



# Challenging the Norm

XL Capital Ltd Annual Report 2007



“A mind that is stretched to a new idea never returns to its original dimensions”

Intelligent risk solutions challenge the norm.

XL Capital Ltd, through its operating subsidiaries, is a leading provider of global insurance and reinsurance coverages to industrial, commercial and professional service firms, insurance companies and other enterprises worldwide.

Our vision is to be the leading global provider of intelligent risk solutions – delivered with integrity. As an insurance and reinsurance specialist, with approximately 4,000 employees in over 70 offices in 27 countries, we are committed to providing innovative products and services to our customers and to delivering value to our shareholders. Our strategy is straightforward. We aim to make the most of our fundamental strengths – capital and people, and to best leverage our global and diversified platform. Many of the world's leading corporations trust our fundamental strength.

We have also worked hard to maintain a disciplined underwriting, responsive and innovative culture because we believe this is a critical component of our strength. XL's core values of ethics, teamwork, excellence, development and respect ensure that employees and the Company are held to the highest standards in all that we do.

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**Challenging the Norm:** Some of the most significant achievements of mankind have come as a result of challenging the norm... attempting the impossible. But ambitious endeavors, by definition, involve an element of risk. The more we expand the boundaries of possibilities, the greater the risk mitigation challenges become. The ability to develop intelligent solutions requires more than mere knowledge. Experience, analytical acumen, creativity, integrity and courage are also needed. At XL Capital, intelligent risk solutions come naturally. They are in our genes. Indeed, XL's own creation was an intelligent risk solution to a severe shortage of liability insurance in the United States. We are not only unfazed by the challenges that our customers bring to us, we are stimulated and inspired to create intelligent risk solutions for their ever-changing needs.

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#### ON THE FRONT COVER

##### **Akashi-Kaikyo Suspension Bridge, Japan**

Japan stretched the limits of bridge engineering with the construction of the Akashi-Kaikyo Bridge. The world's longest suspension bridge links the city of Kobe on the mainland of Honshu to Awaji-shima Island across the Akashi Strait. The bridge is 12,831 feet (3,911m) long. It is also the tallest bridge in the world, its two towers soaring to 978 feet (298m). Its unique design allows it to withstand winds of 178 mph (286 kph) and earthquakes measuring 8.5 on the Richter scale.

## 2007: Year in Review



01

> **January:** Product recall insurance cover launched in the U.K. The new insurance not only covers costs associated with a recall, but includes a crisis management program and emphasizes risk prevention.

> **February:** The Board of Directors approved a new share repurchase program, authorizing XL to repurchase up to \$1 billion of its Class A ordinary shares.

> **March:** XL introduced an enhanced directors and officers (D&O) insurance policy, tailored for U.S. publicly traded companies

with worldwide exposures. Launched by the Bermuda professional lines team, the revised policy, "A PLUS D&O Advantage", includes improved features, such as the elimination of the exclusions section.

> **April:** Scholarship created in memory of Ian R. Heap, XL's first Chairman and CEO. The scholarship will be granted for the first time in 2008 and administered by the Spencer Educational Foundation, Inc., an organization dedicated to supporting students in the risk management and insurance disciplines.

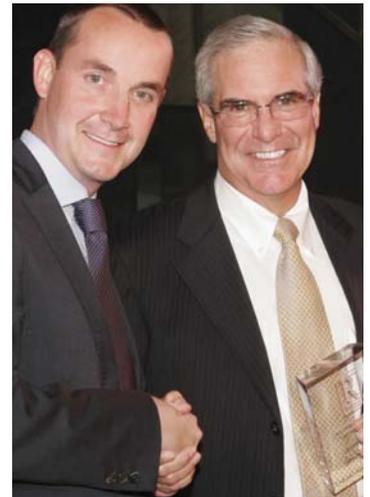


02

> **May:** XL staged an Investor Day and announced a refined strategy, focusing on the core businesses of insurance and reinsurance. Analysts and investors were told that XL's overall strategic objective is to grow book value per share faster than our peers.

> **June:** XL published Global Loss Triangles (GLTs) for the first time. The Company initially announced its intention to publish GLTs at its Investor Day in New York City.

