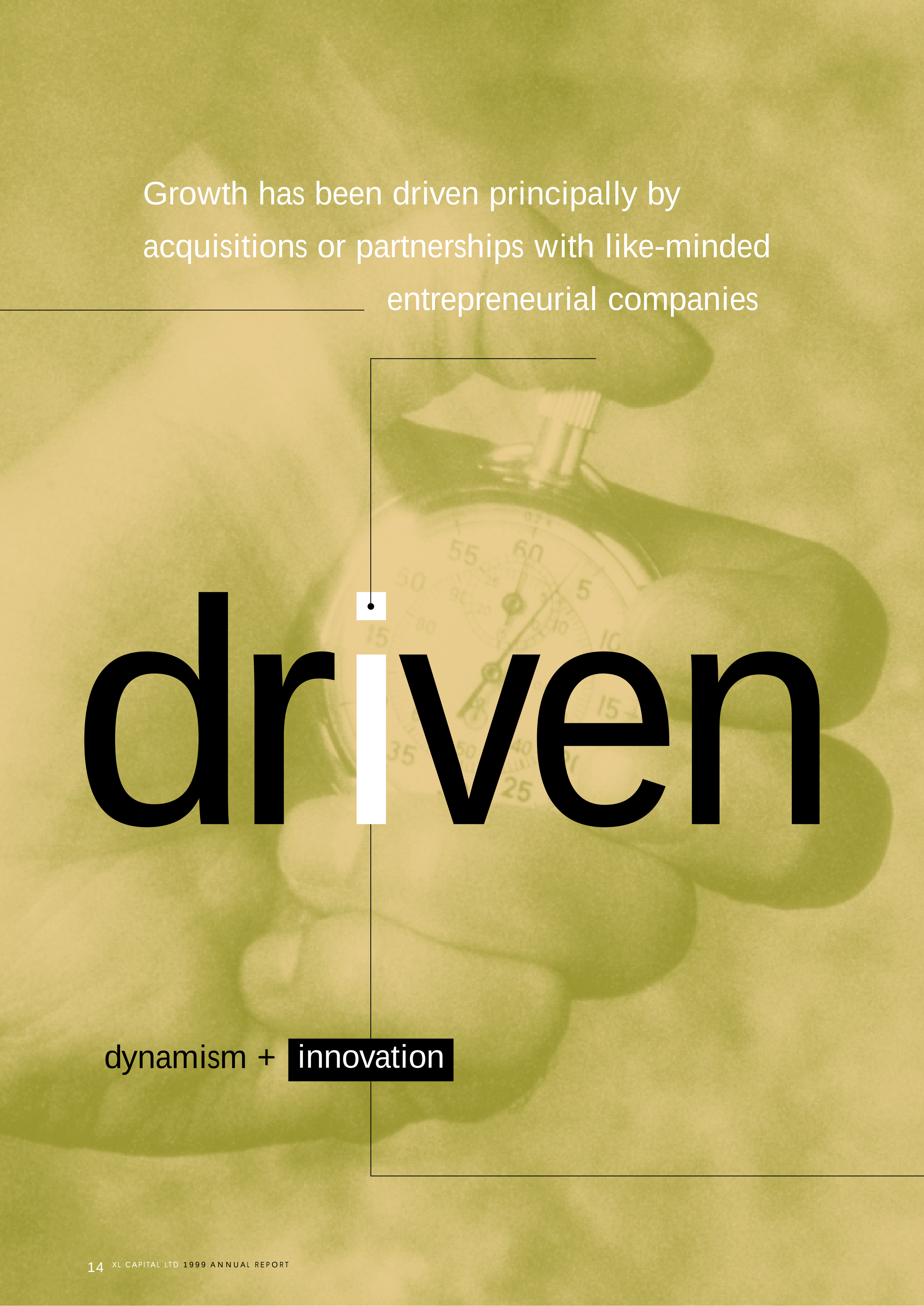
Asset accumulation is another new focus for us. This activity involves the insurance or reinsurance of large blocks of business, where we get to invest assets for an extended period of time. In 1999, we wrote two asset accumulation transactions, which resulted in our assumption of estimated liabilities of $838 million at December 31, 1999. Our goal with this type of business, having first carefully analyzed a portfolio, is to earn a spread on the assets over time so that we increase our total investment income.

A major challenge for XL Capital, which completed three acquisitions last year, is to identify, align and leverage the centers of excellence that reside in the group worldwide. Additionally, we have been developing cross-selling opportunities among our newly-merged operating units and expanding in under-served markets, such as financial guaranty.

Like many insurance, reinsurance and financial service companies, XL Capital Ltd and its operating units around the world are having to contend with tough market conditions in which only the strong and nimble survive. Flexibility and agility are key management qualities that have been helping XL effectively re-define itself for some time. Indeed, even the holding company name of XL Capital is new having been adopted in February 1999, replacing EXEL Limited.

XL Capital's success hinges on a corporate culture that is built for transformation, that is opportunistic, smart and quick to respond, that is continually learning and able to reconfigure and refine itself as unknown challenges confront and in turn confound conventional practices. Indeed, there are serious, potentially negative, implications for those market players that have a high percentage of fixed assets and/or significant human resources committed to pursuing a firmly established mode of business.

Change can be a friend or a foe but it is always a challenge. Fortunately for us, it was fundamental change in the liability insurance market that led to the creation of XL in 1986, successive phases of change that have helped keep us focused on customer and shareholder needs, and it is change that continues to drive the culture of entrepreneurialism within XL. ■



Growth has been driven principally by acquisitions or partnerships with like-minded entrepreneurial companies

driven

dynamism + innovation

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 F14 through F56 of this Annual Report.

On June 18, 1999, the Company merged with NAC Re Corp. in a stock merger which was accounted for as a pooling of interests under U.S. generally accepted accounting principles. Accordingly, all prior period financial information contained in this report includes the results of NAC as though it had always been part of the Company. Following the merger, the Company changed its fiscal year from November 30th to December 31st as a conforming pooling adjustment. Consolidated financial information presented in this report is based upon the new fiscal year-end for all years presented.

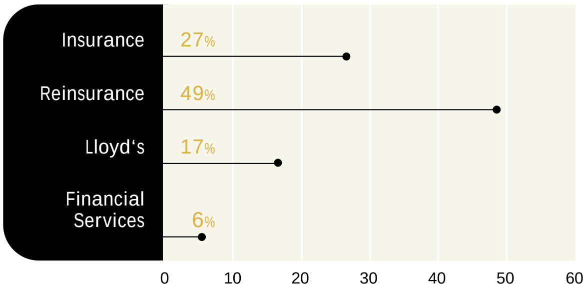
SEGMENT REVIEW XL Capital is organized into four operating segments, reviewed below – Insurance, Reinsurance, Lloyd's and Financial Services – and a corporate segment, which includes the Company's investment operations, equity in the earnings of its affiliates, corporate expenses and taxes.

INSURANCE XL Capital provides both excess and primary insurance globally through the following subsidiaries: XL Insurance, XL Europe, XL Insurance Company of New York, Greenwich Insurance Company, Indian Harbor Insurance Company, ECS, Inc. and Intercargo Corporation.

Through its subsidiaries and affiliates, the Company provides third party general liability insurance, directors and officers liability insurance, professional liability insurance, employment practices liability insurance and integrated liability insurance. In addition, it writes property insurance and other insurance covers including political insurance covers. It also offers combined lines coverages for multiple lines of liability and property as well as blended finite coverage for risks which traditionally have been difficult to place through pure risk transfer mechanisms.

Primary program insurance risks written include specialty insurance products such as auto warranty, environmental coverages, U.S. Customs bonds and marine cargo insurance.

Adjusted Gross Premiums Written by Segment



The Company further expanded into the United States in 1999 by completing the acquisition of both Intercargo Corporation and ECS, Inc. Intercargo underwrites specialty insurance products for companies engaged in international trade, including U.S. Customs bonds and marine cargo insurance. ECS is an underwriting manager which specializes in environmental insurance coverages and risk management services. Formerly the second largest managing general underwriter in the U.S., ECS started underwriting for an XL affiliate in January 2000.

A significant amount of time has been spent integrating and aligning the existing and acquired businesses in North America, as well as establishing new capabilities in key underwriting areas. A number of strategic and financial efficiencies have already been realized, including the restructur-

IN RECENT YEARS, XL HAS ACTIVELY PURSUED OPPORTUNITIES FOR GROWTH THROUGH MERGERS AND ACQUISITIONS WITH SIMILARLY ENTREPRENEURIAL COMPANIES. WE NOW HAVE A WORKFORCE OF MORE THAN 2,000, ASSETS OF MORE THAN $15 BILLION AND OPERATIONS IN ALMOST 20 COUNTRIES.

Opportunities for Growth

ing of the Company's U.S. operations to optimize the use of capital to meet target levels of return.

The difficult underwriting markets worldwide continued to impact all companies. XL has remained committed to maintaining underwriting discipline and as a result has not renewed a portion of its U.S. casualty reinsurance book, particularly during the second half of 1999 and continuing into 2000.

The Company was fortunate to secure a team of experienced liability underwriters in the U.S. to produce directors and officers insurance and other coverages protecting corporations. Executive Liability Underwriters commenced underwriting for XL in January 2000.

The Company owns 50 percent of Sovereign Risk Insurance, Ltd., a specialist political risk insurer and reinsurer. Since its formation in July 1997, Sovereign has been extremely successful, underwriting more than $2.75 billion in exposure distributed over 60 emerging markets. Sovereign provides political risk insurance to financial institutions and major corporations as well as providing reinsurance to national export credit agencies and multilateral development banks. In addition to its landmark portfolio reinsurance treaty with the French official export credit agency, COFACE, Sovereign has supported 5 other national export credit agencies on 14 emerging market transactions.

BY ESTABLISHING FOUR DISTINCT OPERATING SEGMENTS – INSURANCE, REINSURANCE, LLOYD'S AND FINANCIAL SERVICES – WE ENHANCED OUR FOCUS ON OUR CORE BUSINESS STRENGTHS.

REINSURANCE Through XL Mid Ocean Re, NAC Re and Latin America Re, the Company offers a broad range of property and casualty reinsurance products on a global basis. The reinsurance business is written on both a proportional and excess of loss basis.

XL's casualty reinsurance business is provided on a treaty and facultative basis and includes general liability, professional liability, automobile, workers' compensation, commercial and personal property liability risks and specialty risks, including fidelity and surety and ocean marine.

Property reinsurance is primarily short-tail in nature and includes property catastrophe, property excess of loss, property risk excess, property pro-rata, marine and energy, aviation and satellite and various other reinsurance products to insurers on a worldwide basis.

Other reinsurance written by the Company includes political risk, nuclear accident, professional indemnity and life and annuity.

A specialist life and health reinsurance unit, based in London, was established by XL Mid Ocean Re in May 1999. The underwriting team focuses specifically on financial reinsurance, capital management solutions and portfolio transfers, and works in cooperation with several areas of the Company. It recently concluded a large portfolio transfer of annuity business, contributing to the Company's growing asset accumulation business.

During the second half of 1999, XL signed a joint venture agreement with Les Mutuelles du Mans Assurances Group to form a new European reinsurance company, Le Mans Ré. The Company owns a 49 percent shareholding in the new company, which underwrites a worldwide portfolio comprising all classes of non-life reinsurance business together with a selective portfolio of European life reinsurance business. Le Mans Ré provides XL with well-established client connections and a mature book of European business that would otherwise have taken the Company several years to develop. Continental Europe is the second largest reinsurance market in

Opportunities Worldwide

strategic

By streamlining our business operations we have maximized our ability to develop new business opportunities

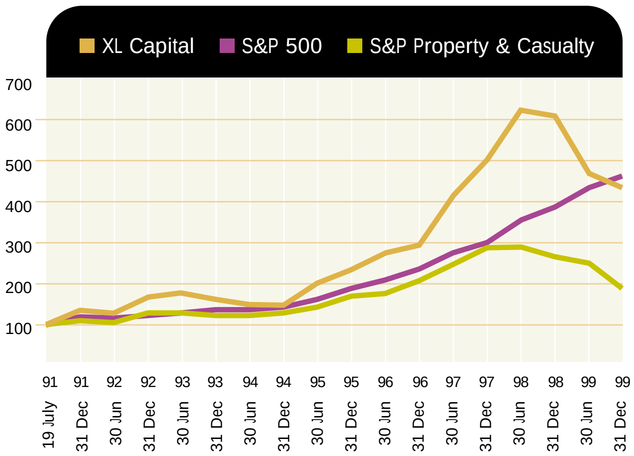
focus + adaptability

the world, after the U.S., and Le Mans Ré provides a strategic alternative to other reinsurance companies operating in Europe.

In January 2000, the Company purchased the shares of Latin American Re held by Risk Capital Holdings Inc. and now owns all the shares except those held by Latin American Re's management. Latin American Re focuses on the growing needs of the reinsurance markets in Mexico, Central America, South America and the Caribbean with offices in Mexico City, Bogota, Buenos Aires, Rio De Janeiro and Saõ Paolo. The Latin American marketplace has experienced dramatic growth and economic stability throughout the 1990's. Latin American Re writes short-tail, multi-peril property reinsurance, as well as casualty, marine, aviation and other lines of reinsurance. It also addresses other lines of business including workers' compensation, directors and officers' liability and financial reinsurance.

In 1999, reinsurance results for the Company were significantly impacted by several catastrophic events, including two hurricane-force storms in Europe in late December, severe tornadoes in Oklahoma, Hurricane Floyd, typhoons in Japan and hailstorms in Australia. These events cumulatively resulted in the second highest level of insured catastrophe losses recorded by the industry.

Cumulative Total Shareholder Return



LLOYD'S The Company's Lloyd's operations are conducted by The Brockbank Group plc and Denham Syndicate Managers. Brockbank operates through two subsidiaries, which are Lloyd's managing general agencies, Brockbank Syndicate Management and Brockbank Personal Lines, which manage five syndicates, two of which are dedicated corporate syndicates. Denham, as a Lloyd's managing agency, manages one syndicate.

Through its Lloyd's operations, the Company writes a wide range of classes across the property, casualty, marine, aviation and transport sectors for a globally diverse group of clients.

New lines of business have been secured through strategic acquisitions and joint ventures such as Sextant International in Europe (Yachts), William Brown Associates in California (Aviation) and the Markel Bloodstock Team in Kentucky.

As of January 1, 2000, motor insurance is no longer written by the Brockbank syndicates as a result of the sale in December 1999 of Admiral Insurance, a direct response motor operation, and Zenith Insurance, which offered motor insurance through a network of retail brokers. The Company expects there to be decreases in net premiums earned, fee income and certain costs next year as a result of this sale. However, the Company does not expect the overall profitability of its Lloyd's operations to be significantly affected.

Brockbank was further integrated into the Company in 1999 and participated in the production of a substantial amount of new business with other XL entities including the development of certain global lines of business.

The Company also increased its ownership of underwriting capacity at Lloyd's. In 2000 it will own more than 50 percent of the total capacity underwritten by Brockbank and more than 70 percent of Denham's underwriting capacity.

FINANCIAL SERVICES The Company's financial services activities expanded during 1999 and a separate reporting segment was established to record the financial performance of this growing business sector for XL.

Financial Services activities at XL fall into two principal areas: financial guaranty and asset accumulation.

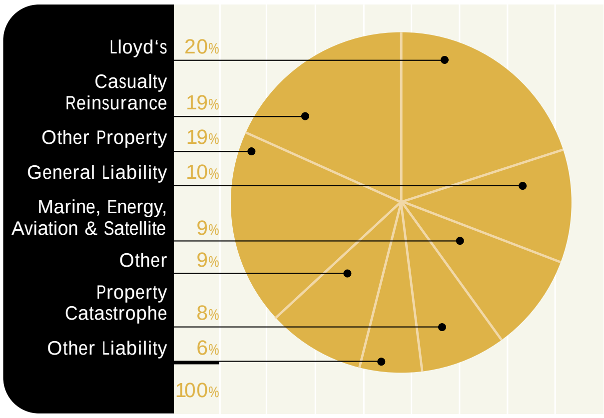
Through XL Capital Products, the Company provides credit enhancement coverages in the form of financial guaranty insurance and reinsurance and credit default swaps on asset-backed, municipal and select corporate risk obligations. Financial guaranty insurance generally guarantees payments of interest and principal on an issuer's obligations when due. Credit default swaps provide coverage for losses upon the occurrence of specified credit events. The Company's underwriting policy is to use its Standard & Poor's AA rating to credit enhance obligations and exposures that would otherwise be lower investment grades without the benefit of the Company's enhancement.

Asset-backed obligations are generally issued in structured transactions backed by pools of assets of specific types, such as residential mortgages, auto loans and other consumer receivables, equipment leases and corporate debt obligations, which have an ascertainable cash flow or market value. Municipal obligations insured or reinsured consist primarily of general or specific obligations of state or local governments supported by the issuer's ability to charge fees for specified services or projects. Corporate risk-based obligations which the Company has underwritten include essential infrastructure projects and obligations backed by receivables from the future sales of commodities or other specified services. Obligations guaranteed or enhanced by XL range in duration from a few years to 15 years or more and premiums are either received on an installment basis or paid-in-full at the beginning of the policy period.

The Company has adopted underwriting guidelines for the various products and asset classes

Business Mix

(1999 Earned Premiums)

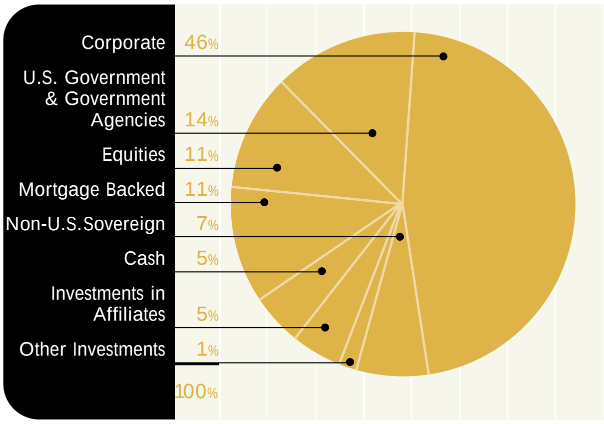


comprising the credit enhancement business, which include single and aggregate risk limitations on specified exposures. A senior level credit committee of the Company provides final underwriting approval for each transaction.

During 1999, XL also underwrote two transactions whereby substantial loss reserves were assumed. In addition to the underwriting risks assumed, the Company has also embedded exposure in these transactions to investment performance return. These transactions, which together represent the nucleus of the Company's asset accumulation business, are actuarially expected to be of long duration and totaled $838 million of deposit liabilities and policy benefit reserves at the end of 1999. Subsequent to year-end the Company has completed an additional $250 million of asset-based transactions.

