

EXEL LIMITED

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

| | August 31, 1996 | November 30, 1995 |
|--|--------------------|----------------------|
| | ----- | ----- |
| | (Unaudited) | |
| ASSETS | | |
| Investments: | | |
| Fixed maturities, at market value (amortized cost : 1996 - \$2,638,211; 1995 - \$2,343,143)..... | 2,557,920 | \$2,434,470 |
| Equity securities, at market value (cost: 1996 - \$580,848; 1995 - \$652,847). | 716,082 | 838,132 |
| Short-term investments, at market value (amortized cost: 1996 - \$43,921; 1995 - \$82,696)..... | 44,639 | 82,693 |
| | ----- | ----- |
| Total Investments | 3,318,641 | 3,355,295 |
| Cash and cash equivalents..... | 288,490 | 673,433 |
| Investment in affiliate (cost: 1996 - \$263,237; 1995 - \$261,617)... | 378,818 | 351,669 |
| Accrued investment income..... | 53,911 | 53,149 |
| Deferred acquisition costs..... | 33,081 | 40,954 |
| Prepaid reinsurance premiums..... | 57,164 | 2,438 |
| Premiums receivable..... | 344,765 | 234,028 |
| Reinsurance balances receivable..... | 43,442 | 1,002 |
| Other assets..... | 31,181 | 12,938 |
| | ----- | ----- |
| Total Assets..... | \$4,549,493 | \$4,724,906 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities: | | |
| Unpaid losses and loss expenses..... | \$1,985,580 | \$1,920,500 |
| Unearned premium..... | 667,433 | 539,296 |
| Premium received in advance..... | 26,032 | 4,880 |
| Accounts payable and accrued liabilities..... | 54,021 | 17,806 |
| Payable for investments purchased..... | 6,721 | 236,291 |
| | ----- | ----- |
| Total Liabilities..... | \$2,739,787 | \$2,718,773 |
| | ----- | ----- |

| | August 31, 1996 ----- | November 30, 1995 ----- |
|--|-----------------------------|-------------------------------|
| | (Unaudited) | |
| Contingencies | | |
| Shareholders' Equity: | | |
| Ordinary shares (par value \$0.01: authorized, 999,990,000 shares; issued and outstanding, 87,431,264 shares (excluding 23,884,800 shares held in treasury) at August 31, 1996 and 94,550,790 shares (excluding 16,000,000 shares held in treasury) at November 30, 1995..... | 874 | 473 |
| Contributed surplus..... | 282,605 | 295,209 |
| Net unrealized appreciation of investments..... | 55,398 | 283,289 |
| Deferred compensation..... | (7,358) | (1,657) |
| Retained earnings..... | 1,478,187 | 1,428,819 |
| | ----- | ----- |
| Total shareholders' equity..... | \$1,809,706 | \$2,006,133 |
| | ----- | ----- |
| Total liabilities and shareholders' equity..... | \$4,549,493 | \$4,724,906 |
| | ===== | ===== |

See accompanying notes to Consolidated Financial Statements.

EXEL LIMITED

CONSOLIDATED STATEMENTS OF INCOME
(U.S. dollars in thousands, except per share amounts)

| | Three Months Ended August 31, | | Nine Months Ended August 31, | |
|---|-------------------------------------|---------------|------------------------------------|---------------|
| | 1996 | 1995 | 1996 | 1995 |
| | ----- (Unaudited) ----- | | | |
| Revenues: | | | | |
| Net premiums earned..... | \$124,537 | \$139,219 | \$386,747 | \$405,110 |
| Net investment income..... | 50,310 | 39,085 | 148,332 | 146,052 |
| Net realized (losses) gains on sale of investments..... | (4,603) | 26,162 | 147,658 | 34,178 |
| Equity in net earnings of affiliate... | 13,081 | 18,449 | 43,476 | 39,047 |
| | ----- | ----- | ----- | ----- |
| Total revenues..... | 183,325 | 222,915 | 726,213 | 624,387 |
| | ----- | ----- | ----- | ----- |
| Expenses: | | | | |
| Losses and loss expenses..... | 97,905 | 109,170 | 305,667 | 317,811 |
| Acquisition costs..... | 9,053 | 13,327 | 26,637 | 39,921 |
| Administration expenses..... | 11,429 | 7,099 | 31,164 | 21,094 |
| | ----- | ----- | ----- | ----- |
| Total expenses..... | 118,387 | 129,596 | 363,468 | 378,826 |
| | ----- | ----- | ----- | ----- |
| Income before income tax expense..... | 64,938 | 93,319 | 362,745 | 245,561 |
| Income tax expense..... | 393 | 416 | 2,125 | 1,245 |
| | ----- | ----- | ----- | ----- |
| Net income..... | \$ 64,545 | \$ 92,903 | \$360,620 | \$244,316 |
| | ===== | ===== | ===== | ===== |
| Weighted average number of ordinary shares and ordinary share equivalents outstanding..... | | | | |
| | 89,842 | 102,050 | 92,935 | 105,736 |
| Net income per ordinary share and ordinary share equivalent..... | | | | |
| | \$ 0.72 | \$ 0.91 | \$ 3.88 | \$ 2.31 |
| Dividends declared per share..... | \$ 0.25 | \$ 0.17 | \$ 0.70 | \$ 0.50 |

See accompanying notes to Consolidated Financial Statements.