> **August:** *Reactions* magazine honored Brian O'Hara with its first



03

Lifetime Achievement Award for outstanding contributions to the industry. XL also received awards for 'Best Bermuda Market Primary Insurance Company' and 'Capital Raising of the Year' for its Stoneheath Re initiative. More than 4,500 risk managers, brokers, (re) insurance managers, directors and CEOs were surveyed.

> **September:** Brian O'Hara delivered the keynote speech at the DVS Symposium, a major risk management conference in Germany.

**Benazir Bhutto**



We pay tribute to one of the world's most courageous leaders. From becoming the first female Prime Minister in the Muslim world in 1988 to her tragic death in 2007, the late Benazir Bhutto fought with fervor for democracy in her native Pakistan. Less than two years before her death, she told those attending the XL Congress in Berlin: "With the general election scheduled for 2007, I face renewed threats, but I am determined to stand by the democratic aspirations of my people, for fate has taken over my life and my destiny is no longer in my own hands." She also spoke at XL's Boston Congress where she endeared herself to many XL employees and guests as a leader, scholar, confidante and friend. She is no longer with us, but her legacy of striving for democracy lives on.



04



05



06

> XL EuroPass and XL WorldPass policies launched at the FERMA conference in Switzerland.

> **October:** XL co-hosted the first PGA Grand Slam of Golf to be held in Bermuda. More than 100 U.S. brokers attended the two-day golf event featuring the winners of the year's four golf majors: the Masters, U.S. Open, British Open and PGA Championship.

> Brian O'Hara announced his intention to retire as President and CEO in mid-2008.

> Michael P. Esposito Jr., Chairman, also advised the Board of his planned retirement.

> **November:** XL co-sponsored the second China Insurance Industry Executive Leadership Program, designed to identify and develop future leaders among the People's Republic of China's insurance regulators and executives.

> **December:** The purchase of Global Asset Protection Services LLC (GAPS) from Swiss Re was completed. GAPS is a provider of unbundled

loss prevention consulting services, offering individually tailored risk management solutions to risk managers, insurance brokers and customers. The GAPS operation and the XL Insurance existing loss prevention services merged to form XL GAPS.

> Mr. Esposito resigned from the XL Board to focus on his duties as Chairman of Security Capital Assurance Ltd (SCA).

> XL entered into a 6-year agreement for naming rights to the Hartford Civic Center, which is now known as the "XL Center".

**01\_CEO Brian O'Hara** interviewed by Bloomberg TV in Munich

**02\_Angel Cabrera**, champion of the XL sponsored PGA Grand Slam of Golf

**03\_Reactions Publishing Director, Stewart Brown** (left) congratulates Brian O'Hara on his award

**04\_COO Henry Keeling** at the XL co-sponsored China Insurance Industry Executive Leadership Program

**05\_Banners are displayed** following the renaming of the Hartford Civic Center to the "XL Center"

**06\_Chief of Staff and then interim CFO Fiona Luck** at XL's Investor Day in New York City (also pictured, left to right, CIO Sarah Street and Chief Actuary Susan Cross)

## Letter to Shareholders



“... XL’s strength and ability to compete in our chosen markets remains firmly intact, and XL’s core businesses continue to perform well. We have a great strategy, a powerful team, and a solid capital foundation.”

- ▣ Total Assets of \$57.8 billion
- ▣ Shareholders' Equity of \$9.9 billion
- ▣ Book value per ordinary share of \$50.30
- ▣ Operating ROE of 18.6%
- ▣ Combined ratio of 88.8%

**Dear Fellow Shareholders:** In this my final letter to you as President and CEO of the XL Capital group of companies (XL), I want to share my thoughts on the past year which has been a bitter sweet period for the industry, for XL, and for me personally.

Before I do that, I would like to review the operational business highlights of a year in which our Company and its employees demonstrated remarkable resilience in an environment which became increasingly challenging.

#### Performance Overview

Despite the collapse of the credit markets and the damaging repercussions on balance sheets and share prices all over the world, XL produced net income available to ordinary shareholders of \$206 million. Our operating ROE for the year was 18.6%. Book value per ordinary share was \$50.30, and our Property and Casualty (P&C) operations achieved a combined ratio of 88.8%.

In our insurance segment, gross premiums written for 2007 were \$5.4 billion; net premiums earned were \$4.1 billion; and the combined ratio was 91.4%.