Investment Asset Mix

(at December 31, 1999)



Reeve Court Insurance Reeve Court Insurance Limited is based in Bermuda and offers custom investment and estate planning products, including life insurance, to an exclusive group of trusts, very high net-worth individuals, private companies and select others in special situations. Its products provide highly flexible and sophisticated tools for implementing investment strategies in conjunction with long-term wealth management and wealth transfer planning.

STRATEGIC INVESTMENTS In 1999, the Company made strategic minority investments in two investment management firms, Highfields Capital Management, a global equity investment firm, and MKP Capital Management, a New York-based fixed income investment manager specializing in mortgage-backed securities.

E-COMMERCE INITIATIVES The Company owns an interest in Cybersettle.com Inc. (“Cybersettle”). Cybersettle operates the world’s first independent on-line insurance claim resolution system. It offers confidential claim settlements by matching offers and demands via its patent-pending, “double-blind bid”,

secure web site. Insurance companies, attorneys, corporations, government agencies and claimants can use Cybersettle to resolve disputes 24-hours a day, 7-days a week, giving its users the ability to negotiate settlements with unprecedented speed, total confidentiality and at a dramatically lower cost. Cybersettle's clients include many of the largest insurance organizations in the U.S., Canada and the U.K.

The Company also owns a minority investment stake in LiveCapital.com, a San Mateo, California-based on-line broker of financing for small businesses, which was formerly known as NetEarnings. Utilizing LiveCapital, small businesses can submit financing applications on-line and get bids from multiple financing companies or commercial banks. Using proprietary credit scoring technology, LiveCapital can quickly assess each applicant's credit profile and align it with a large roster of lending institutions. In addition, it acts as an intermediary for other financial products and services including credit cards, asset-based lending and leasing. XL has a joint venture initiative with LiveCapital to develop and distribute internet-based commercial insurance products.

intellectual capital + strategic partnerships

ticated

Creating New Opportunity

Insurance

- XL Insurance
- XL Europe
- XL America
- XL Specialty Insurance
- XL Insurance Company of New York
- Indian Harbor Insurance
- Greenwich Insurance
- ECS
- Sovereign Risk Insurance (50%)

Reinsurance

- XL Mid Ocean Re
- NAC Re
- Latin American Re
- Le Mans Ré (49%)

XL CAPITAL

Lloyd's

Brockbank

Corporate Syndicates 1209 & 2253

Syndicates 588, 861 & 253

Denham

Corporate Syndicate 990

Financial Services

- XL Capital Products
- XL Financial Assurance
- XL Capital Assurance
- Reeve Court Insurance

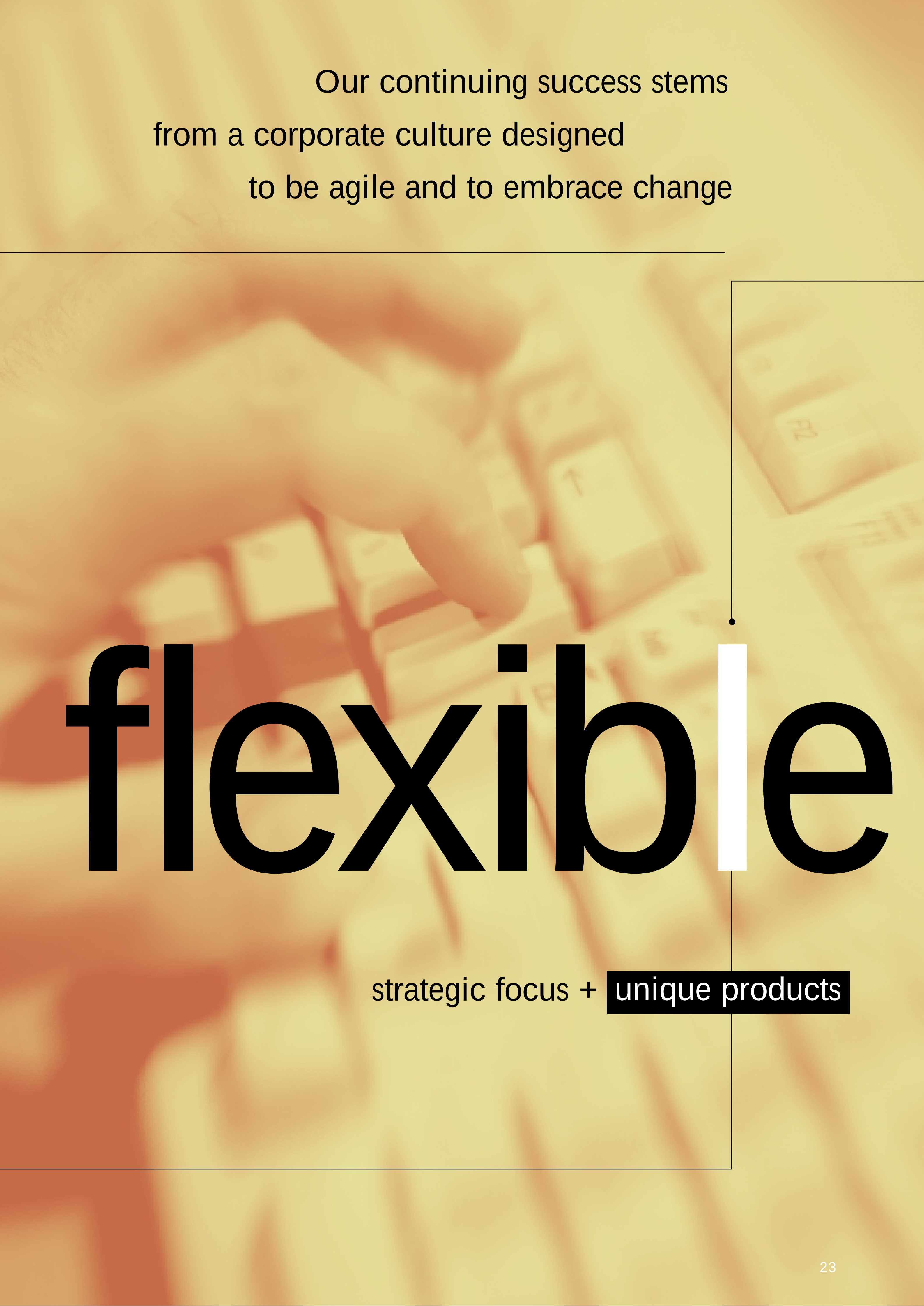
Corporate

Investment Operations

Minority Owned Strategic Investments:
Pareto Partners
Highfields
MKP

WE ARE CONTINUING TO EXPAND OUR CAPABILITIES IN ORDER TO OFFER OUR CUSTOMERS A BROADER AND INCREASINGLY SOPHISTICATED RANGE OF PRODUCTS TO HELP THEM MEET THE CHALLENGES AND OPPORTUNITIES OF THE FUTURE.

Opportunities for Future Market Penetration



Our continuing success stems
from a corporate culture designed
to be agile and to embrace change

flexible

strategic focus + unique products

financial strength + superior execution

performance

Ability to Seize Opportunity

foresight + imagination

creative

Seeing Opportunity Where Others See Risk

vision + drive

entrepreneurial

Capitalizing on Opportunity

dynamism + innovation

driven

Opportunities for Growth

focus + adaptability

strategic

Opportunities Worldwide

intellectual capital + strategic partnerships

sophisticated

Creating New Opportunity

strategic focus + unique products

flexible

Opportunities for Future Market Penetration

Financials

Selected Financial Data

The selected consolidated financial data below includes the results of NAC for all years presented and is based upon the Company's new fiscal year end of December 31. The selected consolidated financial data should be read in conjunction with the consolidated financial statements and the notes thereto presented on pages F14 to F56 in this Annual Report.

	1999	1998	1997	1996	1995
	(U.S. dollars in thousands, except per share amounts and ratios)				
Income Statement Data:					
Net premiums earned	$ 1,750,006	$ 1,324,291	$1,114,758	$1,038,643	$1,053,748
Net investment income	525,318	417,290	345,115	304,823	288,989
Net realized gains on investments	94,356	211,204	410,658	174,593	131,840
Equity in net income of affiliates	40,907	50,292	64,959	59,084	51,074
Losses and loss expenses (1)	1,304,304	841,517	738,849	739,058	772,096
Acquisition costs and operating expenses	689,005	436,598	318,107	277,801	269,427
Interest expense	37,378	33,444	29,622	22,322	15,648
Amortization of intangible assets	49,141	26,881	7,403	368	368
Income before minority interest and income tax expense	431,159	686,962	841,509	537,594	468,113
Net income	470,509	656,330	809,029	516,471	450,080
Per Share Data:					
Net income per share – basic(2)(3)	$ 3.69	$ 5.86	$ 7.95	$ 4.81	$ 3.82
Net income per share – diluted(2)(3)	$ 3.62	$ 5.68	$ 7.74	$ 4.73	$ 3.76
Weighted average shares Outstanding – basic (3)	127,601	112,034	101,708	107,339	117,833
Weighted average shares Outstanding – diluted (3)	130,304	116,206	105,005	109,908	120,496
Cash dividends per share (3)	$ 1.76	$ 1.64	$ 1.36	$ 0.95	$ 0.71
Balance Sheet Data:					
Total investments	$ 9,122,591	$ 9,057,892	$6,562,609	$5,647,589	$5,234,208
Cash and cash equivalents	557,749	480,874	383,594	321,140	787,759
Investments in affiliates	479,911	154,668	524,866	414,891	351,669
Total assets	15,090,912	13,581,140	9,070,031	7,823,375	7,424,468
Unpaid losses and loss expenses	5,369,402	4,896,643	3,972,376	3,623,334	3,238,156
Notes payable and debt	410,726	613,873	453,866	323,858	299,927
Shareholders' equity	5,577,078	5,612,603	3,195,749	2,637,533	2,564,422
Book value per share (3)	$ 43.64	$ 43.59	$ 31.55	$ 25.31	$ 22.85
Fully diluted book value per share (3)	$ 43.13	$ 43.20	$ 31.42	$ 25.24	$ 22.79
Operating Ratios:					
Loss and loss expense ratio (1)	69.1%	63.6%	66.3%	71.2%	73.3%
Underwriting expense ratio (4)	34.3%	30.2%	27.9%	26.2%	25.6%
Combined ratio (5)	103.4%	93.8%	94.2%	97.4%	98.9%

1) The loss and loss expense ratio is the calculated by dividing the losses and loss expenses incurred by the net premiums earned. In 1999, the loss and loss expense ratio excludes an increase to reserves of $95 million associated with the merger with NAC.
2) 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.

3) All share and per share information has been retroactively restated to give effect to a one for one stock dividend paid to XL shareholders of record on July 26, 1996. Cash dividends per share have not been adjusted for the pooling effect of NAC.
4) The underwriting expense ratio is the sum of acquisition expenses and operating expenses divided by net premiums earned. Operating expenses relating to the corporate segment have not been included for purposes of calculating the underwriting expense ratio.
5) The combined ratio is the sum of the loss and loss expense ratio and the underwriting expense ratio. A combined ratio of under 100% indicates an underwriting profit and over 100% indicates an underwriting loss.

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

The following is a discussion of the Company's results of operations and financial condition. Prior period information presented is the combination of the results formerly presented by XL Capital and NAC, as required for a business combination accounted for by the pooling of interests method, which assumes NAC had always been a part of the Company. It is also based upon the Company's new fiscal year end of December 31. See Note 6 ''Business Combinations'' of the audited Consolidated Financial Statements for further details. The Company's results of operations and financial condition for 1998 were significantly impacted by the acquisition of Mid Ocean in August 1998, which was accounted for as a purchase business combination.

This ''Management's Discussion and Analysis of Results of Operations and Financial Condition'' contains forward-looking statements which involve inherent risks and uncertainties. Statements that are not historical facts, including statements about our beliefs and expectations, are forward looking-statements. These statements are based upon current plans, estimates and expectations. Actual results may differ materially from those projected in such forward-looking statements, and therefore you should not place undue reliance on them. See ''—Cautionary Note Regarding Forward-Looking Statements'' for a list of factors that could cause actual results to differ materially from those contained in any forward-looking statement.

This discussion and analysis should be read in conjunction with the audited Consolidated Financial Statements and notes thereto presented on pages F14 to F56 in this Annual Report.

Industry Overview

Abundant capacity and significant price competition continued to characterize the property and casualty insurance and reinsurance industry during 1999. Excess capital and limited opportunities for growth in traditional markets continued to generate merger and acquisition activity as companies attempt to maintain or improve market share and performance. Perhaps more than ever, the Company, together with the industry, faces a difficult challenge in generating profitable growth.

1999 was among the worst years for insured catastrophic losses. The industry suffered losses from, amongst other events, the Sydney hailstorms, the Oklahoma tornadoes, Hurricane Floyd and the European windstorms. Despite these losses, premium rates in 1999 did not increase significantly.

Results of Operations

The following table presents an after tax analysis of the Company's net income for the years ended December 31, 1999, 1998 and 1997 (U.S. dollars in thousands except per share amounts):

	1999	1998	1997
Net operating income			
(excluding net realized gains on investments)	$370,809	$457,402	$413,307
Net realized gains on investments	99,700	198,928	395,722
Net income	$470,509	$656,330	$809,029
Earnings per share – basic	$3.69	$5.86	$7.95
Earnings per share – diluted	$3.62	$5.68	$7.74

Net income decreased in 1999 compared to 1998 as a result of a decrease in both net operating income and net realized gains on investments. The decrease in net operating income in 1999 from 1998 is due to a decrease in underwriting income. The primary reason for this decrease is losses incurred by the Company of $125 million after tax, or $0.97 per share, as a result of two major European windstorms in December 1999. Net operating income increased in 1998 over 1997 due to the acquisition of Mid Ocean in 1998. Net income decreased in 1998 compared to 1997 as a result of a decrease in net realized gains on investments.

Basic and diluted earnings per share decreased in 1999 over 1998 and in 1998 over 1997 due to both a decrease in net income, and, following the acquisition of Mid Ocean, a net increase in the weighted average number of shares issued and outstanding.

Segments

The Company is organized into four underwriting segments – insurance, reinsurance, Lloyd's syndicates and financial services – and a corporate segment, which includes the investment operations of the Company. See Note 3 to the Consolidated Financial Statements for further details.

Insurance Operations

The insurance business is written primarily by the following subsidiaries of the Company: XL Insurance, XL Europe, XL Insurance Company of New York, Greenwich Insurance, Indian Harbor Insurance, ECS and Intercargo. Insurance business written includes general liability, other liability (including directors and officers, professional and employment practices liability), program business, property, marine, aviation, satellite and other product lines (including U.S. Customs bonds, surety, political risk and specialty lines).

The following table summarizes the underwriting profit (loss) for this segment (U.S. dollars in thousands):

	1999	% change 99 vs 98	1998	% change 98 vs 97	1997
Net premiums earned	$463,069	12.9%	$410,030	(4.4%)	$428,774
Fee and other income	7,584	(8.0%)	8,244	NM	–
Losses and loss expenses	309,079	15.4%	267,823	(24.0%)	352,203
Acquisition costs	65,318	37.0%	47,688	(13.6%)	55,199
Operating expenses	70,929	42.7%	49,702	33.5%	37,232
Underwriting profit (loss)	$ 25,327	(52.3%)	$ 53,061	NM	$ (15,860)

NM=Not Meaningful

The overall increase in net premiums earned in the insurance segment in 1999 over 1998 is primarily a result of an increase in gross premiums written in the primary property, aviation and satellite, marine and other lines of business by the Company's subsidiaries in the U.S. See Note 3 to the Consolidated Financial Statements. Net premiums earned in 1999 also reflect the purchase of Intercargo in May 1999, for which approximately $33 million was earned from the date of purchase. Partially offsetting this increase is a decrease in the general liability lines, where there was a reduction in the amount of gross premiums written due to increased competition. This decrease also accounts for the overall reduction in net premiums earned in 1998 over 1997. High levels of competition continued, particularly on a price basis and in coverage terms, although business retention has remained in excess of 80% for the last three years. Generally, the Company's response has been to move to higher attachment levels which result in lower premiums as the Company moves further away from risk.

There was a small increase in the net premiums earned in 1999 over 1998 in the other liability business, which comprises mostly professional lines, despite a decrease in the amount of gross premiums written in 1999 compared to 1998. The increase in net premiums earned is primarily as a result of several tailored programs written in 1998, which are earned over a period greater than one year. There were also increases in net premiums earned in 1998 over 1997 in the property, marine, energy, aviation and satellite lines of business, mainly in the U.S. where there were expanded opportunities on existing accounts, as well as new business.

The source of fee and other income differs between 1999 and 1998. During 1998, the Company assisted in structuring a transaction that resulted in fee income. These transactions tend to be irregular in nature and require an investment of Company resources that are included in operating expenses. During 1999, the Company purchased ECS, which underwrites business on behalf of third parties in exchange for commissions. This income will decline in the future as ECS underwrites business on behalf of the Company.

The changes in the loss and loss expenses, acquisition costs and operating expenses as shown above are discussed below as part of the analysis of the Company's underwriting ratios.

The decrease in the underwriting profit in 1999 over 1998 in this segment is due to higher loss and loss expense ratios in 1999 as reflected in the underwriting expense ratios set forth below. The following table represents the ratios for this segment for the three years ended December 31, 1999:

	1999	**1998**	**1997**
Loss and loss expense ratio	66.7%	65.4%	82.1%
Underwriting expense ratio	29.4%	23.8%	21.6%
Combined ratio	96.1%	89.2%	103.7%

The increase in the loss ratio in 1999 over 1998 is the result of two factors. The Company had an intercompany stop loss agreement in place in 1999 under which a subsidiary in the reinsurance segment was covered for losses exceeding a specified loss ratio up to $100 million. The purpose of this agreement is to efficiently manage statutory surplus levels across the Company. As a result of catastrophic losses which occurred in 1999, the full amount of losses of $100 million were included in the insurance segment and excluded from the reinsurance segment. The loss and loss expense ratio would have been 45.2% and the underwriting profit would have been $125 million had this stop loss agreement not been in place. Offsetting this loss in 1999 and also causing the decrease in the loss ratio in 1998 from 1997 was a reduction of insurance loss reserves established on the Company's liability lines due to updated actuarially determined reserve estimates. Due to the lack of industry data available, the Company estimates loss reserves based upon its own experience. Over time, the amount of data available has increased, providing a larger statistical base for estimating reserves and loss experience has developed more favorably than expected. In addition, reserves were reduced on specialty cover policies for the years 1995 through 1997, which expired in 1998 and for which there was an absence of expected losses on these policies.