EXEL LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS
(U.S. dollars in thousands)

| | Nine Months Ended August 31, | |
|--|---------------------------------|------------|
| | 1996 | 1995 |
| | ---- | ---- |
| | (Unaudited) | |
| Cash flows from operating activities | | |
| Net income..... | \$ 360,620 | \$ 244,316 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Net realized gains on sale of investments..... | (147,658) | (34,178) |
| Unrealized loss on foreign exchange..... | - | 8,025 |
| Amortization of premium on fixed maturities... | 5,571 | 4,026 |
| Amortization of deferred compensation..... | 1,097 | 777 |
| Equity in earnings of affiliate net of dividends received and consolidation adjustments..... | (33,702) | (34,083) |
| Unpaid losses and loss expenses..... | 65,080 | 156,181 |
| Unearned premiums..... | 128,137 | 91,446 |
| Premiums received in advance..... | 21,152 | (2,191) |
| Deferred acquisition costs..... | 7,873 | (1,958) |
| Prepaid reinsurance premiums..... | (54,726) | - |
| Premiums receivable..... | (110,737) | (67,035) |
| Reinsurance balances receivable..... | (42,440) | - |
| Accrued investment income..... | (762) | 22,024 |
| Accounts payable and accrued liabilities..... | 36,215 | 1,924 |
| | ----- | ----- |
| Total adjustments..... | (124,900) | 144,958 |
| | ----- | ----- |
| Net cash provided by operating activities..... | 235,720 | 389,274 |
| | ----- | ----- |
| Cash flows provided by (used in) investing activities: | | |
| Proceeds from sale of fixed maturities and short-term investments..... | 3,541,887 | 4,414,038 |
| Proceeds from redemption of fixed maturities and short-term investments..... | 98,000 | 81,000 |

| | Nine Months Ended August 31, | |
|--|---------------------------------|-------------|
| | 1996 | 1995 |
| | ---- | ---- |
| | (Unaudited) | |
| Proceeds from sale of equity securities..... | 468,860 | 158,195 |
| Purchases of fixed maturities and short-term investments..... | (4,089,078) | (4,386,834) |
| Purchases of equity securities..... | (291,446) | (334,689) |
| Deferred gains on forward hedge contracts..... | 1,230 | 34,464 |
| Investment in affiliate..... | (1,620) | - |
| Proceeds from sale of shares in affiliate..... | - | 15,312 |
| Other assets..... | (18,243) | (1,321) |
| | ----- | ----- |
| Net cash used in investing activities..... | (290,410) | (19,835) |
| | ----- | ----- |
| Cash flow (used in) provided by financing activities: | | |
| Dividends paid..... | (64,333) | (52,305) |
| Issuance of shares..... | 126 | 126 |
| Proceeds from exercise of options..... | 5,216 | 2,213 |
| Repurchase of treasury shares..... | (271,262) | (257,063) |
| | ----- | ----- |
| Net cash used in financing activities..... | (330,253) | (307,029) |
| | ----- | ----- |
| (Decrease)increase in cash and cash equivalents..... | (384,943) | 62,410 |
| | ----- | ----- |
| Cash and cash equivalents - beginning of period..... | \$ 673,433 | \$ 456,176 |
| | ----- | ----- |
| Cash and cash equivalents - end of period..... | \$ 288,490 | \$ 518,586 |
| | ===== | ===== |
| Taxes paid..... | \$ 1,571 | \$ 1,056 |
| | ===== | ===== |

See accompanying notes to Consolidated Financial Statements.

EXEL LIMITED

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of EXEL Limited (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, these unaudited financial statements reflect all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of financial position and results of operations as of the end of and for the periods presented. The results of operations for any interim period are not necessarily indicative of the results for a full year. The November 30, 1995 balance sheet data was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles. For further information, refer to the consolidated financial statements for the fiscal year ended November 30, 1995, and footnotes thereto, included in the Company's Annual Report on Form 10-K (No. 1-10804).

All share amounts have been adjusted for the July 1996 one-for-one stock dividend paid on the company's ordinary shares.