In our reinsurance segment, gross premiums written were \$2.7 billion; net premiums earned were \$2.3 billion; and the combined ratio was 83.9%.

Our life reinsurance operations contributed \$743 million in gross written premiums and \$701 million in net premiums earned for the year.

As for the environment, coming off a record year in 2006, the (re) insurance industry generally began to experience softening rates in some lines of business. As a result, there was some contraction in the valuations of stocks for P&C insurance and reinsurance companies. Also, while 2007 was a fairly benign year in terms of natural catastrophes, insured losses for the industry were reportedly \$9 billion higher than in 2006.

In the midst of all of this, XL was enjoying consecutive profitable quarters, strengthening our capital management through various security repurchasing and issuing activities, and leveraging our global network to make the most of business opportunities where and when appropriate.

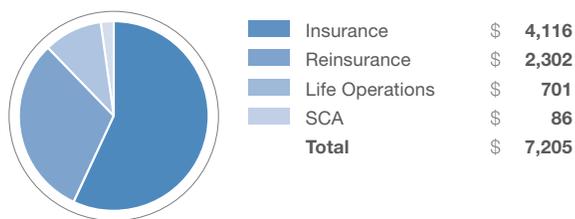
#### Our Strategy

In May 2007, we announced that we planned to simplify our organization structure and sharpen our focus on our core insurance and reinsurance businesses which would provide greater operational flexibility and allow us to reach our overall strategic objective which is to grow book value per share at a faster rate than our peers over the cycle.

At that same time, we announced our intention to reduce our 63% ownership in our financial guaranty affiliate Security Capital Assurance Ltd (SCA), which was considered outside of our core business. The following month we promptly executed on this reduction in ownership to 46%; a level consistent with rating agency requirements. We also announced that we planned to exit or sell some areas of business which were not compatible with our core P&C business such as the

| FIVE YEAR HIGHLIGHTS AS AT DECEMBER 31               | ( \$ M ) | 07     | 06     | 05      | 04     | 03     |
|--|----------|--------|--------|---------|--------|--------|
| Total Assets   |          | 57,762 | 59,309 | 58,455  | 49,245 | 41,456 |
| Shareholders' Equity                                 |          | 9,948  | 10,131 | 8,472   | 7,739  | 6,937  |
| Revenues   |          | 9,136  | 9,833  | 11,285  | 10,096 | 8,097  |
| Net Income (loss) Available to ordinary shareholders |          | 206    | 1,722  | (1,292) | 1,126  | 372    |

**XL CAPITAL LTD NET PREMIUMS EARNED** ( in millions of U.S. dollars )



**XL CAPITAL LTD TOTAL NET INVESTED ASSETS** ( as at 12.31.07 )



municipal guaranteed investment contract (Muni GIC) and funding agreement businesses, which are largely credit spread activities and have a high component of structured credit exposure.

**Credit Crisis**

Unfortunately, shortly after this the global credit crisis struck and continues today.

Needless to say, the credit market situation has created testing times for many financial institutions. This is especially true of companies with large fixed income portfolios, like XL.

Unlike many of our peer companies, however, XL also has a 46% stake in SCA. Along with most of its industry peers, SCA is facing market uncertainty and the financial strength ratings of its subsidiaries, XL Capital Assurance Inc. (XLCA), XLCA UK, and XL Financial Assurance Ltd. (XLFA), have been downgraded by Fitch, Moody's, and Standard & Poor's. Accordingly, in the fourth quarter of 2007 we wrote down the carrying value of our investment in SCA to zero.

As a result of losses and write downs associated with XL's investment and other relationships with SCA, our financial operating affiliate Primus Guaranty Ltd, and our investment portfolio, our fourth quarter results were significantly impacted by credit market related charges totaling approximately \$1.7 billion. This included realized losses on investments of approximately \$500 million, the majority of which was related to the Muni GIC and funding agreement businesses. The nature of this business is a spread business which required investments in higher yielding, lower credit quality securities which have been severely impacted by the credit market crisis.

With respect to SCA, I can assure you that we have taken a measured and analytical approach to our exposure to – and interest in – SCA in order to best protect the economic interests of XL and you, our shareholders.