The increase in the expense ratio over each of the years presented is due to both the changes in the product mix towards U.S. primary business which tends to have higher acquisition costs, and the additional operating expenses incurred by the Company in establishing its start up operations in the U.S. and new lines of business.

Reinsurance Operations

The reinsurance business is written by XL Mid Ocean Re, which writes primarily property lines which are short-tail in nature, and NAC Re, which primarily writes long-tail casualty business. Business written in this segment includes casualty, property catastrophe, other property, marine, energy, aviation and satellite and other lines, including political risk and specialty lines.

The following table summarizes the underwriting profit (loss) for this segment (U.S. dollars in thousands):

	1999	% change 99 vs 98	1998	% change 98 vs 97	1997
Net premiums earned	$909,915	19.7%	$760,409	10.8%	$685,984
Losses and loss expenses	597,269	31.1%	455,583	17.8%	386,646
Acquisition costs	224,359	31.2%	171,039	19.8%	142,818
Operating expenses	103,264	20.7%	85,541	12.8%	75,829
Underwriting (loss) profit	$ (14,977)	NM	$ 48,246	(40.2%)	$ 80,691

The increase in net premiums earned in 1999 over 1998 is due to two factors: (i) the acquisition of Mid Ocean in August 1998 which results in only five months of net premiums earned included in 1998 compared to twelve months in 1999, and (ii) increases in gross premiums written and earned in the casualty reinsurance business in 1999 resulting primarily from a relatively small number of large reinsurance transactions. The increase in net premiums earned in 1998 over 1997 is primarily due to the acquisition of Mid Ocean. This increase was partially offset by declines in net premiums earned on the casualty business in 1998 over 1997 due to increased market competition and pricing and the Company's decision not to renew accounts that were deemed not to meet the Company's profitability standards.

Operating expenses increased in 1999 over 1998 and in 1998 over 1997 due to the acquisition of Mid Ocean.

The changes in the underwriting result in the reinsurance segment for each of the three years ended December 31 are due to changes in the underwriting ratios as illustrated below.

	1999	1998	1997
Loss and loss expense ratio	65.6%	60.0%	56.4%
Underwriting expense ratio	36.0%	33.8%	31.9%
Combined ratio	101.6%	93.8%	88.3%

The increase in the loss ratio in this segment in 1999 over 1998 was due to losses incurred by the Company from two major European windstorms which occurred in December 1999, together with other insured catastrophes in Sydney and Oklahoma, and from satellite losses earlier in the year. Property catastrophe business has loss experience which is generally categorized as low frequency but high severity in nature. This may result in volatility in the Company's financial results for any fiscal year or quarter. Property catastrophe losses generally are notified and paid within a short period of time from the covered event. In addition, there was an increase in the loss ratio in 1999 over 1998 in the casualty reinsurance business relating to reserve increases in accordance with actuarial estimates, caused to a large extent by the deterioration in premium rates. Actuarial assumptions are used to establish initial expected loss ratios employed in the actuarial methodologies from which the reserve for loss and loss expenses is derived. Such loss ratios are periodically adjusted to reflect comparisons with actual claims development, inflation and other considerations.

Net losses incurred in this segment in 1999 reflect a reduction of $100 million relating to an intercompany reinsurance agreement with another of the Company's subsidiaries in the insurance segment. The loss and loss expense ratio would have been 76.6% and the underwriting loss would have been $115 million had this stop loss agreement not been in place. Net losses incurred in 1999 also exclude an adjustment to reserves of $95 million following the merger with NAC.

The increase in the loss ratio in 1998 over 1997 is due to losses relating to Hurricane Georges and SwissAir for approximately $60 million.

The increase in the expense ratio in 1999 over 1998 is primarily due to an increase in profit commission payable to cedents of proportional business written by XL Mid Ocean Re. Profitability on some contracts written in earlier underwriting years has increased relative to original estimates, with the resulting increases in profit commissions payable.

The Company's casualty business includes an element of asbestos and environmental claims on business written prior to 1986. The Company's reserving process includes a supplemental evaluation of claims liabilities from exposure to asbestos and environmental claims, including related loss adjustment expenses. However, the Company's loss and loss expense reserves for such exposures, net of reinsurance, as of December 31, 1999, 1998, and 1997 is less than 1% of its total reserves. A reconciliation of the Company's gross and net liabilities for such exposures for the three years ending December 31, 1999 is set forth in Note 7 of the Notes to Consolidated Financial Statements.

Lloyd's Syndicates

The Lloyd's operations comprise Brockbank and Denham, both of which were acquired in 1998. Brockbank provides underwriting and other services to five Lloyd's syndicates, two of which are dedicated corporate syndicates whose capital is provided by the Company. During 1999, these dedicated corporate syndicates wrote a range of specialty lines, primarily of insurance but also reinsurance, in parallel with other syndicates managed by Brockbank. Denham provides similar services to one corporate syndicate whose capital is partially provided by the Company and which specializes in liability coverages.

The following table summarizes the underwriting profit for this segment (U.S. dollars in thousands):

	1999	1998
Net premiums earned	$355,769	$153,852
Fee and other income	65,892	14,081
Losses and loss expenses	297,595	118,111
Acquisition costs	89,195	30,614
Operating expenses	28,125	14,875
Underwriting profit	$ 6,746	$ 4,333

The increase in 1999 over 1998 in this segment is a result of the Brockbank acquisition in August 1998. In addition, results for Denham were not significant in 1998.

In 1999, fee and other income primarily relates to the sale by Brockbank of its two motor insurance businesses, Admiral and Zenith, resulting in a gain of $40.2 million. The Company expects there to be decreases in net premiums earned, fee income and certain costs next year as a result of this sale. However, the Company does not expect the overall profitability of its Lloyd's operations to be significantly affected by such sales. Excluding the gain on sale, fee and other income primarily relates to fees received from the management of Lloyd's syndicates and profit commissions which are earned based upon the estimated results of syndicates managed.

The following table presents the underwriting ratios for this segment:

	1999	1998
Loss and loss expense ratio	83.6%	76.8%
Underwriting expense ratio	33.0%	29.6%
Combined ratio	116.6%	106.4%

Losses incurred by the corporate syndicates of Brockbank attach at lower levels and are therefore higher in frequency but lower in severity as compared to the losses relating to the reinsurance and insurance segments of the Company. The increase in the loss ratio in 1999 over 1998 is due to reserve increases related to adverse development on the U.K. motor business prior to the sale for which the Company still retains residual liability.

Financial Services

The financial services business includes premiums received from credit enhancement by financial guaranty insurance and reinsurance policies and credit default swaps written in respect of asset-backed, municipal and corporate risk obligations. Fee income included in this segment is comprised primarily of income received from the two loss reserve transactions that were underwritten in 1999. Premiums received in respect of credit default swap transactions are also included as fee income and earned over the life of the policies.

The following table summarizes the underwriting profit for this segment (U.S. dollars in thousands):

	1999
Net premiums earned	$21,253
Fee and other income	26,924
Losses and loss expenses	5,361
Acquisition costs	2,108
Operating expenses	16,670
Underwriting profit	$24,038

Financial guaranty insurance premiums and credit default swap premiums are earned over the life of the exposure and certain transactions such as installment premiums are not recognized as premiums written until the premium is received.

The following table presents the underwriting ratios for the financial services segment:

	1999
Loss and loss expense ratio	25.2%
Underwriting expense ratio	88.4%
Combined ratio	113.6%

This segment writes business with an expected loss ratio of approximately 25%. The high expense ratio reflects the start up nature of this segment.

Investment Operations

The following table illustrates the change in net investment income and net realized gains and losses for the three years ended December 31, 1999 (U.S dollars in thousands):

	1999	% change 99 vs 98	1998	% change 98 vs 97	1997
Net investment income	$525,318	25.9%	$417,290	20.9%	$345,115
Net realized investment gains	$ 94,356	NM	$211,204	NM	$410,658
Annualized effective yield	5.85%	–	5.38%	–	5.50%

External investment professionals manage the Company's portfolio under the direction of management.

At December 31, 1999, total investments and cash, net of the payable for investments purchased, were $9.1 billion, compared to $8.9 billion at December 31, 1998. This increase includes the reinvestment of investment income and realized gains, but is primarily due to the loss portfolio transfers discussed further in ''—Financial Condition and Liquidity''. This increase was net of any transfer of assets to limited investment partnerships, included in investments in affiliates. As the Company's long-tail casualty business matures over the next three to five years, it is possible that claims payments may increase due to the additional exposure to events which occurred in prior years but have not yet been paid. Funds available for investment may therefore be reduced as compared to prior years due to such increased claims payments. The Company's fixed income investments (including short-term investments and cash equivalents) at December 31, 1999 represented approximately 88% of investments available for sale and were managed by several independent investment managers with different strategies. Of the fixed income securities, approximately 87% are of investment grade, with 60% rated Aa or AA or better by a nationally recognized rating agency.

The payable for investments purchased was $622.3 million at December 31, 1999 and $633.2 million at December 31, 1998. The payable balance at any one time is the result of a timing difference as it is the Company's policy to account for its investments on a trade basis.

The increase in investment income in 1999 over 1998 is primarily due to an increase in the annualized effective yield on the portfolio. The increase in investment income in 1998 over 1997 is due to an increase in the average asset base, primarily due to the merger with Mid Ocean in August 1998 and the Company's positive operational cash flow. The investment income from the asset accumulation business assets transferred did not have a significant impact due to the timing of the transfers to the Company which occurred in the third and fourth quarters of 1999.

Net realized gains in 1999 and 1998 reflect the strong performance of the equity market. In 1998, equity gains of $150.0 million were realized as some of the Company's equity managers locked in gains where they felt valuations had reached their targets. However, 1999 equity gains were offset by declining fixed income markets, which had been strong throughout most of 1998. Due to declining interest rates combined with widening spreads in the corporate and mortgage markets, the fixed income sector allowed the Company opportunities to increase the yield on its investment in 1999. As a result, the Company's investment managers will continue to pursue a total return strategy to take advantage of the higher yields. During 1997, both the fixed income and equity portfolios were restructured, resulting in the above-normal turnover of the portfolio and contributing to the significant gains realized during the year. 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 $11.3 million and $23.2 million for the years ended December 31, 1999 and 1998, respectively.

Other revenues and expenses

The following table sets forth other revenues and expenses of the Company for the three years ended December 31, 1999 (U.S. dollars in thousands):

	1999	% change 99 vs 98	1998	% change 98 vs 97	1997
Equity in net income of affiliates	$ 40,907	(18.7%)	$50,292	(22.6%)	$64,959
Amortization of intangible assets	49,141	NM	26,881	NM	7,403
Corporate operating expenses	89,037	NM	37,139	NM	7,029
Interest expense	37,378	11.8%	33,444	12.9%	29,622
Minority interest	220	NM	749	NM	308
Income tax (benefit) expense	(39,570)	NM	29,883	(7.1%)	32,172

NM=Not Meaningful

The decrease in equity in net income of affiliates in 1999 over 1998 and 1998 over 1997 is due to Mid Ocean. Partially offsetting the decrease in 1999 are earnings from new investments made in limited investment partnerships by the Company during 1999. In 1998, seven months of earnings from the Company's equity position in Mid Ocean were recognized, which ended in August 1998 upon the acquisition of the balance of the outstanding Mid Ocean shares. A full year's equity earnings from Mid Ocean were included in 1997.

The increase in the amortization of intangible assets in 1999 over 1998 and 1998 over 1997 mainly relates to the goodwill arising from the Mid Ocean acquisition in 1998. In 1999, there is also additional goodwill amortization of approximately $4.0 million arising from acquisitions of ECS and Intercargo.

Operating expenses in 1999 include $45.3 million of one-time charges related to the merger with NAC. In 1998, they include $17.5 million of one-time charges associated with the merger with Mid Ocean. Other increases are due to the increase in the corporate infrastructure necessary to support the growing worldwide operations of the Company.

Increases in interest expense in 1999 over 1998 and 1998 over 1997 is due to the increase in the average long-term debt outstanding during the each of the years. In 1999, this was used to finance the acquisitions of ECS and Intercargo, and in both 1999 and 1998, the repurchase of shares.

The changes in the income tax expense of the Company principally reflect the decline in the profitability of the U.S. operations for each year. In 1999, a deterioration of the casualty book for business underwritten prior to the merger with NAC resulted in a pre-tax net loss for U.S. operations, generating an income tax benefit for the year. See Note 17 to the Consolidated Financial Statements.

Financial Condition and Liquidity

As a holding company, the Company's assets consist primarily of its investments in 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 and regulations of Bermuda, the United States, Ireland and the United Kingdom, including those promulgated by the Society of Lloyd's which are described more fully in Note 18 to the Consolidated Financial Statements. No assurance can be given that the Company or its subsidiaries will be permitted to pay dividends in the future. The Company's shareholders' equity at December 31, 1999 was $5.6 billion, of which $3.1 billion was retained earnings.

Certain aspects of the Company's business are characterized as having low frequency and high severity exposures. This may result in volatility in both the Company's results and operational cash flows. However, the Company continues to generate significant positive cash flow from operating activities.

In 1999, 1998 and 1997, the total amount of net losses paid by the Company was $1,093.5 million, $730.9 million and $330.9 million, respectively. The increase is primarily due to the acquisition of Mid Ocean in August 1998.

The Company establishes reserves to provide for estimated 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 larger claims. 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 any multi-year policies at the time contracts are written.

In 1999, the Company completed the purchase of Intercargo and ECS for a total of $222.8 million in cash. Both of these transactions are accounted for under the purchase method of accounting, and resulted in goodwill of $159.6 million. These transactions were financed in part through bank borrowings and internal funds.

During 1999, the Company redistributed assets from investments available for sale and cash for the following investments:

(1) The Company made minority investments in Highfields Capital Management LP and MKP Capital Management LP and into the funds they manage totaling $281.2 million.

(2) The Company invested $97.0 million in a joint venture with Les Mutuelles du Mans Assurances Group to form a new French reinsurance company, Le Mans Re.

(3) The Company invested a further $91.0 million in limited partnerships and other investments.

These above investments account for the increase in investments in affiliates and other investments.

The Company assumed two loss portfolio transfers during the second half of the year which are accounted for on a deposit basis. These reserves are included in deposit liabilities and policy benefit reserves with the corresponding assets held in investments available for sale.

The Company has had several stock repurchase programs as part of its capital management. On January 22, 1999, the Board of Directors discontinued the Company's existing program with $148.8 million remaining and replaced it with an authorization to repurchase $500 million. During the first six months of 1999, the Company purchased 2.1 million shares at a cost of $126.8 million. In June 1999, the Board of Directors rescinded the Company's share repurchase program. On January 9, 2000 the Board of Directors authorized the repurchase of shares up to $500 million. The repurchase of shares was announced in conjunction with a small dividend increase of $0.04 per share per annum as part of the Company's capital management strategy. The Company has purchased 3.7 million shares up to March 17, 2000 at a cost of $165.8 million or $44.76 per share.

As at December 31, 1999, the Company had bank and loan facilities available from a variety of sources, including commercial banks, totaling $2.36 billion comprising 364-day facilities, 5-year facilities, notes payable and other loans and letter of credit facilities. Debt and notes outstanding at December 31, 1999 were $410.7 million and letters of credit outstanding were $891.6 million. Letters of credit issued and outstanding, 66% of which were collateralized by the Company's investment portfolio, primarily support U.S. non-admitted business and the Company's Lloyd's capital requirements.

During 1999 and 1998, borrowings under these facilities were $329 million and $655 million, respectively, and repayments under the facilities were $340 million and $495 million, respectively. The borrowings in 1999 facilitated the repurchase of shares and the purchase of Intercargo and ECS. In 1998, borrowings include $300 million to fund the cash election available to shareholders in connection with the Mid Ocean merger. Included in the 1998 notes payable and debt was $100 million 5.25% Convertible Subordinate Debentures due 2002, which were converted in June 1999 by the issue of 1.8 million shares out of treasury. Additional borrowings in 1998 were made to fund the Company's U.S. operations. The total pre-tax interest expense on notes and debt outstanding during the year ended December 31, 1999 and 1998 was $37.4 million and $33.4 million, respectively. Associated with the Company's bank and loan commitments are various loan covenants with which the Company was in compliance throughout the period. See Note 10 to the Consolidated Financial Statements for further details.

Year 2000 issues

There was no significant impact of Year 2000 issues on the Company's technology systems. Total costs incurred by the Company in ensuring its technology systems were compliant through December 31, 1999 were not significant. The Company did not experience any significant disruption due to the impact of Year 2000 issues on its service providers.

The Company is exposed to risks associated with Year 2000 issues based upon the underwriting exposures that it assumes. All insurance and reinsurance subsidiaries of the Company examined the potential exposure to Year 2000-related risks associated with the coverages that they provided. In some instances, Year 2000-related risks were 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 apparent lack of significant Year 2000-related losses, the Company does not expect to have a material exposure to Year 2000-related coverage claims. See generally ''—Cautionary Note Regarding Forward-Looking Statements''.

Financial Risk Management

The Company is exposed to various market risks, including changes in interest rates and foreign currency exchange rates. Market risk is the potential loss arising from adverse changes in interest rates and foreign currency exchange rates. The Company manages its market risks based on guidelines established by management. The Company enters into derivatives and other financial instruments primarily for risk management purposes.

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 analysis methods used by the Company to assess and mitigate risk should not be considered projections of future events of losses. See generally ''—Cautionary Note Regarding Forward-Looking Statements''.

The Company's investment portfolio consists of fixed income and equity securities, denominated in both U.S. and foreign 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 5.8% or $438 million on the Company's fixed income portfolio as of December 31, 1999.

In evaluating the impact of price changes of the equity portfolio, a 10% change in equity prices would affect total return by approximately $114 million.

The Company has short-term debt and long-term debt outstanding. Interest rates on short-term debt are LIBOR based. Accordingly, any changes in interest rates will affect interest expense.

Foreign Currency Risk Management

The Company uses foreign exchange contracts to manage its exposure to the effects of fluctuating foreign currencies on the value of its foreign currency fixed maturities and equity investments. These contracts are not designated as specific hedges for financial reporting purposes and therefore realized and unrealized gains and losses on them are recorded in income 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 may not be entered into. At December 31, 1999, forward foreign exchange contracts with notional principal amounts totaling $339.3 million were outstanding. The fair value of these contracts as at December 31, 1999 was $341.1 million with unrealized gains of $1.8 million. Losses of $2.7 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 December 31, 1999 would have resulted in approximately $34.6 million in unrealized gains and $33.7 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 foreign currency investments. These contracts are not designated as specific hedges, and generally have maturities of two weeks or less. As such, any realized or unrealized gains or losses are recorded in income in the period in which they occur. At December 31, 1999, the value of such contracts outstanding was not significant.