NOTE B - INVESTMENT IN AFFILIATE

Summarized condensed financial information of Mid Ocean Limited (MOCL), a 28% owned affiliate, which is accounted for by the equity method, is as follows (U.S. dollars in thousands):

| Income Statement Data | Three months Ended July 31, | | Nine Months Ended July 31, | |
|---|--------------------------------|-------------|-------------------------------|-------------|
| | 1996 | 1995 | 1996 | 1995 |
| | ---- | ---- | ---- | ---- |
| | (unaudited) | | | |
| Net premiums earned | \$114,102 | \$ 90,796 | \$318,481 | \$ 279,976 |
| Net investment income | 21,052 | 18,716 | 60,009 | 54,763 |
| Net realized (losses) gains on sale of investments | (8,396) | 15,308 | (1,200) | (1,616) |
| Net income | \$ 46,217 | \$ 66,140 | \$155,004 | \$ 139,783 |
| | ===== | ===== | ===== | ===== |
| Company's share of net income | \$ 13,081 | \$ 18,449 | \$ 43,476 | \$ 39,047 |
| | ===== | ===== | ===== | ===== |
| | | July 31, | | October 31, |
| Balance Sheet Data | | 1996 | | 1995 |
| | | ----- | | ----- |
| | | (Unaudited) | | |
| Cash, investments and accrued interest | | \$1,436,551 | | \$1,275,588 |
| Other assets | | 487,029 | | 231,417 |
| | | ----- | | ----- |
| Total assets | | \$1,923,580 | | \$1,507,005 |
| | | ===== | | ===== |
| Reserves for losses and loss expenses | | \$ 392,496 | | \$ 328,990 |
| Reserves for unearned premiums | | 362,962 | | 200,859 |
| Other liabilities and minority interest | | 117,640 | | 8,362 |
| Shareholders' equity | | 1,050,482 | | 968,794 |
| | | ----- | | ----- |
| Total liabilities and shareholders' equity | | \$1,923,580 | | \$1,507,005 |
| | | ===== | | ===== |
| Company's share of shareholders' equity | | \$ 296,372 | | \$ 273,867 |
| | | ===== | | ===== |

The Company received dividends from its affiliate of \$4.0 million, and \$2.4 million during the quarters ended August 31, 1996 and 1995 and \$9.0 million and \$5.0 million for each of the nine month periods then ended.

NOTE C - SUBSEQUENT EVENTS

Subsequent to the quarter end X.L. Insurance Company Limited (X.L.) made two acquisitions; American Excess Insurance Association (AEIA), where the Company acquired its assets, (principally their underwriting files) and Railroad Association Insurance, Ltd. (RAIL) which was purchased outright. Neither acquisition will materially affect cashflows, although the fee associated with the former will increase the expense ratio over approximately the next two years. The size of the increase will be dependent on the level of policies renewing with X.L.

EXEL LIMITED

 MANAGEMENT'S DISCUSSION AND ANALYSIS OF

 RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results of Operations for the Three Months Ended August 31, 1996

 Compared to the Three Months Ended August 31, 1995

The following table presents a summary analysis of the Company's underwriting revenues for the periods indicated:

| | Three Months Ended | | % Change |
|------------------------|--------------------|-----------|----------|
| | 1996 | 1995 | |
| | August 31, | | |
| | ----- | ----- | ----- |
| Table I | (unaudited) | | |
| ----- | | | |
| Gross premiums written | \$189,488 | \$248,613 | (23.8%) |
| Net premiums written | 152,635 | 247,075 | (38.2%) |
| Net premiums earned | 124,537 | 139,219 | (10.5%) |

The decrease in gross premiums written is reflective of the maturity of the multi year book over that of last year, resulting in an adjusted annual premium of \$172.6 million and \$174.3 million for the third quarter of 1996 and 1995, respectively, a decrease of 0.1%. In addition, two specialty reinsurance assumed contracts (SRA) canceled on their first year anniversary of a three year contract resulting in a return premium of \$10.8 million. Further discussion is provided on this matter following Table II.

Net premiums written were similarly affected by these items in addition to the general liability quota share reinsurance policy which came into effect on December 1, 1995. The policy covers general liability risks written on a guaranteed cost form, with certain exclusions. X.L. cedes 20% of these risks with a total limit of up to \$100 million and 25% with a total limit in excess of \$100 million. The resulting adjustment of \$15.4 million as noted in Table III reflects a decrease of 6.9%. Net earned premiums adjusted for this treaty would have increased 0.5%.