**Rating Actions**

Unfortunately, the fallout from XL's fourth quarter charges was rating downgrades by A.M. Best, Fitch, and Moody's. However, Standard & Poor's, who are familiar with the financial guaranty business, reaffirmed our 'A+' or 'Strong' rating and we are still rated 'A' or 'Excellent' by A.M. Best, 'A+' or 'Strong' by Fitch, and 'A1' or 'Good' by Moody's. All outlooks are stable. The downgrades were principally attributed to earnings volatility, not capital adequacy.

We have taken the rating agencies' views very seriously and are working to address their concerns. However, we should not lose sight of the strengths of XL's Property and Casualty and Life operations.

Had it not been for the charges we took in the fourth quarter related to the credit market conditions, we would have achieved a record net income of approximately \$2 billion.

Even though our share price and the downgrading of our ratings have been very disappointing, our capital position remains fundamentally strong and our core businesses continue to perform well.

**Segment Highlights**

While gross premiums written were below prior year levels in most of our insurance lines due to market conditions, there were some areas of growth. These included Excess & Surplus and private company Directors & Officers insurance.

We have also seen premium growth in European construction and European Professional lines. And of course, our insurance segment results do not include the results from our joint venture ItaúXL which we report in earnings from affiliates. XL's share of the joint venture premiums were approximately \$118 million for the full year.

We continue to build our insurance operations' reputation for excellence and customer service, leveraging the skills of our people. For example, we are pleased that a recent survey by Flaspöhler Research Group of approximately 340 U.S. risk managers rated us

## XL CAPITAL LTD GROSS PREMIUMS WRITTEN

| Casualty                        | %  | Life Operations                      | %  | Other | %  |
|---------------------------------|----|--------------------------------------|----|-------|----|
| 07                              | 41 | 07                                   | 8  | 07    | 11 |
| 06                              | 39 | 06                                   | 7  | 06    | 12 |
| Property & Property Catastrophe | %  | Marine, Energy, Aviation & Satellite | %  | SCA   | %  |
| 07                              | 27 | 07                                   | 11 | 07    | 2  |
| 06                              | 27 | 06                                   | 11 | 06    | 4  |

among the very top of commercial insurance providers. This survey's findings have been validated by our insurance customer retention rates, which continue to be very satisfactory.

In 2007, customer retention ratios were in the high 80-to-90 percent range for our Professional and Property and Casualty businesses.

We believe that our insurance business is well on its way to becoming a leading global specialty and large commercial insurer. It already has a highly efficient global distribution network which is rare among its peers and difficult for a new entrant to copy. Additionally, we are committed to strengthening our global insurance platform, particularly in the U.S., as evidenced by many activities during the fourth quarter of 2007, including: the acquisition of leading loss prevention consulting service provider Global Asset Protection Services; and the launch of the XL WorldPass policy, which enables customers to ensure that they are regulatory and tax compliant in all the different countries where XL Insurance companies issue policies for them. Earlier this year, we also opened a new XL Insurance branch office in Singapore to act as the management and underwriting hub for the Asian region.

In our reinsurance segment, market conditions, as indicated by January 1st reinsurance renewals, saw mid to high single digit reductions on a risk-adjusted basis across virtually our entire portfolio. There were some exceptions in our catastrophe book which included programs impacted by either the European windstorm Kyrill or the U.K. floods which had renewal terms reflective of these claims. We remain broadly pleased with our casualty portfolio, which has a very attractive overall return profile.

Our reinsurance business remains among the top 12 in the world in terms of gross written premium. The diversity of the reinsurance products and the strategic geographic locations of our operations provide XL with operating flexibility. Since taking the lead in establishing our European platform in Dublin, XL's European reinsurance operations are viewed as a credible alternative leader to Europe's

much older reinsurers. Our reinsurance operations in emerging markets such as Latin America and Asia are also doing well.

Our life reinsurance business continues to grow steadily. In the U.K., XL Re Life is a leader in the annuity business and is expanding its presence in the critical illness, mortality, and term life business. It is also seeking to expand in Continental Europe. In the U.S., the relatively young operations are seeing an increasing number of submissions and opportunities. However, like all of our businesses, the focus is not on becoming the largest insurer or reinsurer, but on having the strongest analytics, the most disciplined underwriting and providing the best products and services to customers.