The Company attempts to hedge directly the foreign currency exposure of a portion of its foreign currency fixed maturity investments using forward foreign exchange contracts that generally have maturities of three months or less and 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 December 31, 1999, the Company had, as hedges, foreign exchange contracts for the sale of $94.0 million and the purchase of $7.5 million of foreign currencies at fixed rates, primarily Euros (49% of net contract value), British pounds (18%) and New Zealand Dollars (16%). The market value of fixed maturities denominated in foreign currencies that were hedged and held by the Company as at December 31, 1999 was $85.2 million.

Unrealized foreign exchange gains and losses on foreign exchange contracts hedging foreign currency fixed maturity investments are deferred and included as a component of shareholders' equity. As at December 31, 1999, unrealized deferred losses amounted to $2.0 million and were offset by corresponding increases 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 December 31, 1999, realized deferred losses amounted to $0.5 million.

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 December 31, 1999, the portfolio held $121.9 million in exposure to S&P 500 Index futures and underlying assets of $122.0 million. Based on this value, a 10% increase or decrease in the price of these futures would have resulted in exposure of $134.1 million and $109.7 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 December 31, 1999, net realized gains from index futures totaled $11.3 million as a result of the 19.5% 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 December 31, 1999, bond and stock index futures outstanding were $241.1 million with underlying investments having a market value of $2.5 billion (all 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 $24.1 million, respectively.

Recent Accounting Pronouncements

See Note 2 to the Consolidated Financial Statements for a discussion on recent accounting pronouncements.

Current Outlook

The Company believes competition in the property casualty insurance and reinsurance industry will continue to be strong in 2000, exerting pressure on rates in general across many product lines. Although the Company believes some opportunities will exist in 2000 for growth in selected product lines, no assurances can be made that growth in these lines will be sufficient to offset the competitive pressures affecting the majority of the Company's product lines.

Cautionary Note Regarding Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 (''PSLRA'') provides a ''safe harbor'' for forward-looking statements. This Form 10-K, the Company's Annual Report to Stockholders, any proxy statement, any 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; (iv) developments in the world's financial and capital markets which adversely affect the performance of the Company's investments; (v) changes in regulation or tax laws applicable to the Company, its subsidiaries, brokers or customers; (vi) acceptance of the Company's products and services, including new products and services; (vii) changes in the availability, cost or quality of reinsurance; (viii) changes in the distribution or placement of risks due to increased consolidation of insurance and reinsurance brokers; (ix) the impact of the Year 2000-related issues on the Company's underwriting exposures; (x) loss of key personnel; (xi) the effects of mergers, acquisitions and divestitures; (xii) changes in rating agency policies or practices; (xiii) changes in accounting policies or practices; and (xiv) changes in general economic conditions, including inflation, foreign currency exchange rates and other factors. The foregoing review of important factors should not be construed as exhaustive and should be read in conjunction with the 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.

XL CAPITAL LTD

CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31, 1999 AND 1998
(U.S. dollars in thousands, except share amounts)

	1999	1998
ASSETS		
Investments:		
Fixed maturities, available for sale at fair value (amortized cost: 1999, $7,835,919; 1998, $7,433,724)	$ 7,581,151	$ 7,512,903
Equity securities, at fair value (cost: 1999, $863,020; 1998, $1,127,590)	1,136,180	1,299,098
Short-term investments, at fair value (amortized cost: 1999, $405,375; 1998, $246,085)	405,260	245,891
Total investments	9,122,591	9,057,892
Cash and cash equivalents	557,749	480,874
Investments in affiliates (cost: 1999, $478,266; 1998, $141,590)	479,911	154,668
Other investments	165,613	44,085
Accrued investment income	111,590	95,910
Deferred acquisition costs	275,716	204,271
Prepaid reinsurance premiums	217,314	215,466
Premiums receivable	1,126,397	904,203
Reinsurance balances receivable	149,880	124,771
Unpaid losses and loss expenses recoverable	831,864	593,960
Intangible assets (accumulated amortization: 1999, $118,663; 1998, $70,190)	1,626,946	1,502,828
Deferred tax asset, net	97,928	37,481
Other assets	327,413	164,731
Total assets	$15,090,912	$13,581,140
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Unpaid losses and loss expenses	$ 5,369,402	$ 4,896,643
Deposit liabilities and policy benefit reserves	837,893	–
Unearned premiums	1,497,376	1,337,277
Notes payable and debt	410,726	613,873
Reinsurance balances payable	387,916	183,660
Net payable for investments purchased	622,260	633,181
Other liabilities	345,738	256,862
Minority interest	42,523	47,041
Total liabilities	$ 9,513,834	$ 7,968,537
Commitments and Contingencies		
Shareholders' Equity:		
Authorized, 999,990,000 ordinary shares, par value $0.01		
Issued and outstanding:		
Class A ordinary shares (1999, 124,691,541; 1998, 125,629,257)	1,247	1,256
Class B ordinary shares (1999, 3,115,873; 1998, 3,115,873)	31	31
Contributed surplus	2,520,136	2,508,062
Accumulated other comprehensive income	19,311	235,185
Deferred compensation	(28,797)	(22,954)
Retained earnings	3,065,150	2,891,023
Total shareholders' equity	$ 5,577,078	$ 5,612,603
Total liabilities and shareholders' equity	$15,090,912	$13,581,140

See accompanying notes to Consolidated Financial Statements

XL CAPITAL LTD

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997
(U.S. dollars in thousands, except share and per share amounts)

	1999	1998	1997
Revenues:			
Net premiums earned	$1,750,006	$1,324,291	$1,114,758
Net investment income	525,318	417,290	345,115
Net realized gains on sales of investments	94,356	211,204	410,658
Equity in net income of affiliates	40,907	50,292	64,959
Fee and other income	100,400	22,325	–
Total revenues	2,510,987	2,025,402	1,935,490
Expenses:			
Losses and loss expenses	1,304,304	841,517	738,849
Acquisition costs	380,980	249,341	198,017
Operating expenses	308,025	187,257	120,090
Interest expense	37,378	33,444	29,622
Amortization of intangible assets	49,141	26,881	7,403
Total expenses	2,079,828	1,338,440	1,093,981
Income before minority interest and income tax expense	431,159	686,962	841,509
Minority interest in net income of subsidiary	220	749	308
Income tax (benefit) expense	(39,570)	29,883	32,172
Net income	$ 470,509	$ 656,330	$ 809,029
Change in net unrealized appreciation of investments	(211,842)	(15,414)	6,233
Foreign currency translation adjustments	(4,032)	(872)	(2,388)
Comprehensive Income	$ 254,635	$ 640,044	$ 812,874
Weighted average ordinary shares and ordinary share equivalents outstanding – basic	127,601	112,034	101,708
Weighted average ordinary shares and ordinary share equivalents outstanding – diluted	130,304	116,206	105,005
Earnings per ordinary share and ordinary share equivalent – basic	$ 3.69	$ 5.86	$ 7.95
Earnings per ordinary share and ordinary share equivalent – diluted	$ 3.62	$ 5.68	$ 7.74

See accompanying notes to Consolidated Financial Statements

XL CAPITAL LTD

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997

(U.S. dollars in thousands)

	1999	1998	1997
Ordinary Shares:			
Balance-beginning of year	$ 1,287	$ 1,013	$ 1,039
Issue of shares	1	15	6
Issue of shares – Mid Ocean acquisition	–	291	–
Exercise of stock options	5	3	4
Repurchase of treasury shares	(15)	(35)	(36)
Balance-end of year	1,278	1,287	1,013
Contributed Surplus:			
Balance-beginning of year	2,508,062	506,452	500,599
Issue of shares	15,951	101,502	18,917
Issue of shares Mid Ocean acquisition	–	2,093,426	–
Exercise of stock options	11,711	9,147	6,277
Repurchase of treasury shares	(15,588)	(202,465)	(19,341)
Balance-end of year	2,520,136	2,508,062	506,452
Accumulated other comprehensive income:			
Balance-beginning of year	235,185	251,471	247,626
Net change in unrealized gains on investment portfolio, net of tax	(213,482)	(10,352)	(8,302)
Net change in unrealized gains on investment portfolio of affiliate	1,640	(5,062)	14,535
Currency translation adjustments	(4,032)	(872)	(2,388)
Balance-end of year	19,311	235,185	251,471
Deferred Compensation:			
Balance-beginning of year	(22,954)	(18,263)	(9,825)
Issue of restricted shares	(13,603)	(10,506)	(13,675)
Amortization	7,760	5,815	5,237
Balance-end of year	(28,797)	(22,954)	(18,263)
Retained Earnings:			
Balance-beginning of year	2,891,023	2,455,076	1,898,094
Net income	470,509	656,330	809,029
Cash dividends paid	(212,659)	(156,482)	(120,607)
Repurchase of treasury shares	(83,723)	(63,901)	(131,440)
Balance-end of year	3,065,150	2,891,023	2,455,076
Total shareholders' equity	$5,577,078	$5,612,603	$3,195,749

See accompanying notes to Consolidated Financial Statements

XL CAPITAL LTD

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997

(U.S. dollars in thousands)

	1999	1998	1997
Cash flows provided by operating activities:			
Net income	$ 470,509	$ 656,330	$ 809,029
Adjustments to reconcile net income to net cash provided by operating activities:			
Net realized gains on sales of investments	(94,356)	(211,204)	(410,658)
Amortization of (discounts) premium on fixed maturities	(14,429)	(14,718)	(2,170)
Equity in net income of affiliates, net of cash received	(34,506)	(24,973)	(34,395)
Amortization of deferred compensation	7,657	5,815	5,237
Amortization of intangible assets	49,141	26,881	7,403
Unpaid losses and loss expenses	411,396	323,857	314,449
Unearned premiums	131,767	52,161	(193,018)
Premiums receivable	(166,027)	4,245	151,203
Unpaid losses and loss expenses recoverable	(212,928)	(221,177)	94,349
Prepaid reinsurance premiums	(1,848)	(45,961)	(49,328)
Reinsurance balances receivable	(25,109)	(31,103)	16,419
Other	(25,632)	39,783	25,424
Total adjustments	25,126	(96,394)	(75,085)
Net cash provided by operating activities	495,635	559,936	733,944
Cash flows used in investing activities:			
Proceeds from sale of fixed maturities and short-term investments	15,664,591	15,765,103	12,385,521
Proceeds from redemption of fixed maturities and short-term investments	134,565	516,418	187,441
Proceeds from sale of equity securities	1,017,177	918,501	1,381,465
Purchases of fixed maturities and short-term investments	(16,075,719)	(16,460,877)	(12,615,821)
Purchases of equity securities	(803,728)	(1,020,032)	(1,147,601)
Deferred (gains) losses on forward contracts	(509)	(12,163)	8,247
Investments in affiliates	(348,543)	(1,126)	(43,184)
Acquisition of subsidiaries, net of cash acquired	(173,206)	41,483	(660,137)
Other investments	(120,717)	4,411	(6,016)
Deposit liabilities and policy benefit reserve	837,893	–	–
Other assets	(35,133)	13,430	(54,353)
Net cash provided (used) in investing activities	96,671	(234,852)	(564,438)
Cash flows used in financing activities:			
Issue of restricted shares	69	514	387
Proceeds from exercise of stock options	14,014	15,092	12,284
Repurchase of treasury shares	(99,344)	(266,401)	(154,720)
Dividends paid	(212,659)	(156,481)	(120,607)
Proceeds from loans	328,700	655,000	530,000
Repayment of notes	(100,000)	–	–
Repayment of loans	(339,735)	(495,000)	(400,000)
Repayment of debentures	(101,737)	–	–
Minority interest	(4,900)	19,988	26,226
Net cash used in financing activities	(515,592)	(227,288)	(106,430)
Effects of exchange rate changes on cash on foreign currency cash balances	161	(516)	(622)
Increase in cash and cash equivalents	76,875	97,280	62,454
Cash and cash equivalents-beginning of year	$ 480,874	$ 383,594	$ 321,140
Cash and cash equivalents – end of year	$ 557,749	$ 480,874	$ 383,594
Taxes paid	$ 30,246	$ 31,200	$ 37,600
Interest paid	$ 28,268	$ 32,800	$ 27,100

See accompanying notes to Consolidated Financial Statements

1. History

XL Capital Ltd (sometimes referred to as 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, in connection with EXEL's merger with Mid Ocean Limited, a Cayman Islands corporation. The merger was accounted for as a purchase under U.S. generally accepted accounting principles (''GAAP'') and as such, results of operations of Mid Ocean are included from August 1, 1998, the effective date of the merger. In the merger, all of the shares of EXEL and Mid Ocean were exchanged for shares in the Company according to two schemes of arrangement under Cayman Islands law. 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 Capital 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.

In 1999, XL Capital merged with NAC Re Corp, a Delaware corporation. The merger has been accounted for as a ''pooling of interests'' under U.S. GAAP. Under pooling of interests accounting, it is assumed that XL Capital and NAC have been merged from the date of incorporation of the Company, and accordingly, all prior period information contained in this document includes the results of NAC. NAC was organized in 1985 and, through its subsidiaries, writes property and casualty insurance and reinsurance in the U.S., Canada and Europe. Subsequent to the merger agreement, XL Capital amended its financial year from November 30 to December 31 as a conforming pooling adjustment and to facilitate year end reporting for its subsidiaries.

XL Insurance, a company organized under the laws of Bermuda, and its subsidiaries are the Company's principal insurance subsidiaries. XL Insurance was formed in 1986 in response to a shortage of high excess liability coverage for Fortune 500 companies in the U.S. In 1990, XL Insurance formed XL Europe, an insurance company organized under the laws of Ireland to serve European clients and, in 1998, formed two companies now known as XL Insurance Company of New York and XL Capital Assurance.

XL Mid Ocean Reinsurance is organized under the laws of Bermuda. On August 7, 1998, XL Mid Ocean Re was formed through the merger of XL Global Reinsurance and Mid Ocean Re. XL Global Re was formed in November 1997 through the merger of XL Reinsurance and Global Capital Reinsurance following EXEL's acquisition of GCR Holdings Limited, a Cayman Islands holding company, on June 12, 1997. XL Reinsurance commenced operations on December 1, 1995 to write specialty reinsurance business. Mid Ocean Re and Global Capital Re 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.

The Company further expanded into the U.S. in 1999 by completing the acquisition of both Intercargo Corporation and ECS, Inc. Intercargo, through its subsidiaries, underwrites specialty insurance products for companies engaged in international trade, including U.S. Customs bonds and marine cargo insurance. ECS is an underwriting manager, which specializes in environmental insurance coverages and risk management services.

The Brockbank Group was acquired through the merger with Mid Ocean. Brockbank is a company organized under the laws of the United Kingdom and is a leading Lloyd's managing agency which provides underwriting and similar services to five Lloyd's syndicates. Two of these syndicates are dedicated 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 on 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. As a managing agency, Brockbank receives fees

1. History (Continued)

and commissions in respect of underwriting services it provides to syndicates. In the fourth quarter of 1999, Brockbank sold its two motor insurance businesses, Admiral and Zenith. The Company expects there to be decreases in premiums, fee income and certain costs, however it does not expect the overall profitability of its Lloyd's operations to be materially affected by such sales.

Denham Syndicate Management Limited was acquired by NAC during 1998 and it also provides underwriting and similar services to one corporate syndicate, whose capital is partially provided by the Company. This syndicate writes a specialized book of international business, concentrating on long-tail casualty and non-marine physical damage.

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 that possess expertise in lines of business that the Company wishes to write. 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 and related risk management. In July 1999, the Company entered into a joint venture with Les Mutuelles du Mans Assurances Group to form a new French reinsurance company, Le Mans Re. The Company owns a 49% shareholding in the new company, which underwrites a worldwide portfolio comprising all classes of non-life reinsurance business together with a selective portfolio of life reinsurance business.

In 1999, the Company made strategic minority investments in two investment management firms. The Company acquired minority investments in Highfields Capital Management L.P., a global equity investment firm, and MKP Capital Management, a New York-based fixed income investment manager specializing in mortgage-backed securities.

In 1998, the Company entered into a joint venture with FSA Holdings Ltd to write financial guaranty insurance and reinsurance. Under the terms of the joint venture, each of the Company and FSA formed a Bermuda insurance company in which it is the majority shareholder and made a minority investment in the company formed by its co-venturer.

The Company formed Reeve Court Insurance, a Bermuda company organized as a joint venture with such company's management for the purpose of providing life insurance to high net worth individuals in 1998.

In 1997, the Company acquired a 75% holding in Latin America Re, a Bermuda reinsurance company.

The Company formed Sovereign Risk Insurance as a joint venture in 1997. Sovereign is a Bermuda-based managing general agency that writes political risk insurance on a subscription basis on behalf of its shareholders.

In 1996, the Company acquired approximately 30% of Pareto Partners, a firm that specializes in foreign currency management and related services.

2. Significant Accounting Policies

(a) Basis of Preparation

These consolidated financial statements include the accounts of the Company and all of its subsidiaries and have been prepared in accordance with U.S. generally accepted accounting principles (''GAAP''). They include the merger with NAC, which occurred in June 1999, and which has been accounted for as a ''pooling of interests'' under U.S. GAAP. They are also based upon the Company's new fiscal year end of December 31. Results of operations, statements of position and cash flows include NAC as though it had always been a part of the Company. All material intercompany accounts and transactions have been eliminated. The preparation of financial statements in conformity with GAAP 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.

(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 and unearned premiums are presented after deductions for reinsurance ceded to other insurance companies.

Financial guaranty insurance premiums are earned over the life of the exposure, and certain transactions such as installment premiums are not recognized as premiums written until the premium is received.

Acquisition costs, which vary with and are primarily related to the acquisition of policies, primarily commissions paid to brokers, are deferred and amortized over the period the premiums are earned. Future earned premiums and the anticipated losses, investment income 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 are expensed and the commissions recorded thereon are earned on a monthly pro-rata basis over the period the reinsurance coverage is provided. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Provision is made for estimated unrecoverable reinsurance.

(d) Investments

Investments are considered 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, net of tax, is included in accumulated other comprehensive income. Any unrealized depreciation in value considered by management to be other than temporary is charged to income in the period that it is determined.