Table II presented below, reflects the split of gross premiums written by X.L. Insurance Company, Ltd. (X.L.), X.L. Europe Insurance (X.L.E.) and X.L. Reinsurance Company, Ltd. (XLRe) by line of business and after multi-year adjustments.

| Table II | 1996 | | | | 1995 | | |
|----------------------------------|-------------|----------|----------|-----------|-----------|----------|-----------|
| | X.L. | X.L.E. | XLRe | Total | X.L. | X.L.E. | Total |
| | (Unaudited) | | | | | | |
| General liability | \$102,425 | \$10,879 | \$ - | \$113,304 | \$104,545 | \$13,000 | \$117,545 |
| Directors and officers liability | 6,128 | 219 | - | 6,347 | 7,212 | 329 | 7,541 |
| Professional liability | 20,874 | 1,766 | - | 22,640 | 13,790 | 1,426 | 15,216 |
| Employment practices liability | 1,534 | - | - | 1,534 | - | - | - |
| Property | 12,854 | 718 | - | 13,572 | 7,035 | 1,218 | 8,253 |
| Risk solutions | 2,472 | - | - | 2,472 | - | - | - |
| Speciality reinsurance assumed | 3,115 | 2,157 | 7,435 | 12,707 | 24,220 | 1,549 | 25,769 |
| Annualized premiums | 149,402 | 15,739 | 7,435 | 172,576 | 156,802 | 17,522 | 174,324 |
| Multi-year premiums | 2,774 | 3,630 | 10,508 | 16,912 | 71,024 | 3,265 | 74,289 |
| Gross premiums written | \$152,176 | \$19,369 | \$17,943 | \$189,488 | \$227,826 | \$20,787 | \$248,613 |

As has been disclosed in previous filings, SRA policyholders are few in number but with policies that generate significant premiums due to the nature of the risks and the multi-year coverage. These policies are loss sensitive, providing large penalty premiums in the event of losses and the return of significant levels of premiums where little or no losses are incurred by the end of the policy term. During the third quarter, two reinsureds canceled and entered into new contracts, which were property in nature, resulting in the return of loss experience funds accrued to date of \$10.8 million and unearned premium for years two and three of these contracts of \$48.5 million. Because of the intent of these respective reinsureds to cancel and rewrite their contracts after one year where it is loss free, only the first year of the go forward contract has been recorded as premium. The intent of other existing property reinsureds will be assessed at the first year anniversary of their contracts and will be accounted for in accordance with their intent at that time. The impact of this transaction on gross written and net earned premium is further exemplified in Table III.

SRA premiums assumed by X.L.E. relate solely to reinsurance protection to a Bermuda insurer who provides certificates of financial responsibility to ship owners for compliance with the U.S. Oil Pollution Act of 1990. Growth in this area, merely reflects a change in buying pattern over 1995.

Risk solutions, one of the Company's new product lines, bound one such policy during the third quarter. Risk solutions is an initiative with CIGNA Property & Casualty (CIGNA) providing combined limits of capacity for two or more of X.L.'s stand alone product lines over three or more years. In addition, X.L. has commenced providing combined property capacity coverage with CIGNA. X.L. bound two of these contracts during the quarter which are reflected in the property line, together with continuing growth of X.L.'s traditional property cover.

General liability continues to feel the impact of competitive pressures from the U.S. domestic insurance market in both terms and pricing. Despite these pressures, this division managed to retain 91% of its business renewing in the quarter and write increased limits averaging \$85.6 million compared to \$77.8 million for the same quarter in 1995 over average attachments of \$62.6 million and \$61.4 million, respectively. The increases in limits and new business however did not provide sufficient premium to cover the business lost.

Directors and Officers liability was similarly impacted by U.S. domestic competition, although professional liability was able to write a significant level of new business over last year. Employment practices liability (EPL) is a new product that was announced in the second quarter. Capacity of \$100 million is offered of which the Company retains 50% after reinsurance. These premiums should not be considered indicative of future periods.

Table III presents certain underwriting information with respect to the business written by the Company for the periods indicated:

| Table III | Gross | | Net | | Net | |
|-----------------------------------|------------------|-----------|------------------------------|-----------|-----------------|-----------|
| | Premiums Written | | Premiums Written | | Premiums Earned | |
| | 1996 | 1995 | 1996 | 1995 | 1996 | 1995 |
| | | | Three Months Ended August 31 | | | |
| | | | (Unaudited) | | | |
| General liability | \$134,051 | \$128,565 | \$108,944 | \$128,565 | \$ 86,768 | \$106,021 |
| Directors and officers liability | 7,180 | 7,541 | 7,180 | 7,541 | 5,754 | 6,789 |
| Professional liability | 24,100 | 11,794 | 24,100 | 11,794 | 14,483 | 13,737 |
| Employment practices liability | 1,534 | - | 931 | - | 121 | - |
| Property | 21,420 | 4,253 | 16,039 | 2,715 | 5,321 | 3,193 |
| Risk solutions | 16,058 | - | 10,296 | - | 61 | - |
| Speciality reinsurance assumed | (14,855) | 96,460 | (14,855) | 96,460 | 12,029 | 9,479 |
| | 189,488 | 248,613 | 152,635 | 247,075 | 124,537 | 139,219 |
| Adjustment for multi-year premium | (16,912) | (14,855) | (16,912) | (74,289) | - | - |
| Reinsurance ceded | - | - | 25,106 | - | 15,419 | - |
| Adjusted premiums | \$172,576 | \$174,324 | \$160,829 | \$172,786 | \$139,956 | \$139,219 |