While our investment portfolio faced continued pressure due to the credit market situation, our total net investment income was \$2.2 billion for the year. Of this, net investment income from our primary P&C operations, excluding structured products, was \$1.3 billion for the year, representing growth of 18% from 2006. This increase was largely due to higher yields in early 2007.

Net income from investment fund affiliates was \$326 million for the year, driven by an exceptional 17% return for the year in our alternative portfolio. We are pleased with the results, and this portfolio continues to support our efforts to build book value. Net income from investment manager affiliates for the full year was approximately \$95 million.

### Moving Forward

While XL's overall 2007 financial results are not what we hoped for, we are satisfied that we have succeeded in reducing the uncertainty around our exposures in the current credit market and we are moving forward.

We have been talking to you the shareholders, to our customers, to brokers, and to the rating agencies. We realize that in order to regain our ratings, we will be required to show solid consistent earnings and risk management, which we will do by successfully executing our business strategy.

### Chairman's Retirement



Michael Esposito Jr. retired in December 2007 as Chairman of the Board of XL Capital Ltd. He served in that role since 1995 and was a member of the Board for 21 years. Prior to joining XL, Mr. Esposito held leadership positions at the Chase Manhattan Corporation and Chase Manhattan Bank, including Chief Financial Officer and Chief Administrative Officer. Mr. Esposito also served as chairman of several leading financial organizations, including the Bank Administration Institute, the American Bankers Association Chief Financial Officers' Division and the Conference Board's Chief Financial Officers' Group.

Customers and brokers have already shown their support, indicating that the downgrades do not change their desire to do business with XL. They are supportive based on our superior claims-paying performance and reputation, integrity of underwriting behavior, and fundamental capital and balance sheet strength. Also, to date the downgrades have not hurt our ability to attract new customers.

In fact, customers have told us that they are less concerned about the rating changes because they know XL has the best claims-paying record in the industry. They are more focused on XL's culture of excellent claims-paying service and integrity – which I'm sure that my successor will continue to maintain.

#### Succession Planning

The Succession Committee of the Board of Directors expects to choose my replacement by mid spring. I plan to help the next President & CEO with a smooth transition and to, hopefully, take up the role of Chairman of the Board.

As you know, last December Mike Esposito retired from the Board in order to focus on his duties as Chairman of the SCA Board. As usual, Mike was putting the interest of others ahead of his own.

As one who has had the privilege of working with him for the past 20 years, I can state without hesitation that Mike was committed to the success of XL. Throughout his 21 years as a director, including the last 13 years as Chairman, Mike carried out his duties with unparalleled energy and passion. We are grateful for his contributions.

Joining the Board last November was Sir John Vereker, the former Governor and Commander-in-Chief of Bermuda. Sir John has a wealth of experience in international affairs.

In 2007, we also strengthened our executive management team with the appointment of our Chief Financial Officer Brian Nocco. Brian hit the ground running and has been instrumental in our discussions with the rating agencies. Prior to his arrival, Fiona Luck

carried out the duties of CFO in addition to her responsibilities as Chief of Staff. I would like to personally thank Fiona for doing an outstanding job. During her time as interim CFO, Fiona led the successful \$1 billion preferred issue, a \$325 million debt issue, the renewal of our bank credit lines and our D&O renewal.

Earlier this year we announced that Clive Tobin planned to retire on April 1st, 2008 as Chief Executive of Insurance Operations – a position he has successfully occupied since 2004. Clive will concentrate on assisting XL with strategic opportunities in emerging markets. His successor David Duclos will have big shoes to fill, but I have every confidence that he is up for the challenge.

In addition to these management changes, other executive management appointments in 2007 and in the first quarter of 2008 have included Kirstin Romann Gould to General Counsel and Secretary and Celia Brown to Head of Global Human Resources and Corporate Relations. David, Kirstin, and Celia are also members of the Executive Management Board.

XL is fortunate to have so many talented employees who are intensely committed to delivering excellence. This is one of the reasons why I am confident that we will emerge stronger than ever from all the adversity that we faced during the past six months.

We are focused on positive momentum generated by our insurance and reinsurance operations over the last eight quarters. We remain committed to our strategy of disciplined growth and diversification in our insurance and reinsurance businesses and to delivering a healthy ROE in excess of 15% in 2008.