2. Significant Accounting Policies (Continued)

Short-term investments comprise investments with a maturity equal to or greater than 90 days but less than one year. Equity securities include investments in open end mutual funds. 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 carried at fair value, 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) Cash Equivalents

Cash equivalents include fixed interest deposits placed with a maturity of under 90 days when purchased.

(f) Foreign Currency Translation

Assets and liabilities of foreign operations whose functional currency is other than the U.S. dollar are translated at year end exchange rates. Revenue and expenses of such foreign operations are translated at average exchange rates during the year. The effect of the translation adjustments for foreign operations is recorded, net of applicable deferred income taxes, as a separate component of accumulated other comprehensive income in shareholders' equity.

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

(g) Investments in Affiliates

Investments in which the Company has significant influence over the operations of its affiliates are carried under the equity method of accounting. Under this method, the Company records its proportionate share of income or loss for such investments in its results of operations.

(h) Other Investments

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

(i) 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 at that time.

2. Significant Accounting Policies (Continued)

(j) 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 based on amounts reported from insured or ceding companies and consultation with independent legal counsel, and represents the estimated ultimate cost of events or conditions that have been reported to or specifically identified by the Company. Certain workers' compensation case reserves are considered fixed and determinable and are subject to tabular reserving. Such tabular reserves are discounted using an interest rate of 7%.

The Company recognizes as a component of loss reserves, the loss experience accounts of policyholders for policies written on a multi-year basis where 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 the Company was 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 industries.

Management believes that the reserves for unpaid losses and loss expenses are sufficient to pay any losses that fall within coverages assumed by the Company. However, there can be no assurance that losses will not exceed the Company's total reserves. The methodology of estimating loss reserves 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.

(k) Deposit Liabilities and Policy Benefit Reserves

Short duration contracts entered into by the Company which are not deemed to transfer significant underwriting and/or timing risk are accounted for as deposits, whereby liabilities are recorded for the same amount of premium received. The Company will periodically re-assess the amount of the deposit liabilities. Changes are recorded in the period they are determined as either interest income where the contract does not transfer underwriting risk, or net losses and loss expenses incurred where the contract does not transfer significant timing risk.

Policy benefit reserves relate to long duration contracts written by the Company which do not transfer significant mortality or morbidity risks, and are accounted for as deposits, and liabilities for estimated future policy benefits are established at the time such funds are received.

(l) Income Taxes

The Company utilizes the liability method of accounting for income taxes. Under the liability method, deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is established for any portion of a deferred tax asset that management believes will not be realized.

(m) Stock Plans

The Company accounts for stock compensation plans in accordance with Accounting Principles Board (''APB'') Opinion No. 25, ''Accounting for Stock Issued to Employees''. Accordingly, compensation expense for stock option

2. Significant Accounting Policies (Continued)

grants and stock appreciation rights is recognized to the extent that the fair value of the stock exceeds the exercise price of the option at the measurement date.

(n) Per Share Data

Basic earnings per share is based on weighted average common shares outstanding and excludes any dilutive effects of options and convertible securities. Diluted earnings per share assumes the conversion of dilutive convertible securities and the exercise of all dilutive stock options.

(o) Fair Value of Financial Instruments

Fair values of certain assets and liabilities are based on published market values, if available, or estimates of fair value of similar issues. Fair values are reported in Notes 4 and 10.

(p) Recent Accounting Pronouncements

The Financial Accounting Standards Board issued Statement (''SFAS'') No. 133, ''Accounting for Derivative Instruments and Hedging Activities,'' which is required to be adopted in years beginning after June 15, 2000. The Company has not yet completed its assessment of the effect of the adoption of this standard on results of operations, financial condition or liquidity, but believes it will not be significant.

3. Segment Information

The Company is organized into four underwriting segments – insurance, reinsurance, Lloyd's syndicates and financial services – in addition to a corporate segment that includes the investment operations of the Company. Certain business written by the Company has loss experience characterized as low frequency and high severity. This may result in volatility in both the Company's results and operational cash flows.

Insurance Operations

The insurance business is written primarily by the following: XL Insurance, XL Europe, XL Insurance Company of New York, Greenwich Insurance, Indian Harbor Insurance, ECS and Intercargo. Business written includes general liability, other liability including directors and officers, professional and employment practices liability, property, program business, marine, aviation, satellite and other product lines including U.S. Customs bonds, surety, political risk and specialty lines.

Reinsurance Operations

The Company's reinsurance business is primarily written by NAC Re and XL Mid Ocean Re. Business written includes treaty and facultative reinsurance to primary insurers of casualty risks, principally: general liability; professional liability; automobile and workers' compensation; commercial and personal property risks; specialty risks including fidelity and surety and ocean marine; 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. The Company endeavors to manage its exposures to catastrophic events by limiting the amount of its exposure in each geographic zone worldwide and requires that its property catastrophe contracts provide for aggregate limits and varying attachment points.

(U.S. dollars in thousands)

3. Segment Information (Continued)

Lloyd's Syndicates

The Lloyd's operations are comprised of Brockbank and Denham. Corporate syndicates write property, marine and energy, aviation and satellite, motor, professional indemnity, liability coverage and other specialty lines, primarily of insurance but also reinsurance. Effective January 1, 2000, the Company discontinued writing direct motor business.

Financial Services

Financial services premiums are written by XL Insurance through XL Capital Products. Business written includes insurance and reinsurance solutions for complex financial risks. These include financial insurance and reinsurance, credit enhancement swaps and other collateralized transactions. 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 approached this market on a ''net-line'' basis, but may cede a portion of some policies to third parties from time to time. In 1999, the Company also commenced assuming large loss portfolios as part of its new asset accumulation strategy.

The Company evaluates performance of each segment based on underwriting profit or loss. Other items of revenue and expenditure of the Company are not evaluated at the segment level. In addition, management does not consider the allocation of assets by segment. The following is an analysis of the underwriting profit or loss by segment together with a reconciliation of underwriting profit or loss to net income:

Year ended December 31, 1999	Insurance	Reinsurance	Lloyd's Syndicates	Financial Services	Total
Net premiums earned	$463,069	$909,915	$355,769	$21,253	$1,750,006
Fee and other income	7,584	–	65,892	26,924	100,400
Net losses and loss expenses (1), (2)	309,079	597,269	297,595	5,361	1,209,304
Acquisition costs	65,318	224,359	89,195	2,108	380,980
Operating expenses (3)	70,929	103,264	28,125	16,670	218,988
Underwriting profit (loss)	$ 25,327	$ (14,977)	$ 6,746	$24,038	$ 41,134
Net investment income					525,318
Net realized gains on investments					94,356
Equity in net earnings of affiliates					40,907
Interest expense					37,378
Amortization of intangible assets					49,141
Corporate operating expenses (3)					43,765
Loss reserve adjustment (1)					95,000
One time charges (3)					45,272
Minority interest					220
Income tax benefit					(39,570)
Net income					$ 470,509
Loss and loss expense ratio	66.7%	65.6%	83.6%	25.2%	69.1%
Underwriting expense ratio	29.4%	36.0%	33.0%	88.4%	34.3%
Combined ratio	96.1%	101.6%	116.6%	113.6%	103.4%

(U.S. dollars in thousands)

3. Segment Information (Continued)

(1) Net losses and loss expenses exclude an increase to loss reserves of $95.0 million associated with the merger with NAC.

(2) Net losses and loss expenses for the insurance segment include, and the reinsurance segment exclude, $100.0 million relating to an intercompany stop loss agreement. Total results are not affected. The loss and loss expense ratio would have been 45.2% and 76.6% and the underwriting profit (loss) would have been $125 million and $(115) million in the insurance and reinsurance segments, respectively, had this stop loss agreement not been in place.

(3) Operating expenses exclude corporate operating expenses, shown separately, and one time charges of $45.3 million associated with the merger with NAC.

Year ended December 31, 1998	Insurance	Reinsurance	Lloyd's Syndicates	Financial Services	Total
Net premiums earned	$410,030	$760,409	$153,852	$ –	$1,324,291
Fee and other income	8,244	–	14,081	–	22,325
Net losses and loss expenses	267,823	455,583	118,111	–	841,517
Acquisition costs	47,688	171,039	30,614	–	249,341
Operating expenses (1)	49,702	85,541	14,875	–	150,118
Underwriting profit	$ 53,061	$ 48,246	$ 4,333	$ –	$ 105,640
Net investment income					417,290
Net realized gains on investments					211,204
Equity in net earnings of affiliates					50,292
Interest expense					33,444
Amortization of intangible assets					26,881
Corporate operating expenses (1)					19,679
One time charges (1)					17,460
Minority interest					749
Income tax expense					29,883
Net income					$ 656,330
Loss and loss expense ratio	65.4%	60.0%	76.8%	N/A	63.6%
Underwriting expense ratio	23.8%	33.8%	29.6%	N/A	30.2%
Combined ratio	89.2%	93.8%	106.4%	N/A	93.8%

(1) Operating expenses exclude corporate operating expenses, shown separately, and one time charges of $17.5 million associated with the merger with Mid Ocean.

(U.S. dollars in thousands)

3. Segment Information (Continued)

Year ended December 31, 1997	Insurance	Reinsurance	Lloyd's Syndicates	Financial Services	Total
Net premiums earned	$428,774	$685,984	$ –	$ –	$1,114,758
Net losses and loss expenses	352,203	386,646	–	–	738,849
Acquisition costs	55,199	142,818	–	–	198,017
Operating expenses (1)	37,232	75,829	–	–	113,061
Underwriting profit (loss)	$ (15,860)	$ 80,691	$ –	$ –	$ 64,831
Net investment income					345,115
Net realized gains on investments					410,658
Equity in net earnings of affiliates					64,959
Interest expense					29,622
Amortization of intangible assets					7,403
Corporate operating expenses (1)					7,029
Minority interest					308
Income tax expense					32,172
Net income					$ 809,029
Loss and loss expense ratio	82.1%	56.4%	N/A	N/A	66.3%
Underwriting expense ratio	21.6%	31.9%	N/A	N/A	27.9%
Combined ratio	103.7%	88.3%	N/A	N/A	94.2%

(1) Operating expenses exclude corporate operating expenses, shown separately.

(U.S. dollars in thousands)

3. Segment Information (Continued)

Supplemental Segment and Geographic Information

The following table is an analysis of the Company's gross premiums written, net premiums written and net premiums earned by line of business:

	Year ended December 31		
Gross premium written:	**1999**	**1998**	**1997**
Casualty insurance	$ 297,899	$ 411,405	$ 376,837
Casualty reinsurance	481,392	311,057	348,402
Property catastrophe	147,372	80,420	(82,294)
Other property	424,666	315,013	258,957
Marine, energy, aviation and satellite	212,452	108,701	84,021
Lloyd's syndicates	591,520	162,773	–
Other	287,619	254,170	149,462
Total	$2,442,920	$1,643,539	$1,135,385
Net premium written:	**1999**	**1998**	**1997**
Casualty insurance	$ 232,614	$ 301,362	$ 265,296
Casualty reinsurance	419,000	268,460	322,135
Property catastrophe	128,863	71,380	(82,902)
Other property	311,312	231,690	191,026
Marine, energy, aviation and satellite	152,783	82,484	68,111
Lloyd's syndicates	423,880	145,691	–
Other	233,431	223,197	116,779
Total	$1,901,883	$1,324,264	$ 880,445
Net premium earned:	**1999**	**1998**	**1997**
Casualty insurance	$ 272,677	$ 287,438	$ 363,967
Casualty reinsurance	331,778	282,245	321,394
Property catastrophe	133,420	122,583	43,519
Other property	324,571	233,045	189,159
Marine, energy, aviation and satellite	163,112	92,147	65,016
Lloyd's syndicates	355,769	153,852	–
Other	168,679	152,621	131,703
Total	$1,750,006	$1,324,291	$1,114,758

(U.S. dollars in thousands)

3. Segment Information (Continued)

The following table shows an analysis of the Company's net premiums written by geographical location of subsidiary:

Net premiums written:	**1999**	**1998**	**1997**
Bermuda	$ 561,750	$ 534,092	$ 241,006
United States	684,468	497,364	541,362
Europe and other	655,665	292,808	98,077
Total	$1,901,883	$1,324,264	$ 880,445

Major Customers

During 1999, 1998 and 1997, approximately 21%, 34% and 35% of the Company's consolidated gross written premiums were generated from or placed by Marsh & McLennan Companies. During 1999, 1998 and 1997, approximately 13%, 19% and 18% of the Company's consolidated gross written premiums were generated from or placed by AON Corporation and its subsidiaries. No other broker accounted for more than 10% of gross premiums written in each of the three years ended December 31, 1999.

4. Investments

Net investment income is derived from the following sources:

	Year ended December 31,		
	1999	**1998**	**1997**
Fixed maturities, short-term investments and cash equivalents	$538,169	$423,612	$346,373
Equity securities	11,835	19,596	21,046
Total investment income	550,004	443,208	367,419
Investment expenses	24,686	25,918	22,304
Net investment income	$525,318	$417,290	$345,115

(U.S. dollars in thousands)

3. Segment Information (Continued)

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(U.S. dollars in thousands)

4. Investments (Continued)

The following represents an analysis of realized and the change in unrealized appreciation on investments:

	Year ended December 31,		
	1999	1998	1997
Net realized gains (losses):			
Fixed maturities and short-term investments:			
Gross realized gains	$ 116,226	$ 445,086	$ 203,278
Gross realized losses	(214,196)	(398,046)	(167,146)
Net realized gains (losses)	(97,970)	47,040	36,132
Equity securities:			
Gross realized gains	254,779	613,186	400,751
Gross realized losses	(62,453)	(463,159)	(26,225)
Net realized gains	192,326	150,027	374,526
Net realized gain on sale of investment in affiliate	–	14,137	–
Net realized gains on investments	94,356	211,204	410,658
Change in unrealized appreciation:			
Fixed maturities and short-term investments	(333,868)	(37,741)	98,212
Equity securities	101,652	41,819	(102,152)
Deferred gains on forward contracts	762	(13,708)	8,247
Investment portfolio of affiliates	(11,438)	(5,062)	14,535
Change in deferred income tax liability	31,050	(722)	(12,609)
Net change in unrealized appreciation on investments	(211,842)	(15,414)	6,233
Total net realized and change in unrealized appreciation on investments	$(117,486)	$ 195,790	$ 416,891

(U.S. dollars in thousands)

4. Investments (Continued)

The cost (amortized cost for fixed maturities and short-term investments), market value and related unrealized gains (losses) of investments are as follows:

December 31, 1999	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Fixed maturities:				
U.S. Government and Government agency	$ 560,628	$ 1,011	$ (12,532)	$ 549,107
Corporate	4,610,613	31,407	(234,730)	4,407,290
Mortgage-backed securities	1,118,104	682	(23,602)	1,095,184
U.S. States and political subdivisions of the States	779,328	7,850	(17,402)	769,776
Non-U.S. Sovereign Government	767,246	10,809	(18,261)	759,794
Total fixed maturities	$7,835,919	$ 51,759	$(306,527)	$7,581,151
Short-term investments:				
U.S. Government and Government agency	$ 82,475	–	$ (63)	$ 82,412
Corporate	315,834	229	(270)	315,793
Non-U.S. Sovereign Government	7,066	–	(11)	7,055
Total short-term investments	$ 405,375	$ 229	$ (344)	$ 405,260
Total equity securities	$ 863,020	$377,302	$(104,142)	$1,136,180

December 31, 1998	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Fixed maturities:				
U.S. Government and Government agency	$1,876,198	$ 19,878	$ (5,310)	$1,890,766
Corporate	3,605,183	80,085	(83,383)	3,601,885
Mortgage-backed securities	1,027,383	13,353	(634)	1,040,102
U.S. States and political subdivisions of the States	237,864	46,926	(666)	284,125
Non-U.S. Sovereign Government	687,096	27,229	(18,299)	696,026
Total fixed maturities	$7,433,724	$187,471	$(108,292)	$7,512,903
Short-term investments:				
U.S. Government and Government agency	$ 27,816	$ 128	$ –	$ 27,944
Corporate	200,204	69	(284)	199,989
Non-U.S. Sovereign Government	18,065	–	(107)	17,958
Total short-term investments	$ 246,085	$ 197	$ (391)	$ 245,891
Total equity securities	$1,127,590	$242,798	$ (71,290)	$1,299,098

(U.S. dollars in thousands)

4. Investments (Continued)

The contractual maturities of fixed maturity securities are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 1999		December 31, 1998	
	Amortized Cost	Market Value	Amortized Cost	Market Value
Due after 1 through 5 years	$2,091,280	$2,025,736	$2,390,830	$2,397,734
Due after 5 through 10 years	1,816,040	1,773,639	2,104,804	2,139,561
Due after 10 years	2,810,495	2,686,592	1,910,707	1,935,506
Mortgage-backed securities	1,118,104	1,095,184	1,027,383	1,040,102
	$7,835,919	$7,581,151	$7,433,724	$7,512,903

At December 31, 1999 and 1998, approximately $89.4 million and $92.0 million, respectively, of securities were on deposit with various U.S. state or government insurance departments in order to comply with insurance regulations.

Through its subsidiaries, the Company has two facilities available for the issuance of letters of credit collateralized against the Company's investment portfolio, which were up to a value of $791.4 million at December 31, 1999. At December 31, 1999 and 1998, approximately $591.0 million and $348.9 million, respectively, of letters of credit were issued and outstanding under these facilities.

Included in cash and invested assets at December 31, 1999 and 1998 are approximately $16.6 million and $22.4 million, respectively, of assets held in a ''holding company'' escrow account arising from a tax allocation agreement between certain of the Company's U.S. subsidiaries.

5. Investments in Affiliates

The following investments are accounted for on the equity basis:

In 1999, the Company acquired minority investments in Highfields Capital Management L.P., a global equity investment firm, and MKP Capital Management, a New York-based fixed income investment manager specializing in mortgage-backed securities, and invested in the closed end funds they manage.

In 1999, the Company signed a joint venture agreement with Les Mutuelles du Mans Assurances Group to form a new French reinsurance company, Le Mans Re. The Company owns a 49% shareholding in the new company, which underwrites a worldwide portfolio comprising all classes of non-life reinsurance business together with a selective portfolio of life reinsurance business.

The Company owned 27.9% of the issued shares of Risk Capital Holdings as at December 31, 1999 and 1998. Risk Capital provides reinsurance and other forms of capital for insurance companies with capital needs that cannot be met by reinsurance alone. Subsequent to year end, this investment was sold. See Note 20 for further discussion.

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

(U.S. dollars in thousands)

5. Investments in Affiliates (Continued)

In 1998, the Company and FSA formed FSA International, a Bermuda company. At December 31, 1999, the Company owned 20% of FSA International.