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

| Table IV ----- | Three Months Ended | | % Change ----- |
|--|--------------------|--------------------|-------------------|
| | 1996 | August 31, 1995 | |
| | (unaudited) | | |
| Net investment income | \$50,310 | \$39,085 | 28.7% |
| Net realized (losses) gains | (4,603) | 26,162 | N/M |
| Equity in net earnings of affiliate | 13,081 | 18,449 | (29.1%) |

Net investment income for the third quarter in 1995 included unrealized currency losses of \$12.2 million compared to \$Nil for the comparative quarter in 1996, resulting in an adjusted decline of 1.9%. Investable assets on average, were approximately the same in terms of amount and split between fixed income and equity securities. Bond yields were increasing in the 1996 quarter and sliding in the 1995 quarter creating similar results. Realized losses and gains in the respective quarters are reflective of these changing yields.

Equity in net earnings of affiliate decreased principally due to the Company's equity share of realized losses of \$2.4 million versus realized gains of \$4.3 million in the comparative quarter in 1995.

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

| Table V ----- | Three Months Ended August 31, | |
|-----------------------------|----------------------------------|-------|
| | 1996 | 1995 |
| | ---- | ---- |
| | (unaudited) | |
| Loss and loss expense ratio | 78.6% | 78.4% |
| Underwriting expense ratio | 16.4% | 14.7% |
| Combined ratio | 95.0% | 93.1% |

The increase in the underwriting expense ratio was impacted by lower net earned premium, as discussed previously, and increased expenses. The expenses reflect the expanding operations of the Company in addition to some non-recurring expenses associated with the Company's Tenth Anniversary, legal and consulting expenses related to the acquisitions of the renewal rights of American Excess Insurance Association's (AEIA) insurance book of business and a share of Pareto Partners. These expenses are however offset by commissions earned on business ceded under the General Liability Quota Share Treaty. After adjusting net earned premiums and expense for the aforementioned items, the underwriting ratio for the third quarter of 1996 would have been 14.9%

Net income was \$64.5 million or \$0.72 per share and \$92.9 million or \$0.91 per share for the quarters ended August 31, 1996 and August 31, 1995, respectively, representing a decrease of 20.9% per share. The decrease in per share amounts is largely attributable to the realization of investment losses of \$4.6 million versus gains of \$26.2 million for the respective quarters.

Results of Operations for the Nine Months Ended August 31, 1996

Compared to the Nine Months Ended August 31, 1995

The following table presents a summary analysis of the Company's underwriting revenues for the periods indicated:

| Table I ----- | Nine Months Ended | | % Change ----- |
|------------------------|-------------------|--------------------|-------------------|
| | 1996 | August 31, 1995 | |
| | (unaudited) | | |
| Gross premiums written | \$568,787 | \$498,737 | 14.0% |
| Net premiums written | 460,158 | 496,557 | (7.3%) |
| Net premiums earned | 386,747 | 405,110 | (4.5%) |

The increase in gross premiums written in 1996 was predominantly due to the growth in SRA premiums, written primarily by XLRe as reflected in Table II. These premiums are generally multi-year premiums, reflecting net future year premiums of \$41.4 million of the total \$112.8 million recognized in the period. Gross premiums written adjusted for this multi-year effect was \$456.0 million compared to adjusted premiums for the 1995 period of \$436.5 million, an increase of 4.5%.

Net premiums written were similarly affected by the multi-year premiums in addition to the general liability quota share reinsurance policy which came into effect on December 1, 1995. The policy covers general liability risks written on a guaranteed cost form, with certain exclusions. X.L. cedes 20% of these risks with a total limit of up to \$100 million and 25% with a total limit in excess of \$100 million. Of the \$92.5 million of the premiums ceded under this program, \$35.5 million related to the cession of the Company's unearned premiums as at December 1, 1995 to provide reinsurance protection on its in force policies from this date. The resulting adjustment as noted in Table III reflects an increase of 1.3%. Net earned premiums adjusted for this treaty increased by 7.5%.