#### Future Outlook

Although credit markets will likely remain challenging for the foreseeable future, we anticipate that opportunities will arise from the credit market turmoil, particularly for our investments team and professional lines business.

“XL is fortunate to have so many talented employees who are intensely committed to delivering excellence. This is one of the reasons why I am confident that we will emerge stronger than ever...”

While we intend to continue our disciplined focus on ROE rather than top line growth and we will not compromise our underwriting standards, we will, however, make the most of our presence in the world’s major markets to target diversified growth, especially in our insurance business, and to seek new business opportunities that deliver value to you our investors.

We will also remain focused on our vision, which was updated in 2007 and inspired the theme of this report. The vision is “to be the leading global provider of intelligent risk solutions delivered with integrity”. It requires us to play to our strengths as technical underwriters and providers of significant capacity, while maintaining high standards of behavior underpinned by our core values of ethics, teamwork, excellence, development and respect.

None of what has transpired during the past year has blurred that vision. In fact, we are more determined than ever to achieve our vision and our strategic objective of growing book value at a faster rate than our peers over the cycle.

We are using XL’s powerful dual platform – insurance and reinsurance – as a competitive advantage. As one of just a handful of companies in the market with the depth and breadth of experience to accomplish it, this has become a key differentiator for us.

We are committed to enforcing strong risk management and a reliable infrastructure. We are making significant progress in both areas.

Our Enterprise Risk Management Committee recorded achievements on several fronts in 2007, including helping XL obtain from S&P an ERM rating at the highest level of “Adequate”. We are also creating a senior management position of Chief Enterprise Risk Officer to help the firm manage risks on an aggregate basis across all of our businesses.

During 2007, we made significant investments in information technology in both our insurance and reinsurance segments, continued to invest in our core businesses through enhancement of various

business processes, and continued to build our support services office in India. Each of these related initiatives requires considerable investment and commitment of resources in an effort to achieve the ultimate goals of increased operational efficiency and effectiveness.

In addition to this, we have made headway on another strategic priority: product development in the insurance segment, our stated area for growth. Over the past year we have not only rolled out new products, we have also enhanced a number of existing products. The decision to create a product development unit is a clear statement of how seriously we take this. I believe we are right on track.

While XL’s current share price is disappointing, as I have stated several times throughout this letter and as you will see throughout this report and in the year ahead, I believe XL’s strength and ability to compete in our chosen markets remains firmly intact, and XL’s core businesses continue to perform well. We have a great strategy, a powerful team, and a solid capital foundation.

I am very much aware that XL’s capital strength would not and could not be fully possible without you – many of you have been with us from the day that XL became a public company. I thank you for your continued belief in XL.




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**Brian M. O’Hara**  
Acting Chairman and President  
and Chief Executive Officer

# A Refined Strategy

Henry C. V. Keeling  
Executive Vice President,  
Chief Operating Officer



As announced during XL's Investor Day in 2007, the overall strategic objective of the XL Capital group of companies is to grow book value per share in the top quartile of our peer group. In order to achieve that objective, we refined our strategy to better leverage the unique dual platform of our insurance and reinsurance businesses, simplified our structure, and focused on strong risk management. While subsequent events surrounding the credit market turmoil and SCA in particular have detracted from our core objective, they have also served only to reinforce the validity of the manner in which we seek to achieve this and we remain determined in this goal.

Over the past 21 years, XL Capital has built a valuable global franchise in the insurance and reinsurance business. This dual platform is unique in our industry and has proved a huge advantage for us. Our sharpened strategic focus allows us to maintain our commitment to this differentiating business model and refine our approach to diversification.

The unique aspect about our dual platform is its size – other companies operate in both fields, but nobody does it on the scale that XL does. XL is a business-to-business entity: The insurance and reinsurance business segments complement each other and provide a knowledge platform that is a huge competitive advantage for us. In other words, our reinsurance business allows us to get a great breadth of perspective across the whole market, while our insurance business drills down by product line and geography, giving us detailed knowledge of what is happening at the grassroots.

We also believe that our dual platform provides us with attractive growth opportunities. Currently, we expect to find these opportunities mostly in insurance where our global footprint gives us world-class access to our customer base and provides barriers to entry for potential competitors. Our reinsurance business is optimally positioned in terms of market scale and we have considerable flexibility to expand and contract, allowing us to optimize returns in all phases of the market. Our life reinsurance segment also offers great potential for growth in a number of areas.