The Company owned approximately 25% of Mid Ocean until July 31, 1998. Subsequent to this date, Mid Ocean was acquired by the Company and has been consolidated.

6. Business Combinations and Change in Fiscal Year End

(a) NAC Re Corp.

On June 18, 1999, the Company merged with NAC in an all-stock transaction. Shareholders of NAC received 0.915 Company shares for each NAC share in a tax free exchange. Approximately 16.9 million of the Company's Class A ordinary shares were issued in this transaction. The merger transaction has been accounted for as a pooling of interests under U.S. GAAP.

Following the merger, the Company changed its fiscal year end from November 30 to December 31 as a conforming pooling adjustment. No adjustments were necessary to conform NAC's accounting policies, although certain reclassifications were made to the NAC financial statements to conform to the Company's presentation.

The following table presents a reconciliation of the total revenues, net income, and earnings per share of the Company as previously reported as adjusted for the change in fiscal year end, combined with the results of NAC:

December 1998	Consolidated Total Revenues	Consolidated Net income	Consolidated Shareholders' Equity
XL Capital – year end November 30, 1998 as previously reported	$1,217,648	$587,663	$4,817,880
Less one month December 31, 1997	93,835	57,168	
Add one month December 31, 1998	202,210	29,785	43,998
XL Capital – year end December 31, 1998 as adjusted before combination with NAC	1,326,023	560,280	4,861,878
NAC – year end December 31, 1998	699,379	96,050	750,725
Combined results – year end December 31, 1998	$2,025,402	$656,330	$5,612,603

	Basic Earnings per Share	Diluted Earnings per Share
XL Capital – year end November 30, 1998 as previously reported	$6.32	$6.20
XL Capital – year end December 31, 1998 as adjusted before combination with NAC	$5.88	$5.77
NAC – year end December 31, 1998 (1)	$5.74	$5.22
Weighted average combined earnings per share as adjusted	$5.86	$5.68

(1) After giving effect to the exchange of 0.915 Company shares for each NAC Share

(U.S. dollars in thousands)

6. Business Combinations and Change in Fiscal Year End (Continued)

December 1997	Consolidated Total Revenues	Consolidated Net income	Consolidated Shareholders' Equity
XL Capital – year end November 30, 1997 as previously reported	$1,159,026	$676,961	$2,479,130
Less one month December 31, 1996	57,743	20,777	–
Add one month December 31, 1997	93,835	57,168	59,558
XL Capital–year end December 31, 1997 as adjusted before combination with NAC	1,195,118	713,352	2,538,688
NAC – year end December 31, 1997	740,372	95,677	657,061
Combined results – year end December 31, 1997	$1,935,490	$809,029	$3,195,749

	Basic Earnings Per Share	Diluted Earnings Per Share
XL Capital – year end November 30, 1997 as previously reported	$7.95	$7.84
XL Capital – year end December 31, 1997 as adjusted before Combination with NAC	$8.40	$8.30
NAC – year end December 31, 1997 (1)	$5.69	$5.21
Weighted average combined earnings per share, as adjusted	$7.95	$7.74

(1) After giving effect to the exchange of 0.915 Company shares for each NAC Share.

(b) ECS, Inc and Intercargo Corporation

In 1999, the Company acquired ECS, an underwriting manager which specializes in environmental insurance coverages and risk management services. Commencing January 2000, ECS will underwrite policies on behalf of the Company's insurance and reinsurance subsidiaries.

In 1999, the Company acquired Intercargo, which through its subsidiaries, underwrites specialty insurance products for companies engaged in international trade, including U.S. Customs bonds and marine cargo insurance.

The Intercargo and ECS acquisitions have been accounted for under the purchase method of accounting. The combined purchase price was $222.8 million and the resulting goodwill of $159.6 million is being amortized over 20 years. Cash acquired as a result of the acquisition was $49.6 million.

(c) Mid Ocean Limited

In August 1998, the Company merged with Mid Ocean. Shareholders of Mid Ocean received 1.0215 Company shares for each Mid Ocean share subject to a cash election option which was taken up of $96 million. The merger with Mid Ocean was accounted for as a purchase under U.S. GAAP and results of operations of Mid Ocean are included from August 1, 1998. The total purchase price was $2.2 billion; the fair value of Mid Ocean's net assets not already owned by the Company was $0.9 billion with the balance of $1.3 billion representing goodwill which is

(U.S. dollars in thousands)

6. Business Combinations and Change in Fiscal Year End (Continued)

being amortized over 40 years. On August 1, 1998, the consolidated balance sheet of Mid Ocean included the following items at fair value:

Investments available for sale	$1,668,224
Premiums receivable	445,540
Other assets	442,831
Total assets	2,556,595
Unpaid loss and loss expense reserves	595,261
Unearned premium	458,994
Total liabilities	1,195,835
Shareholders' equity	1,360,760

Cash and cash equivalents totaling $137 million is included in other assets. Cash acquired as a result of this merger was $41 million.

See Note 22 for further details.

(d) GCR Holdings Limited

In June 1997, the Company acquired GCR Holdings Limited in an all-cash transaction. The acquisition was accounted for as a purchase under U.S. GAAP. The total purchase price was $667 million, the fair value of GCR's net assets was $402 million, with the balance of $265 million representing goodwill which is being amortized over 20 years. Cash and cash equivalents of approximately $7 million were acquired.

7. Losses and Loss Expenses

Unpaid losses and loss expenses are comprised of:

	Year ended December 31		
	1999	1998	1997
Reserve for reported losses and loss expenses	$2,175,688	$2,062,046	$1,416,745
Reserve for losses incurred but not reported	3,193,714	2,834,597	2,555,631
Unpaid losses and loss expenses	$5,369,402	$4,896,643	$3,972,376
Losses and loss expenses incurred comprise:			
Loss and loss expense payments	$1,392,024	$ 849,777	$ 560,542
Change in unpaid losses and loss expenses	303,140	285,775	344,580
Reinsurance recoveries	(390,860)	(294,035)	(166,273)
Losses and loss expenses incurred	$1,304,304	$ 841,517	$ 738,849

(U.S. dollars in thousands)

7. Losses and Loss Expenses (Continued)

The following table represents an analysis of paid and unpaid losses and loss expenses and a reconciliation of the beginning and ending unpaid loss and loss expenses for the years indicated:

	1999	1998	1997
Unpaid losses and loss expenses at beginning of year	$4,896,643	$3,972,376	$3,623,334
Unpaid losses and loss expenses recoverable	(593,960)	(363,716)	(457,373)
Net unpaid losses and loss expenses at beginning of year	4,302,683	3,608,660	3,165,961
Increase (decrease) in net losses and loss expenses incurred in respect of losses occurring in:			
Current year	1,591,414	1,085,161	1,056,228
Prior year	(287,110)	(243,644)	(317,379)
Total net incurred loss and loss expenses	1,304,304	841,517	738,849
Interest incurred on experience reserves	–	1,798	866
Exchange rate effects	(5,950)	718	(658)
Net loss reserves acquired through purchase of subsidiaries	30,003	580,879	34,593
Net loss and loss expenses paid in respect of losses occurring in:			
Current year	281,806	272,456	97,296
Prior year	811,696	458,433	233,655
Total net paid losses	1,093,502	730,889	330,951
Net unpaid losses and loss expenses at end of year	4,537,538	4,302,683	3,608,660
Unpaid losses and loss expenses recoverable	831,864	593,960	363,716
Unpaid losses and loss expenses at end of year	$5,369,402	$4,896,643	$3,972,376

Business written by the Company has loss experience characterized as low frequency but high severity in nature. This may result in volatility in the Company's financial results. Actuarial assumptions used to establish the liability for losses and loss expenses are periodically adjusted to reflect comparisons to actual loss and loss expense development, inflation and other considerations.

Several aspects of the Company's casualty insurance operations complicate the actuarial reserving techniques for loss reserves as compared to other insurance operations. Among these aspects are the differences in the policy forms from more traditional forms, the lack of complete historical loss data for losses of the same type intended to be covered by the policies and the expectation that losses in excess of the attachment level of the Company's policies generally will be characterized by low frequency and high severity, limiting the utility of claims experience of other insureds for similar claims. While management believes it has made a reasonable estimate of ultimate losses, the ultimate claims experience may not be as reliably predicted as may be the case with other insurance operations, and there can be no assurance that losses and loss expenses will not exceed the total reserves.

Losses incurred in 1999 grew significantly over 1998 for a number of reasons. The Company acquired Mid Ocean and Brockbank in August 1998 and consequently, only recognized the effect of their operations for five months in 1998. Incurred losses for these entities were approximately $475 million in 1999 compared to $260 million in 1998. The Company was also affected by a number of catastrophes in 1999 compared to 1998. The fourth

7. Losses and Loss Expenses (Continued)

quarter of 1999 generated approximately $135 million of catastrophic losses to the Company, of which the European storms in December account for the major part. The Company also experienced a number of smaller catastrophe losses in 1999 that totaled approximately $50 million. These losses included the Turkey earthquakes, the Sydney hailstorms and the Oklahoma tornadoes. By comparison, the Company incurred approximately $60 million in catastrophe losses relating to Hurricane Georges and the SwissAir disaster in 1998. These losses were incurred in the reinsurance operations.

The Lloyd's operations experienced loss deterioration on the U.K. motor business written by Brockbank, principally relating to its 1999 and 1998 underwriting years of approximately $20 million. 1999 incurred losses also include an increase to reinsurance loss reserves of $95 million for NAC when it merged with the Company in June 1999. In addition, the acquisition of Intercargo in June 1999 also added approximately $30 million to total incurred losses.

The decrease in prior year incurred losses is driven primarily by the Company's insurance liability excess of loss reserves. The basis for establishing IBNR is unlike most insurance companies due to the lack of industry data. Consequently, the Company estimates loss reserves through actuarial models based upon its own experience. When the Company commenced writing this type of business in 1986, limited data was available and the Company made its best estimate of loss reserves at that time. Over time, the amount of data has increased, providing a larger statistical base for estimating reserves. Redundancies in prior year loss reserves have occurred where loss experience has developed more favorably than expected.

The increase in paid losses in 1999 and 1998 reflects the acquisition of Mid Ocean and Brockbank in 1998. In addition, the source of the Company's high excess of loss liability and catastrophe business can result in loss payments that are both irregular and significant. Similarly, adjustments to reserves for individual years can be irregular and significant. Such adjustments are part of the normal course of business for the Company. Conditions and trends that have affected development of liability in the past may not necessarily occur in the future. Accordingly, it is inappropriate to extrapolate future redundancies or deficiencies based upon historical experience. See generally ''Management's Discussion and Analysis of Results of Operations and Financial Condition – Cautionary Note Regarding Forward-looking Statements''.

The Company's net incurred losses and loss expenses includes a provision of $10.6 million, $1.2 million and $3.7 million in 1999, 1998 and 1997, respectively, for estimates of actual and potential non-recoveries from reinsurers. Such charges for non-recoveries relate mainly to reinsurance ceded for casualty business written prior to 1986. Included in unpaid losses and loss expenses at December 31, 1999, 1998 and 1997 is a reserve for potential non-recoveries from reinsurers of $25.8 million, $14.5 million and $13.8 million, respectively.

Except for certain workers' compensation unpaid losses, the Company does not discount its liabilities for unpaid losses and loss expenses. The Company utilizes tabular reserving for workers' compensation unpaid losses that are considered fixed and determinable and discounts such losses using an interest rate of 7% for financial statements prepared in accordance with GAAP and a 5% interest rate for U.S. statutory accounting purposes. The tabular reserving methodology results in applying a uniform and consistent criteria for establishing expected future indemnity and medical payments (including an explicit factor for inflation) and the use of mortality tables to determine expected payment periods. Tabular unpaid losses and loss expenses, net of reinsurance, at December 31, 1999, 1998 and 1997 were $85.7 million, $61.3 million and $42.4 million, respectively. The related discounted unpaid losses and loss expenses were $28.1 million, $20.7 million and $16.1 million as of December 31, 1999, 1998 and 1997, respectively.

(U.S. dollars in thousands)

7. Losses and Loss Expenses (Continued)

Asbestos and Environmental Related Claims

The Company's reserving process includes a continuing evaluation of the potential impact on unpaid liabilities from exposure to asbestos and environmental claims, including related loss adjustment expenses. Liabilities are established to cover both known and incurred but not reported claims.

A reconciliation of the opening and closing unpaid losses and loss expenses related to asbestos and environmental exposure claims for the years indicated is as follows:

	Year ended December 31,		
	1999	**1998**	**1997**
Net unpaid losses and loss expenses at beginning of year	$34,850	$32,767	$28,500
Net incurred loss and loss expenses	4,416	5,541	8,067
Less net paid losses and loss expenses	3,060	3,458	3,800
Net increase in unpaid losses and loss expenses	1,356	2,083	4,267
Net unpaid losses and loss expenses at end of year	36,206	34,850	32,767
Unpaid losses and loss expenses recoverable at end of year	49,022	43,211	37,905
Gross unpaid losses and loss expenses at end of year	$85,228	$78,061	$70,672

Incurred but not reported (''IBNR'') losses, net of reinsurance, included in the above table was $16.1 million in 1999, $17.0 million in 1998 and $16.6 million in 1997. Unpaid losses recoverable are net of potential uncollectable amounts.

As of December 31, 1999 and 1998, the Company had approximately 370 and 400 open claim files, respectively, for potential asbestos exposures and 245 and 760 open claim files, respectively, for potential environmental exposures. Approximately 46% and 51% of the open claim files for 1999 and 1998, respectively, are due to precautionary claim notices. Precautionary claim notices are submitted by the ceding companies in order to preserve their right to receive coverage under the reinsurance contract. Such notices do not contain an incurred loss amount to the Company. The Company believes it has made reasonable provision for its asbestos and environmental exposures and is unaware of any specific issues that would materially affect its estimate for losses and loss expenses. The estimation of loss and loss expense liabilities for asbestos and environmental exposures is subject to much greater uncertainty than is normally associated with the establishment of liabilities for certain other exposures due to several factors, including: i) uncertain legal interpretation and application of insurance and reinsurance coverage and liability; ii) the lack of reliability of available historical claims data as an indicator of future claims development; iii) an uncertain political climate which may impact, among other areas, the nature and amount of costs for remediating waste sites; and iv) the potential of insurers and reinsurers to reach agreements in order to avoid further significant legal costs. Due to the potential significance of these uncertainties, the Company believes that no meaningful range of loss and loss expense liabilities beyond recorded reserves can be established. As these uncertainties are resolved, additional reserve provisions, which could be material in amount, may be necessary.

(U.S. dollars in thousands)

8. Reinsurance

The Company utilizes reinsurance and retrocession agreements principally to increase aggregate capacity and to reduce the risk of loss on business assumed. The Company's reinsurance and retrocession agreements provide for recovery of a portion of loss and loss expenses from reinsurers and reinsurance recoverables are recorded as assets. The Company is liable if the reinsurers are unable to satisfy their obligations under the agreements.

A 20% quota share reinsurance policy exists with several U.S. reinsurers covering general liability insurance risks only. The maximum amount recoverable from the reinsurers is the ceded percentage of the original policy limit on a per occurrence basis, with an annual aggregate of 300% of the total premium ceded.

There are a limited amount of retrocession agreements in place for the Company's short tail reinsurance business assumed for common account reinsurance on proportional contracts written and ''high level'' property catastrophe excess of loss protection. For the long tail casualty reinsurance business written, several reinsurance policies are in place to limit the Company's retention on any one claim and also for multiple claims arising from two or more risks in a single occurrence or event.

The Company's Lloyd's syndicates have traditionally purchased a significant amount of reinsurance to protect against extraordinary loss or loss involving one or more of the lines of business written. Reinsurance is purchased on an excess of loss and quota share basis.

The effect of reinsurance and retrocessional activity on premiums written and earned is shown below:

	Premiums written Year ended December 31,			Premiums earned Year ended December 31,		
	1999	1998	1997	1999	1998	1997
Direct	1,088,028	779,551	517,773	994,339	672,871	537,070
Assumed	1,354,892	863,988	617,612	1,259,632	926,730	783,116
Ceded	(541,037)	(319,275)	(254,940)	(503,965)	(275,310)	(205,428)
Net	$1,901,883	$1,324,264	$ 880,445	$1,750,006	$1,324,291	$1,114,758

The Company recorded reinsurance recoveries on loss and loss expenses incurred of $390.9 million, $294.0 million and $166.3 million for the years ended December 31, 1999, 1998 and 1997, respectively. The Company is the beneficiary of letters of credit, trust accounts and funds withheld in the aggregate amount of $228.9 million at December 31, 1999, collateralizing reinsurance recoverables with respect to certain retrocessionnaires.

Increases in all of the above balances in 1999 over 1998 and in 1998 over 1997 is primarily due to the acquisition of Mid Ocean in 1998.

9. Deposit Liabilities and Policy Benefit Reserve

During 1999, the Company entered into a contract that transfers insufficient risk to be accounted for as reinsurance under SFAS No. 113. This contract has been recorded as a deposit liability and is matched by an equivalent amount of investments. At December 31, 1999, total deposit liabilities are $310.4 million.

In December 1999, the Company entered into a contract reinsuring a portfolio of life and annuity business that has been accounted for as an investment contract under SFAS No. 97, with a corresponding liability for estimated future policy benefits in the amount of $635.6 million. The Company has contracted to transfer liabilities of $108.1 million to a third party for an equivalent consideration

(U.S. dollars in thousands)

10. Notes Payable and Debt and Financing Arrangements

As at December 31, 1999, the Company had bank and loan facilities available from a variety of sources including commercial banks totaling $2.16 billion (1998: $2.24 billion) of which $410.7 million (1998: $613.9 million) was outstanding. In addition, $891.6 million (1998: $348.9 million) of letters of credit were outstanding, 66% of which were collateralized by the Company's investment portfolio, primarily supporting U.S. non-admitted business, intercompany quota share agreements between affiliates and the Company's Lloyd's capital requirements.