The following table presents the split of gross premiums written by X.L., X.L.E and XLRe by line of business, for the periods indicated, adjusted for the effects of multi-year premiums:

| | Nine Months Ended August 31, | | | | | | |
|----------------------------------|------------------------------|-----------------|------------------|------------------|------------------|-----------------|------------------|
| | 1996 | | | 1995 | | | |
| | X.L. | X.L.E. | XLRe | Total | X.L. | X.L.E. | Total |
| | (Unaudited) | | | | | | |
| General liability | \$238,667 | \$44,059 | - | \$282,726 | \$271,593 | \$53,853 | \$325,446 |
| Directors and officers liability | 16,009 | 1,742 | - | 17,751 | 17,259 | 2,148 | 19,407 |
| Professional liability | 32,032 | 5,175 | - | 37,207 | 26,429 | 5,305 | 31,734 |
| Employment practices liability | 1,534 | - | - | 1,534 | - | - | - |
| Property | 19,862 | 680 | - | 20,542 | 12,553 | 1,365 | 13,918 |
| Risk solutions | 4,372 | - | - | 4,372 | - | - | - |
| Specialty reinsurance assumed | 13,265 | 14,603 | 63,975 | 91,843 | 30,595 | 15,426 | 46,021 |
| Annualized premiums | 325,741 | 66,259 | 63,975 | 455,975 | 358,429 | 78,097 | 436,526 |
| Multi-year premiums | (13,265) | 13,410 | 110,966 | 112,812 | 57,436 | 4,775 | 62,211 |
| Gross premiums written | <u>\$314,177</u> | <u>\$79,669</u> | <u>\$174,941</u> | <u>\$568,787</u> | <u>\$415,865</u> | <u>\$82,872</u> | <u>\$498,737</u> |

XLRe is the primary writer of SRA. The SRA premiums written by X.L. represent the culmination of specific negotiations which commenced prior to the incorporation of XLRe. SRA policyholders are few in number with substantial multi-year premiums. These policies characteristically allow for the return of significant levels of premiums in the event no losses are incurred. This was the case in the third quarter for two reinsureds which resulted in the return of \$10.8 million. Premiums assumed in the first nine months are not indicative of future periods.

SRA premiums assumed by X.L.E. relate solely to reinsurance protection provided to a Bermuda insurer who provides certificates of financial responsibility to ship owners for compliance with the U.S. Oil Pollution Act of 1990. The decline in premiums over the comparative period in 1995 reflects the development of the market where capacity was previously unavailable. It is expected only a limited amount of additional premium will be assumed on this program during the fourth quarter.

The Company's new product lines, Risk Solutions and Employment Practices Liability were introduced in the second and third quarters, respectively. The former is an initiative with CIGNA providing combined limits of capacity for two or more of X.L.'s stand alone product lines over three or more years. The Company has bound two policies during the nine month period. In addition, X.L. has commenced providing combined property capacity coverage with CIGNA. X.L. bound two of these contracts during the quarter which are reflected in the property line, together with continuing growth of X.L.'s traditional property cover.

Of the Company's more traditional product lines, Professional liability was the only other line experiencing growth from new business. General liability and Directors and Officers liability continue to feel the impact of competitive pressures from the U.S. domestic insurance market in both terms and pricing. Business retention for General liability for the nine months was 88.3%, although part of the lost business was the result of some of the insureds being merged or acquired by others, resulting in an adjusted retention of 90.4%. Average limits increased to \$83.8 million from \$78.1 million and average attachments increased to \$83.7 million from \$72.2 million for the nine month periods ending August 31, 1996 and 1995, respectively. The additional premium that would be generated under normal market conditions from increased limits were offset by higher attachments. Retention for Directors and Officers liability for the same period was 85.4%. Average limits were increased to \$19.1 million from \$18.6 million and average attachments to \$56.8 million from \$49.2 million for the respective nine month periods. Aside from the impact of the change in layering on pricing, the main reason for the decline of these two lines is that new premium has been insufficient to offset the business lost.

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

| Table IV ----- | Nine Months Ended August 31, | | % Change ----- |
|--|---------------------------------|--------------|-------------------|
| | 1996 ---- | 1995 ---- | |
| | (unaudited) | | |
| Net investment income | \$148,332 | \$146,052 | 1.6% |
| Net realized gains | 147,658 | 34,178 | N/M |
| Equity in net earnings of affiliate | 43,476 | 39,047 | 11.3% |

Net investment income for the first nine months in 1995 included unrealized currency losses of \$8.0 million compared to \$Nil for the comparative period in 1996, resulting in an adjusted decline of 3.7%. The decrease in investment income was caused by several factors. Fixed income assets at amortized cost were on average, approximately the same in terms of amount at \$2.9 billion for the comparable nine month period but the average equity securities held, at cost, were higher for the 1996 period at \$616.8 million compared to \$552.0 million for the equivalent period in 1995. This is reflective of the higher equity position taken in August of 1995. Bond yields were increasing in the 1996 period and sliding in the 1995 period creating the noted decline. In addition, the Company has liquidated two fixed maturity portfolios and one equity portfolio due to similarities in strategies between managers, creating an influx of cash and the realization of significant gains. From the realized proceeds, \$250 million was used to capitalize XLRe.

Equity in net earnings of affiliate increased principally due to MOCL's improved income from operations.

The following table sets forth the Company's combined ratios and the components thereof for the periods indicated using U.S. generally accepted accounting principles:

| Table V ----- | Nine Months Ended | |
|-----------------------------|-------------------|-------|
| | August 31, | |
| | 1996 | 1995 |
| | ---- | ---- |
| | (unaudited) | |
| Loss and loss expense ratio | 79.0% | 78.4% |
| Underwriting expense ratio | 15.0% | 15.1% |
| Combined ratio | 94.0% | 93.5% |

The increase in the loss and loss expense ratio reflects an increase in the rate at which incurred but not reported reserves are established on the Company's casualty lines of business, which commenced during the fourth quarter of 1995.

The underwriting expense ratio remained relatively flat in the first nine months of 1996 compared to the same period of 1995. The effect of commissions earned on the new quota share reinsurance program was offset by some non-recurring expenses associated with the Company's Tenth Anniversary and legal and consulting expenses related to the acquisition of the renewal rights of American Excess Insurance Association's (AEIA) insurance book of business and a share of Pareto Partners.

Net income was \$360.6 million or \$3.88 per share and \$244.3 million or \$2.31 per share for the nine months ended August 31, 1996 and 1995, respectively, representing an increase of 68.0% per share. The increase in per share amounts is largely attributable to realized investment gains of \$147.7 million compared to \$34.2 million and a decrease in the weighted average shares outstanding from 105.7 million to 92.9 million.

Financial Condition and Liquidity

As a holding company, the Company's assets consist primarily of its investments in the stock of its subsidiaries and the Company's future cash flows depend on the availability of dividends or other statutorily permissible payments from its subsidiaries. In order to pay dividends, the amount of which is limited to accumulated net realized profits, the Company's principal subsidiary, X.L., must maintain certain minimum levels of statutory capital and surplus, solvency and liquidity pursuant to Bermuda statutes and regulations. At August 31, 1996, X.L. could have paid dividends in the amount of approximately \$1.1 billion. Neither the Company nor any of its subsidiaries other than X.L. had any other restrictions preventing them from paying dividends. No assurance, however, can be given that the Company or its subsidiaries will not be prevented from paying dividends in the future. The Company's shareholders' equity at August 31, 1996 was \$1.8 billion, of which \$1.5 billion was retained earnings.

At August 31, 1996, total investments and cash net of the payable for investments purchased were \$3.6 billion compared to \$3.8 billion at November 30, 1995.

The Company purchased a further 7.9 million of its outstanding shares during the nine months ended August 31, 1996, at a cost of \$271.3 million, increasing its treasury holding to 23.9 million shares. The Company has 3.1 million shares remaining in its authorized share repurchase program.

The Company's fixed income investments (including short-term investments and cash and cash equivalents net of the payable for investments purchased) at August 31, 1996 represented approximately 80% of invested assets and were managed by several outside investment management firms with different strategies. All fixed income securities are of investment grade and include U.S. and non-U.S. sovereign government obligations and corporate and other securities. Of the Company's fixed income portfolio, 72% is rated Aa or AA or better by a nationally recognized rating agency or an investment manager. Cash and cash equivalents net of the payable for investments purchased was \$281.8 million at August 31, 1996, compared to \$437.1 million at November 30, 1995.

In connection with the Company's investment in MOCL, the Company has confirmed to MOCL that, subject to certain conditions, it will not, prior to May 1998, without the consent of the Directors of MOCL, increase its ownership of MOCL shares if, as a result, it would own more than 30% of MOCL's outstanding voting shares or more than 25% of MOCL's shares on a fully diluted basis. In connection with the previously announced authorization by the Directors of MOCL for the repurchase of up to \$75 million of MOCL shares, the Company has confirmed its intention to decrease proportionately the number of shares of MOCL owned by it so as to maintain its percentage ownership of MOCL at a level no greater than at present.

In fiscal 1994, 1995 and in fiscal 1996 through August 31, the total amount of losses paid by the Company was \$138.7 million, \$188.5 million and \$282.5 million, respectively.

Insurance practices and regulatory guidelines suggest that property and casualty insurance companies maintain a ratio of net premiums written to statutory capital and surplus of not greater than 3 to 1, with a lower ratio considered to be more prudent for a company that insures the types of exposures written by X.L. X.L. maintained a ratio of less than 0.9 to 1 for the year ended November 30, 1995 and 0.5 to 1 (calculated on an annualized basis) for the nine months ended August 31, 1996. The decrease is reflective of a decrease in gross premiums written on X.L.'s traditional lines coupled with the premiums ceded under the general liability quota share treaty which was effective December 1, 1995.