The financing structure at December 31, 1999 was as follows:

Facility	Commitment	In Use/Outstanding
Debt:		
Company term note	$ 11,000	$ 11,000
2 facilities of 364 day Revolvers – total	650,000	–
2 facilities of 5 year Revolvers – total	350,000	299,700
7.15% Senior Notes due 2005	100,000	100,000
	$1,111,000	$410,700
Letters of Credit:		
7 facilities – total	$1,246,500	$891,600

The financing structure at December 31, 1998 was as follows:

Facility	Commitment	In Use/Outstanding
Debt:		
Company term note	$ 11,000	$ 11,000
3 facilities of 364 day Revolvers – total	700,000	113,000
2 facilities of 5 year Revolvers – total	350,000	190,000
7.15% Senior Notes due 2005	100,000	99,900
8% Senior Notes due 1999	100,000	100,000
5.25% Convertible Subordinated Debentures due 2002	100,000	100,000
	$1,361,000	$613,900
Letters of Credit:		
3 facilities – total	$ 876,000	$348,900

The 364-day facilities are provided by a syndicate of banks where the borrowings are unsecured, and by a U.S. bank where the borrowings are collateralized and guaranteed. There were no borrowings outstanding at December 31, 1999. The weighted average interest rate on the funds borrowed during 1999 was approximately 5.41% and approximately 5.9% during 1998.

Two syndicates of banks provide the two five-year facilities and borrowings are unsecured. The amounts of $299.7 million and $190.0 million outstanding at December 31, 1999 and 1998, respectively, relate primarily to the $300.0 million borrowed to finance the cash option election available to shareholders in connection with the Mid Ocean acquisition in August 1998. The 1999 outstanding amount also relates to the $109.7 million borrowed to finance the acquisition of ECS and Intercargo during 1999. The weighted average interest rate on funds borrowed during 1999 was approximately 5.43% and 5.7% during 1998.

10. Notes Payable and Debt and Financing Arrangements (Continued)

In 1995, the Company issued $100.0 million of 7.15% Senior Notes due November 15, 2005 through a public offering at a price of $99.9 million.

$100.0 million of 5.25% Convertible Subordinated Debentures due December 15, 2002 were issued in December 1992 through a private offering. The Debentures were called in June 1999 and converted to approximately 1.8 million of the Company's shares.

$100.0 million of 8% Senior Notes due June 15, 1999 were issued in June 1992 through a public offering. These Notes were repaid in June 1999 through additional borrowings and internal funds.

Total pre-tax interest expense on the borrowings described above was $37.4 million, $33.4 million and $29.6 million for the years ended December 31, 1999, 1998 and 1997, respectively. Associated with the Company's bank and loan commitments are various loan covenants with which the Company was in compliance throughout the three year period.

The Company has seven letter of credit facilities available at December 31, 1999, two from two syndicates of banks, three from U.K. banks and two from U.S. banks. Two syndicates of banks and a U.K. bank provided the three letter of credit facilities available at December 31, 1998. These facilities are used to collateralize certain reinsureds' premium and unpaid loss reserves with the Company and for Lloyd's capital requirements of the Company's corporate syndicates. Of the letters of credit outstanding at December 31, 1999, $591.0 million (1998: $348.9 million) were collateralized against the Company's investment portfolio and $300.6 million (1998: Nil) were unsecured.

11. Commitments and Contingencies

(a) 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 foreign currency fixed maturities and equity investments. 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 in income 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 December 31, 1999 and 1998, forward foreign exchange contracts with notional principal amounts totaling $339.3 million and $322.4 million, respectively, were outstanding. The fair value of these contracts as at December 31, 1999 was $341.1 million (1998: $316.2 million) with unrealized losses of $1.8 million (1998: $6.2 million). Losses of $2.7 million and gains of $17.0 million were realized during 1999 and 1998, respectively.

In addition, the Company also enters into foreign exchange contracts to buy and sell foreign currencies in the course of trading its foreign currency 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 December 31, 1999 and 1998, the value of such contracts outstanding was not significant.

11. Commitments and Contingencies (Continued)

The Company attempts to hedge directly the foreign currency exposure of a portion of its foreign currency 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 December 31, 1999, the Company had, as hedges, foreign exchange contracts for the sale of $94.0 million and the purchase of $7.5 million of foreign currencies at fixed rates, primarily Euros (49% of net contract value), British pounds (18%) and New Zealand dollars (16%). The market value of fixed maturities denominated in foreign currencies that were hedged and held by the Company as at December 31, 1999 was $85.2 million.

Unrealized foreign exchange gains or losses on foreign exchange contracts hedging foreign currency fixed maturity investments are deferred and included in shareholders' equity. As at December 31, 1999 and 1998, unrealized losses amounted to $2.0 million and $1.3 million, respectively, and were offset by corresponding increases 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 December 31, 1999 and 1998, realized losses amounted to $0.5 million and $0.7 million, respectively.

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 December 31, 1999, the portfolio held $121.9 million (1998: $148.2 million) in exposure to S&P 500 Index futures and underlying assets of $122.0 million (1998: $149.6 million). The value of the futures is updated daily with the change recorded in income as a realized gain or loss. For the years ended December 31, 1999 and 1998, net realized gains from index futures totaled $11.3 million and $23.2 million, respectively.

Derivative investments are also utilized to add value to the portfolio where market inefficiencies are believed to exist. At December 31, 1999, bond and stock index futures outstanding were $241.1 million (1998: $235.6 million), with underlying investments having a market value of $2.5 billion (1998: $2.1 billion). All managers are prohibited by the Company's investment guidelines from leveraging their positions.

(b) 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 December 31, 1999 and 1998.

(c) 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 $99.7 million and $33.0 million as at December 31, 1999 and 1998, respectively, with commitments to invest a further $131.8 million over the next ten years. The Company

(U.S. dollars in thousands)

11. Commitments and Contingencies (Continued)

received income from its investments of $9.4 million and $3.6 million for the years ended December 31 1999 and 1998, 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.

(d) Properties

The Company rents space for its principal executive offices under leases which expire up to 2009. Total rent expense for the years ended December 31, 1999, 1998 and 1997 was approximately $13 million, $9 million and $7 million, respectively. Future minimum rental commitments under existing leases are expected to be as follows:

Year ending December 31: 2000	$ 15,927
2001	14,888
2002	11,513
2003	10,806
2004	10,533
Later years	72,487
Total minimum future rentals	$136,154

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 million, of which $60 million has been spent to December 31, 1999. It is estimated that the development will be completed sometime in 2001. Upon completion of the development, it is expected that the Company's rental commitments will be reduced.

(e) Tax Matters

The Company is a Cayman Islands corporation and, except as described below, neither it nor its non-U.S. subsidiaries have paid United States corporate income taxes (other than withholding taxes on dividend income) on the basis that they are not engaged in a trade or business in the United States; however, because definitive identification of activities which constitute being engaged in trade or business in the United States is not provided by the Internal Revenue Code of 1986, regulations or court decisions, there can be no assurance that the Internal Revenue Service will not contend that the Company or its non-U.S. subsidiaries are engaged in trade or business in the United States. If the Company or its non-U.S. subsidiaries were considered to be engaged in trade or business in the United States (and, if the Company or such subsidiaries were to qualify for the benefits under the income tax treaty between the United States and Bermuda or Ireland, such businesses were attributable to a ''permanent establishment'' in the United States), the Company or such subsidiaries could be subject to U.S. tax at regular tax rates on its taxable income that is effectively connected with its U.S. trade or business plus an additional 30% ''branch profits'' tax on such income remaining after the regular tax, in which case there could be a material adverse effect on the Company's shareholders' equity and earnings.

(U.S. dollars in thousands)

11. Commitments and Contingencies (Continued)

(f) Financial Guaranties

The Company insures and reinsures financial guaranties issued to support public and private borrowing arrangements. Financial guaranties are conditional commitments which guaranty the performance of a customer to a third party. The Company's potential liabilities in the event of nonperformance by the issuer of the insured obligation is represented by its proportionate share of the aggregate outstanding principal and interest payable (''insurance in force'') on such insured obligation. At December 31, 1999, the Company's aggregate insurance in force was $5.2 billion. The Company manages its exposure to credit risk through a structured underwriting process which includes detailed credit analysis, review of and adherence to underwriting guidelines, surveillance policies and procedures and the use of reinsurance.

12. Share Capital

(a) Authorized and Issued

The authorized share capital is 999,990,000 ordinary shares of a par value of $0.01 each. 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 respects, Class A and B shares rank *pari passu*.

The following table is a summary of shares issued and outstanding:

	Year ended December 31,		
	1999	**1998**	**1997**
Balance – beginning of year	128,745	101,282	104,192
Exercise of options	443	425	503
Issue of restricted shares	107	289	173
Repurchase of shares	(1,488)	(3,443)	(3,586)
Issue of Class A shares	–	27,076	–
Issue of Class B shares	–	3,116	–
Balance – end of year	127,807	128,745	101,282

The issue of shares in 1998 was in exchange for Mid Ocean shares and FSA shares.

(b) Share Repurchases

The Company has had several stock repurchase plans in the past as part of its capital management. In June 1999, the Board of Directors rescinded the Company's share repurchase plans. On January 9, 2000 the Board of Directors authorized the repurchase of shares up to $500 million.

(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 the 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.

12. Share Capital (Continued)

Restricted stock awards issued under the 1991 Performance Incentive Program 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 113,100 shares, 147,836 shares and 91,000 shares in 1999, 1998 and 1997, respectively. Restricted stock awards granted by NAC prior to the merger amounted to 3,627 shares, 23,700 shares and 65,300 shares for the same respective periods. Vesting for such shares generally occurs over a six year period.

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 the grant date. Effective April 11, 1997, all options granted to non-employee directors are granted under the 1991 Performance Incentive Program. Directors may also may make an irrevocable election preceding the beginning of each fiscal year to defer cash compensation that would otherwise be payable as his or her annual retainer in increments of $5,000. The deferred payments are credited in the form of shares calculated by dividing 110% of the deferred payment by the market value of the Company's stock at the beginning of the fiscal year. Each anniversary thereafter, 20% of these shares are distributed. Shares issued under the plan totaled nil, 2,737 and 3,048 in 1999, 1998 and 1997, 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. Stock units totaling 1,217, 5,531 and 6,716 were provided for in 1999, 1998 and 1997, respectively.

As a result of the merger with Mid Ocean during August 1998, 791,573 Mid Ocean options were converted to options of XL Capital. These are 10 year options that generally vest over 3 years.

Following the merger with NAC, new option plans were created in the Company to adopt the NAC plans. Options generally have a five or six year vesting schedule, with the majority expiring 10 years from the date of grant; the remainder having no expiration. A stock plan is also maintained for non-employee directors. Options expire 10 years from the date of grant and are fully exercisable six months after their grant date.

In 1999, the Company adopted the 1999 Performance Incentive Plan under which 1,250,000 options were available and issued to employees who were not directors or executive officers of the Company.

(d) FAS 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

(U.S. dollars in thousands)

12. Share Capital (Continued)

granted in 1999, 1998 and 1997, and net income and earnings per share would have been reduced to the pro-forma amounts indicated below:

	Year Ended December 31,		
	1999	1998	1997
Net income – as reported	$470,509	$656,330	$809,029
Net income – pro-forma	$437,592	$635,239	$798,140
Basic earnings per share – as reported	$ 3.69	$ 5.86	$ 7.95
Basic earnings per share – pro-forma	$ 3.43	$ 5.67	$ 7.85
Diluted earnings per share – as reported	$ 3.62	$ 5.68	$ 7.74
Diluted earnings per share – pro-forma	$ 3.36	$ 5.47	$ 7.60

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:

	1999	1998	1997
Dividend yield	3.43%	1.81%	1.89%
Risk free interest rate	5.90%	4.76%	5.51%
Expected volatility	24.66%	24.72%	23.49%
Expected lives	7.5 years	9.2 years	9.0 years

Total stock based compensation recognized in net income was $7.7 million in 1999, $5.8 million in 1998 and $5.2 million in 1997.

(e) Options

Following is a summary of stock options and related activity:

	1999		1998		1997	
	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price	Number of Shares	Average Exercise Price
Outstanding – beginning of year	7,685,414	$50.61	5,744,063	$35.28	5,271,579	$29.27
Granted	3,207,492	$57.06	1,749,885	$68.27	1,036,305	$57.20
Granted – Mid Ocean conversion	–	–	791,573	$72.44	–	$ –
Exercised	(421,163)	$27.57	(425,251)	$30.06	(506,891)	$19.99
Canceled	(189,020)	$55.25	(174,856)	$40.12	(56,930)	$40.97
Outstanding – end of year	10,282,723	$46.50	7,685,414	$46.79	5,744,063	$35.28
Options exercisable	5,287,657		4,288,434		3,043,676	
Options available for grant	*1,028,853	*	2,455,190	*	4,082,135	

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

12. Share Capital (Continued)

The following table summarizes information about the Company's stock options (including stock appreciation rights) for options outstanding as of December 31, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options (000s)	Average Exercise Price	Average Remaining Contractual Life (Years)	Number of Options (000s)	Average Exercise Price
$10.44 – $32.38	2,045	$22.30	3.7	2,023	$21.79
$32.92 – $50.00	4,548	$44.52	5.9	2,109	$39.40
$51.24 – $64.69	2,516	$56.58	7.6	776	$59.46
$73.00 – $79.25	1,231	$74.71	9.6	443	$74.74
$10.44 – $79.25	10,340	$46.65	7.6	5,351	$38.58

(f) Voting

XL'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 Ordinary Shares were distributed as a dividend at the rate of one Right for each outstanding Ordinary Share held of record as of the close of business on October 31, 1998. Each Right entitles holders of XL Ordinary Shares to buy one ordinary share at an exercise price of $350. The Rights would be exercisable, and would detach from the Ordinary Shares, only if a person or group were to acquire 20% or more of XL's outstanding Ordinary Shares, or were to announce a tender or exchange offer that, if consummated, would result in a person or group beneficially owning 20% or more of XL's Ordinary Shares. Upon a person or group without prior approval of the Board acquiring 20% or more of XL's Ordinary Shares, each Right would entitle the holder (other than such an acquiring person or group) to purchase XL Ordinary Shares (or, in certain circumstances, 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. The Company has initially reserved 119,073,878 Ordinary Shares being authorized and unissued for issuance upon exercise of the Rights.

13. Retirement Plans

The Company maintains both defined contribution and defined benefit retirement plans, which vary for each subsidiary. Plan assets are invested principally in equity securities and fixed maturities.

The Company has a qualified defined contribution plan which is managed externally and whereby employees and the Company contribute a certain percentage of the employee's gross salary into the plan each month. The Company's contribution generally vests over 5 years.

(U.S. dollars in thousands)

13. Retirement Plans (Continued)

At NAC, a qualified non-contributory defined benefit pension plan exists to cover substantially all its U.S. employees. Benefits are based on years of service and compensation, as defined in the plan, during the highest consecutive three years of the employee's last ten years of employment.

Under this plan, the Company's policy is to make annual contributions to the plan that are deductible for federal income tax purposes and that meet the minimum funding standards required by law. The contribution level is determined by utilizing the entry age cost method and different actuarial assumptions than those used for pension expense purposes. This plan also includes a non-qualified supplemental defined benefit plan designed to compensate individuals to the extent their benefits under the Company's qualified plan are curtailed due to Internal Revenue Code limitations. The projected benefit obligation, accumulated benefit obligation and fair value of the assets for this plan with accumulated benefit obligations in excess of the plan assets were $4.6 million, $2.5 million and Nil, respectively, as of December 31, 1999 and $5.0 million, $2.5 million and Nil, respectively as of December 31, 1998. The discount rates used in determining the actuarial present value of benefit obligations were 7.7% and 6.5% for 1999 and 1998, respectively. The rate of increase for future compensation levels was 6.5% for 1999 and 5.5% for 1998. The assumed rate of return on plan assets was 9.0% for both 1999 and 1998.

NAC also maintains a qualified contributory defined contribution plan for substantially all its U.S. employees and a qualified non-contributory defined contribution plan for all its U.K. employees.

The Company's expenses for its retirement plans is not considered to be significant.

14. Other Comprehensive Income

The balances of each classification, net of deferred taxes, within accumulated other comprehensive income is as follows:

	Net unrealized appreciation on investments	Foreign currency translation adjustments	Accumulated other comprehensive income
Year ended December 31, 1999			
Beginning balance	$ 230,068	$ 5,117	$ 235,185
Current year change	(211,842)	(4,032)	(215,874)
Ending balance	$ 18,226	$ 1,085	$ 19,311
Year ended December 31, 1998			
Beginning balance	$ 245,482	$ 5,989	$ 251,471
Current year change	(15,414)	(872)	(16,286)
Ending balance	$ 230,068	$ 5,117	$ 235,185
Year ended December 31, 1997			
Beginning balance	$ 239,249	$ 8,377	$ 247,626
Current year change	6,233	(2,388)	3,845
Ending balance	$ 245,482	$ 5,989	$ 251,471

(U.S. dollars in thousands)

14. Other Comprehensive Income (Continued)

The related tax effects allocated to each component of other comprehensive income were as follows:

	Before Tax amount	Tax Expense (Benefit)	Net of Tax amount
Year ended December 31, 1999			
Unrealized gains (losses) on investments:			
Unrealized gains arising during year	$(148,536)	$(36,394)	$(112,142)
Less reclassification adjustment for gains realized in income	94,356	(5,344)	99,700
Net unrealized losses	(242,892)	(31,050)	(211,842)
Foreign currency translation adjustments	(6,308)	(2,276)	(4,032)
Other comprehensive income	$(249,200)	$(33,326)	$(215,874)
Year ended December 31, 1998			
Unrealized gains (losses) on investments:			
Unrealized gains arising during year	$ 196,512	$ 12,998	$ 183,514
Less reclassification adjustment for gains realized in income	211,204	12,276	198,928
Net unrealized gains (losses)	(14,692)	722	(15,414)
Foreign currency translation adjustments	(1,342)	(470)	(872)
Other comprehensive income	$ (16,034)	$ 252	$ (16,286)
Year ended December 31, 1997			
Unrealized gains (losses) arising during year	$ 429,246	$ 27,291	$ 401,955
Less reclassification adjustment for gains realized in income	410,404	14,682	395,722
Net unrealized gains (losses)	18,842	12,609	6,233
Foreign currency translation adjustments	(3,674)	(1,286)	(2,388)
Other comprehensive income	$ 15,168	$ 11,323	$ 3,845

15. Contributed Surplus

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

16. Dividends

The following dividend information relates to the Company without inclusion of the pooling effect with NAC:

In 1999, four regular quarterly dividends were paid at $0.44 per share to shareholders of record at February 5, April 23, July 12 and September 24.

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.

(U.S. dollars in thousands)

17. Taxation

Under current Cayman Islands law, the Company is not subject to any taxes in the Cayman Islands on either income or capital gains. The Company has received an undertaking that, in the event of any such taxes being imposed, the Company will be exempted from Cayman Islands income or capital gains taxes until June 2018.