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

Inflation can have an effect on the Company in that inflationary factors can increase damage awards and potentially result in more claims exceeding applicable minimum attachment points. The Company's underwriting philosophy is to adjust premiums in response to inflation, although this may not always be possible due to competitive pressures. Inflationary factors are considered in determining the premium level on multi-year policies at the time the contracts are written. In addition, the Company from time to time evaluates whether minimum attachment points should be raised to take into account inflationary factors; as of this date, no revisions to minimum attachment points have been implemented.

Subsequent Events

- - - - -

Subsequent to the quarter end X.L. made two acquisitions; AEIA, where the Company acquired its assets, (principally their underwriting files) and Railroad Association Insurance, Ltd. (RAIL). Neither acquisition will materially affect cashflows, although the fee associated with the former will increase the expense ratio over approximately the next two years. The size of the increase will be dependent on the level of policies renewing with X.L.

Outlook

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The Company believes competitive pressures will continue throughout fiscal 1996 and constrain growth in the Company's traditional product lines. However, the Company believes specific opportunities will exist through the further growth of the Company's property product line, the release of the new employment practices liability product, XLRe and Risk Solutions. The Company may also experience some growth through the renewal of the AEIA book over the next year, although there is no guarantee that the Company will secure all of this business or any significant portion thereof. The acquisition of RAIL however will result in an increase in gross premiums written, but will not be material to the Company's total book of business.

EXEL LIMITED

PART II - OTHER INFORMATION

ITEM 6. - EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibit 11. Statement regarding Computation of Per Share Earnings.
- (b) There were no reports on Form 8-K filed during the three months ended August 31, 1996.

EXEL LIMITED

COMPUTATION OF EARNINGS PER ORDINARY SHARE AND
ORDINARY SHARE EQUIVALENT(U.S. dollars in thousands except
per share amounts)

| | Three Months Ended August 31, 1996 (Unaudited) (U.S. Dollars in thousands except per share amounts) | | Nine Months Ended August 31, 1996 (Unaudited) (U.S. Dollars in thousands except per share amounts) | |
|--|--|-----------|---|-----------|
| (A) Earnings per ordinary share and ordinary share equivalent -- primary: | | | | |
| Weighted average shares outstanding..... | 89,026 | 101,174 | 91,890 | 105,042 |
| Average stock options outstanding (net of repurchased shares under the treasury stock method)..... | 816 | 876 | 1,045 | 694 |
| | ----- | ----- | ----- | ----- |
| Weighted average ordinary shares and ordinary share equivalents outstanding..... | 89,842 | 102,050 | 92,935 | 105,736 |
| | ----- | ----- | ----- | ----- |
| Net income: | | | | |
| Actual net income..... | \$64,545 | \$ 92,903 | \$360,620 | \$244,316 |
| Assumed earnings on excess option proceeds.... | - | - | - | - |
| | ----- | ----- | ----- | ----- |
| Adjusted net income..... | \$64,545 | \$ 92,903 | \$360,620 | \$244,316 |
| | ----- | ----- | ----- | ----- |
| Earnings per ordinary share and ordinary share equivalent..... | \$ 0.72 | \$ 0.91 | \$ 3.88 | \$ 2.31 |
| | ===== | ===== | ===== | ===== |

| | Three Months Ended August 31, 1996 (Unaudited) | | Nine Months Ended August 31, 1996 (Unaudited) | |
|--|---|-----------|--|-----------|
| | 1996 | 1995 | 1996 | 1995 |
| | (U.S. Dollars in thousands except per share amounts) | | | |
| (B) Earnings per ordinary share and ordinary share equivalent -- assuming full dilution: | | | | |
| Weighted average shares outstanding..... | 89,026 | 101,174 | 91,890 | 105,042 |
| Average stock options outstanding (net of repurchased shares under the treasury stock method)..... | 816 | 948 | 1,045 | 972 |
| | ----- | ----- | ----- | ----- |
| Weighted average ordinary shares and ordinary share equivalents outstanding..... | 89,842 | 102,122 | 92,935 | 106,014 |
| | ----- | ----- | ----- | ----- |
| Net income: | | | | |
| Actual net income..... | \$64,545 | \$ 92,903 | \$360,620 | \$244,316 |
| Assumed earnings on excess option proceeds... | - | - | - | - |
| | ----- | ----- | ----- | ----- |
| Adjusted net income..... | \$64,545 | \$ 92,903 | \$360,620 | \$244,316 |
| | ===== | ===== | ===== | ===== |
| Earnings per ordinary share and ordinary share equivalent..... | \$ 0.72 | \$ 0.91 | \$ 3.88 | \$ 2.30 |
| | ===== | ===== | ===== | ===== |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EXEL LIMITED

(Registrant)

September 23, 1996

/s/ Brian M. O'Hara

Brian M. O'Hara
President and
Chief Executive Officer

September 23, 1996

/s/ Brian G. Walford

Brian G. Walford
Executive Vice President and
Chief Financial Officer