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 provision for federal income taxes has been determined on the basis of the income of each of the Company's U.S. subsidiaries as if a tax return had been prepared on an individual Company basis. Should the U.S. subsidiaries pay a dividend to the Company, withholding taxes will apply.

Bermuda presently imposes no income, withholding or capital gains taxes and the 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.

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

Brockbank, NAC Re International and XL Mid Ocean Re's London branch office are subject to United Kingdom corporation taxes. Other branches of the Company are subject to relevant local taxes.

The income tax provision in the consolidated statement of income gives effect to the permanent differences between financial and taxable income as applied for each relevant subsidiary. Due to the fact that the Company and certain subsidiaries are not subject to direct U.S. income taxes and that certain U.S. subsidiaries have tax-exempt income, the Company's effective income tax rate for its U.S. operation is less than the statutory U.S. Federal tax rate.

The tax charge (benefit) in each of the three years ended December 31, 1999 is comprised of amounts from the various taxable jurisdictions in which the Company operates. For all countries other than the U.S., there generally is no significant difference between the effective tax rate and the statutory rate in that jurisdiction. For U.S. operating income (loss), the effective rate differs from the statutory rate of 35% due primarily to tax-exempt investment income in all years and merger related costs in 1999.

Significant components of the provision for income taxes attributable to operations were as follows:

	Year ended December 31,		
	1999	1998	1997
Current (benefit) expense:			
U.S	$(27,098)	$10,490	$ 43,754
Non U.S	9,664	14,680	11,745
Total current (benefit) expense	(17,434)	25,170	55,499
Deferred (benefit) expense:			
U.S	(17,534)	4,729	(23,205)
Non U.S	(4,602)	(16)	(122)
Total Deferred (benefit) expense	(22,136)	4,713	(23,327)
Total tax (benefit) expense	$(39,570)	$29,883	$ 32,172

(U.S. dollars in thousands)

17. Taxation (Continued)

The U.S. subsidiaries current U.S. taxable income for the years ended December 31, 1999 and 1997 is based on regular taxable income. The current U.S. tax expense for the year ended December 31, 1998 is based on alternative minimum taxable income.

U.S. and Non-U.S. taxes paid in the years ended December 31, 1999, 1998 and 1997 were approximately $30 million, $31 million and $38 million, respectively. The Company's current tax liability is included in ''other liabilities'' in the accompanying financial statements and amounted to $11 million in 1999 and $26 million in 1998.

Significant components of the Company's deferred tax assets and liabilities, which principally relate to U.S. subsidiaries, as of December 31, 1999 and 1998 were as follows:

	Year ended December 31	
	1999	**1998**
Deferred tax asset:		
Net unpaid loss reserve discount	$ 81,672	$ 84,008
Net unearned premiums	10,264	19,888
Unrealized depreciation on investments	11,995	—
Compensation liabilities	8,960	6,978
Other	12,516	3,331
Deferred tax asset, gross of valuation allowance	125,407	114,205
Valuation allowance	(11,995)	–
Deferred tax asset, net of valuation allowance	113,412	114,205
Deferred tax liability:		
Deferred policy acquisition costs	$ 6,850	$ 33,896
Unrealized appreciation on investments	–	31,050
Currency translation adjustments	566	2,755
Other	8,068	9,023
Deferred tax liability	15,484	76,724
Net deferred tax asset	$ 97,928	$ 37,481

Shareholders' equity at December 31, 1999 and 1998 reflects tax benefits of $1.5 million and $5.6 million, respectively, related to compensation expense deductions for stock options exercised for one of the Company's U.S. subsidiaries.

18. 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 payment of such dividends is restricted by applicable laws of Bermuda, Ireland, U.S. and United Kingdom, including Lloyd's. The Company relies primarily on cash dividends from XL Insurance and Mid Ocean.

(U.S. dollars in thousands)

18. Statutory Financial Data (Continued)

Bermuda

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

XL Insurance's and XL Mid Ocean Re's statutory capital and surplus, statutory net income and the minimum statutory capital and surplus required by the Act were as follows:

	Year ended December 31,					
	XL Insurance			XL Mid Ocean Re		
	1999	1998	1997	1999	1998	1997
Statutory net income	$ 83,019	$ 309,244	$189,281	$ 155,534	$ 108,290	$ 57,995
Statutory capital and surplus	$1,381,299	$1,255,284	$882,366	$2,062,421	$1,966,200	$512,367
Minimum statutory capital and surplus Required by the Act	$ 338,609	$ 307,205	$310,240	$ 196,254	$ 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 GAAP are deferred acquisition costs.

Under the Act, XL Insurance and XL Mid Ocean Re 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 statutory requirements. XL Insurance and XL Mid Ocean Re have not been affected by this.

United States

The Company's U.S. insurance and reinsurance subsidiaries are subject to regulatory oversight under the insurance statutes and regulations of the jurisdictions in which they conduct business.

Consolidated statutory net income and surplus of NAC Re, as reported to the insurance regulatory authorities, differs in certain respects from the amounts as prepared in accordance with GAAP. The main differences between statutory net income and GAAP income relates to deferred acquisition costs and deferred income taxes. The main differences between statutory surplus and shareholders' equity, in addition to deferred acquisition costs and deferred income tax net assets, are intangible assets, unrealized appreciation on investments, and any unauthorized/authorized reinsurance charges.

(U.S. dollars in thousands)

18. Statutory Financial Data (Continued)

The following table shows statutory net income and GAAP net income (loss) and consolidated statutory surplus and consolidated shareholders' equity of NAC Re.

	Year ended December 31,		
	1999	1998	1997
Net income:			
Statutory net income	$ 8,948	$101,862	$ 70,292
GAAP net income (loss)	$ (1,060)	$ 98,586	$ 99,692
Shareholders' Equity:			
Consolidated statutory surplus	$440,102	$737,114	$702,222
GAAP Consolidated shareholder's equity	$700,725	$750,725	$657,061

NAC Re is subject to New York insurance law, which imposes certain restrictions on the payment of cash dividends and tax reimbursements. Generally, NAC Re may pay cash dividends only out of statutory earned surplus. However, the maximum amount of dividends that may be paid in any twelve month period without the prior approval of the New York Insurance Department is the lesser of net investment income or 10% of statutory surplus as such terms are defined in the New York insurance law. Statutory earned surplus at December 31, 1999 is $(27.7) million and consequently, NAC Re cannot make a dividend distribution. In addition, the Company was required to make a commitment to New York State insurance regulators not to pay dividends out of NAC Re for two years without prior regulatory approval. Statutory earned surplus at December 31, 1998 was $231.9 million and the maximum amount NAC Re was able to pay without such regulatory approval, based on 10% of statutory surplus as of December 31, 1998 was approximately $73.7 million.

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, Kansas and Arizona. Brockbank Insurance Services, Inc., is licensed in California as a fire and casualty broker, surplus lines broker and special lines surplus lines broker.

The insurance laws of each state of the U.S. and of many foreign countries regulate the sale of insurance within their jurisdiction by alien insurers, such as XL Insurance and XL Mid Ocean Re. 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, amongst 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 assurances, 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 its business.

Ireland

XL Europe is permitted to cover risks throughout the European Community (subject to certain restrictions) pursuant to the ''Third Directive'' relating to non-life insurance. Its head office is in Ireland and it is subject to regulation under Irish regulatory authority. The principal legislation and regulations governing the insurance activities of Irish insurance companies are the Insurance Acts 1909 to 1990 (the ''Irish Acts'') and a comprehensive network of

18. Statutory Financial Data (Continued)

regulations and statutory provisions empowering the making of regulations of which the most relevant are the European Communities (Non-Life Insurance) Regulations, 1976, the European Communities (Non-Life Insurance Accounts) Regulations, 1995, the European Communities (Non-Life Insurance) Framework Regulations, 1994 and related administrative rules (the ''Irish Regulations''.)

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

United Kingdom

The United Kingdom Financial Services Authority (''U.K. FSA'') regulates reinsurance entities that are ''effecting and carrying on'' insurance business in the United Kingdom. Both XL Mid Ocean Re, through its London branch and NAC Re, through its London subsidiary, ''effect and carry on'' business in the United Kingdom and are therefore regulated by the U.K. FSA.

Lloyd's

The Company, Brockbank and Denham 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 the bye-laws, regulations and codes of conduct written by the Council, which governs the market. It is expected that the new Financial Services Authority will take a supervisory regulatory role during 2000. Under the Council, there are two boards, the Market Board and the Regulatory Board. The former is led by a number of the 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 and capital providers. 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.

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.

(U.S. dollars in thousands)

18. Statutory Financial Data (Continued)

Other Regulation

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

19. Earnings Per Share

The following table sets forth the computation of the basic and diluted earnings per share:

	Year ended December 31:		
	1999	1998	1997
Basic earnings per share:			
Net income	$470,509	$656,330	$809,029
Weighted average ordinary shares outstanding	127,601	112,034	101,708
Basic earnings per share	$ 3.69	$ 5.86	$ 7.95
Diluted earnings per share:			
Net income	$470,509	$656,330	$809,029
Add back after-tax interest on convertible debentures	1,752	3,504	3,504
Adjusted net income	$472,261	$659,834	$812,533
Weighted average ordinary shares outstanding – basic	127,601	112,034	101,708
Average stock options outstanding (1)	1,872	2,152	1,277
Conversion of convertible debentures (2)	831	2,020	2,020
Weighted average ordinary shares outstanding – diluted	130,304	116,206	105,005
Diluted earnings per share	$ 3.62	$ 5.68	$ 7.74

(1) Net of shares repurchased under the treasury stock method.
(2) 1998 and 1997 reflect the assumed conversion of the NAC 5.25% Convertible Subordinated Debentures due 2000. The Debentures were called in June 1999 and the actual conversion is reflected in 1999.

20. Subsequent Events

On January 17, 2000, the Company entered into a stock repurchase agreement with Risk Capital Holdings. Under this agreement, in exchange for its shares in Risk Capital and $3.6 million in cash, the Company will receive the effective remaining ownership in Latin America Re and 1.4 million shares and 100,000 warrants in Annuity & Life Re, in which the Company has an existing 7% position. The total value of the transaction was $62.8 million.

(U.S. dollars in thousands)

21. Unaudited Quarterly Financial Data

The following is a summary of the unaudited quarterly financial data for 1999 and 1998 based upon the Company's amended year end of December 31 and the pooling with NAC:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1999				
Net premiums earned	$386,753	$414,386	$488,729	$460,138
Net investment income	135,680	132,593	126,560	130,485
Net realized gains on interest	67,476	17,584	(12,671)	21,967
Equity in net income (loss) of affiliates	(7,307)	16,642	15,372	16,200
Fee and other income	10,551	3,870	28,800	57,179
Total revenues	$593,153	$585,075	$646,790	$685,968
Income before income tax expense and minority interest	$214,114	$ 28,886	$139,427	$ 48,732
Net Income	$209,811	$ 62,708	$137,402	$ 60,588
Net income per share and share equivalent – basic	$ 1.63	$ 0.49	$ 1.08	$ 0.57
Net income per share and share equivalent – diluted	$ 1.58	$ 0.48	$ 1.07	$ 0.56
1998				
Net premiums earned	$274,149	$264,568	$384,136	$401,438
Net investment income	92,923	87,183	111,320	125,864
Realized gains on investments	77,349	58,400	28,476	46,979
Equity in net income tax expense	15,501	20,721	17,451	(3,381)
Fee and other income	4,172	1,437	8,567	8,149
Total revenues	$464,094	$432,309	$549,950	$579,049
Income before income tax expense and minority interest	$193,833	$171,313	$148,882	$172,934
Net income	$186,301	$165,422	$140,271	$164,336
Net income per share and share equivalent – basic	$ 1.84	$ 1.63	$ 1.20	$ 1.28
Net income per share and share equivalent – diluted	$ 1.78	$ 1.58	$ 1.17	$ 1.25

(U.S. dollars in thousands)

22. Unaudited Condensed Pro Forma Financial Information

Unaudited condensed pro forma financial information shown below relates to the Company's acquisition of Mid Ocean in August 1998 and is based upon the assumption that Mid Ocean had been a part of the Company's operations since January 1, 1997.

	Pro Forma 1998	Pro Forma 1997
Net premiums earned	$1,588,791	$1,607,768
Net investment income	494,389	443,031
Net realized gains on sale of investments	260,608	378,213
Equity in earnings (loss) of affiliates	(1,897)	3,748
Fee and other income	28,006	24,710
Total revenues	2,369,887	2,457,470
Losses and loss expenses	921,018	966,909
Acquisition costs and operating expenses	514,877	450,893
Interest expense	44,839	46,311
Amortization of intangible assets	45,464	37,560
Total expenses	1,526,198	1,501,673
Income before minority interest and income tax expense	843,689	955,797
Minority interest and income tax	34,535	45,653
Net income	$ 809,154	$ 910,144
Net income per share		
Basic	$ 6.33	$ 7.08
Diluted	$ 6.13	$ 6.89
Weighted average shares outstanding (000's)		
Basic	127,883	128,550
Diluted	132,036	132,173

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 accounting principles generally accepted in the United States of America. The consolidated financial statements include management's estimates for transactions not yet complete or for which the ultimate effects cannot be precisely determined. Financial information presented elsewhere in this annual report is consistent with that in the consolidated financial statements.

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, evaluated and, as appropriate, modified for current conditions.

The Company engages PricewaterhouseCoopers LLP as independent auditors to audit the consolidated financial statements and express an opinion thereon. Their audits include a consideration of the Company's internal controls and systems, the testing of the accounting records and the procedures to the extent considered necessary to support the opinion. PricewaterhouseCoopers LLP 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 independent directors and meets regularly with PricewaterhouseCoopers LLP to review the strategy and scope and results of the audit work performed. PricewaterhouseCoopers LLP 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 and Chief Executive Officer

Robert R. Lusardi
Executive Vice President
and Chief Financial Officer

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of XL Capital Ltd:

In our opinion, based upon our audits and the report of other auditors, the accompanying consolidated balance sheets, the related consolidated statements of income and comprehensive income, of shareholders' equity and of cash flows present fairly, in all material respects, the financial position of XL Capital Ltd and its subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, 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 generally accepted auditing standards 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. We did not audit the financial statements of NAC Re Corp. as at December 31, 1998, which statements reflect total assets of $3.2 billion as of December 31, 1998 and total revenues of $699.4 million and $740.4 million for the years ended December 31, 1998 and 1997, respectively. Those statements were audited by other auditors whose report thereon has been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for NAC Re Corp. for those dates, is based solely on the report of the other auditors.

We previously audited and reported on the consolidated balance sheets, the related consolidated statements of income and comprehensive income, of shareholders' equity and of cash flows of XL Capital Ltd and its subsidiaries as at and for the two years ended November 30, 1998 prior to their restatement for the 1999 pooling of interests and change in fiscal year. We also audited the combination of the accompanying consolidated balance sheet as of December 31, 1998, and the consolidated statements of income and comprehensive income, of shareholders' equity and of cash flows for the two years ended December 31, 1998, after restatement for the 1999 pooling of interest. In our opinion, such consolidated statements have been properly combined on the basis described in Note 6 of the consolidated financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

New York, New York
February 9, 2000

DIRECTORS

Ronald L. Bornhuetter	(4)	Former Chairman, *NAC Re Corporation*
Michael A. Butt	(4)	Former President & CEO, *Mid Ocean Limited*
Robert Clements	(3)	Chairman, *Risk Capital Holdings, Inc.*
Sir F. Brian Corby	(1)	Former Chairman *of the Board of The Brockbank Group, plc and 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*
Robert V. Hatcher*	(2)	Retired Insurance Executive
Ian R. Heap	(2) (3)	Former Chairman, *XL Capital Ltd*
Paul E. Jeanbart	(1)	Chief Executive Officer, *The Rolaco Group of Companies*
John Loudon	(2) (3) (4)	Chairman, *Caneminster Limited*
Daniel J. McNamara	(1)	Of Counsel, *Hughes, Hubbard & Reed, LLP*
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 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)	Former 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)*

* Retiring May 2000

Committees of the Board:

(1) AUDIT
(2) COMPENSATION
(3) NOMINATING AND CORPORATE GOVERNANCE
(4) FINANCE

Brian M. O'Hara	President & Chief Executive Officer
Mark E. Brockbank	Executive Vice President
Nicholas Brown, Jr.	Executive Vice President
K. Bruce Connell	Executive Vice President
Paul S. Giordano	Executive Vice President, General Counsel & Secretary
Christopher V. Greetham	Executive Vice President & Chief Investment Officer
Henry C.V. Keeling	Executive Vice President
Robert R. Lusardi	Executive Vice President & Chief Financial Officer
Fiona E. Luck	Executive Vice President, Group Operations
Clive Tobin	Executive Vice President
Gavin R. Arton	Senior Vice President, Investor Relations Officer
William A. Robbie	Senior Vice President, Treasurer
Michael A. Siese	Senior Vice President, Controller
David B. Walsh	Senior Vice President, Chief Credit Officer

CORPORATE INFORMATION

Annual Meeting

The annual meeting of Shareholders of XL Capital Ltd will be held on Friday, May 12, 2000 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 1999 and 1998.

	1999		1998	
	High	**Low**	High	Low
	$	$	$	$
1st Quarter	**75.188**	**56.750**	77.500	59.625
2nd Quarter	**66.500**	**56.750**	80.813	72.250
3rd Quarter	**57.688**	**42.188**	83.250	62.125
4th Quarter	**58.063**	**44.938**	77.688	63.938

As of December 1999, the approximate number of record holders of Ordinary Shares was 700.

Transfer Agent and Registrar

Mellon Bank N.A., One Mellon Bank Center, Pittsburg, 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, 1177 Avenue of the Americas, New York, NY 10019-6013, U.S.A.

Legal Counsel

Hunter & Hunter, The Hunt Law Building, P.O. Box 190 GT, Grand Cayman, Cayman Islands.

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

Registered Office

c/o Hunter & Hunter, The Hunt Law Building, P.O. Box 190 GT, Grand Cayman, Cayman Islands.

XL Capital Ltd

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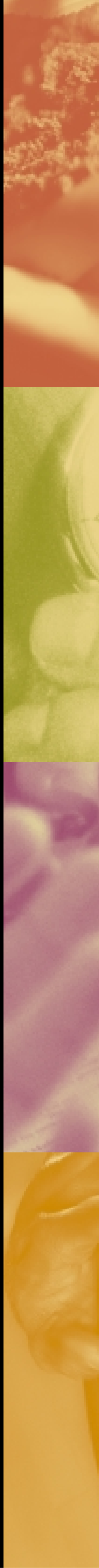
XL CAPITAL



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www.xl-capital.com