With our focus firmly on insurance and reinsurance, our diversification will come from those businesses by product and by geography. Any diversification outside the core businesses will have to meet high hurdle rates and be connected to them. Our Investment Manager Portfolios and affiliates are examples of 'connected' diversification, as they take insurance and reinsurance assets, leverage them, and support book value growth for those businesses.

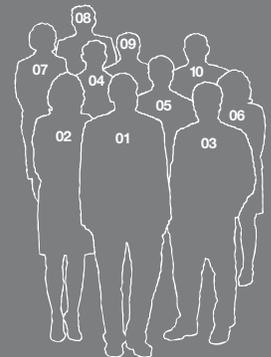
In accordance with our refined strategy, we decided in 2007 to simplify our structure by deconstructing financial lines so that it no longer appears as a reporting segment. This business has generally been very successful, but we found in our review of the segment that some of its businesses were not sufficiently connected to our core insurance and reinsurance strategies and so we are exiting those areas (Political Risk insurance, Muni GICs and funding agreements).

As part of the drive to optimize our business strategy, we have also reduced our investment in SCA. Following a secondary share offering in June 2007, XL lowered its investment in SCA from approximately 63% to approximately 46% and SCA is no longer a consolidated subsidiary of XL.

To summarize, we've sharpened our business focus, making changes to our organizational structure to drive value and strengthen our risk management framework to better embrace volatility but control risk; all designed over time to lead to growth in book value per share at a rate faster than our peers.



## Executive Management Board



**01\_Brian M. O'Hara** Acting Chairman, President and Chief Executive Officer **02\_Fiona E. Luck** Executive Vice President, Chief of Staff and Assistant Secretary  
**03\_Henry C. V. Keeling** Executive Vice President, Chief Operating Officer **04\_David B. Duclos** Executive Vice President, Chief Executive Designate of Insurance Operations **05\_Michael C. Lobdell** Executive Vice President, Chief Executive of Global Business Services **06\_Kirstin Romann Gould** Executive Vice President, General Counsel and Secretary **07\_Sarah E. Street** Executive Vice President, Chief Investment Officer **08\_James H. Veghte** Executive Vice President, Chief Executive of Reinsurance Operations **09\_Clive R. Tobin** Executive Vice President, Chief Executive of Insurance Operations **10\_Brian W. Nocco** Executive Vice President, Chief Financial Officer

Not pictured: **Celia R. Brown** Executive Vice President, Head of Global Human Resources and Corporate Relations (effective January 25, 2008)



## Petronas Towers

Kuala Lumpur, Malaysia

The world's tallest twin buildings were constructed out of high-strength concrete laid on the deepest-ever foundations.



**The Petronas Towers are the world's tallest twin buildings.** The towers were designed by Cesar Pelli, an Argentine-American architect. Due to the enormous cost of importing steel, he adopted a cheaper radical design of super high-strength reinforced concrete for the 88-story towers. High-strength concrete is twice as effective as steel in sway reduction; however, it makes the building twice as heavy as a steel building. Because of the depth of the bedrock, the buildings were built on the world's deepest foundations – 120 meters deep – which required massive amounts of concrete. Supported by 23-by-23 meter concrete cores and an outer ring of widely-spaced super columns, the towers use a sophisticated structural system that accommodates the buildings' slender profile and provides from 1300 to 2000 square meters of column-free office space per floor. The buildings feature a sky bridge between the two towers on the 41st and 42nd floors, which is the highest 2-story sky bridge in the world. The bridge is 170m above the ground and 58m long.

**Insurance Operations:** XL Insurance is the global brand used by XL Capital Ltd's insurance subsidiaries and underwriting divisions that offer property, casualty, professional and specialty insurance products throughout the world. XL Insurance is considered a strategic partner by many of the world's leading industrial and commercial enterprises who rely on XL to help them manage complex risks and achieve their business objectives. Customers have access to a broad portfolio of products which are distributed by licensed insurance agents and brokers that specialize in various product lines. Through a comprehensive network of owned operations and partner relationships, the XL Insurance companies provide both global oversight and local expertise in approximately 100 countries. XL Insurance strives to provide exceptional service to its customers, ranging from risk engineering and global account management, to timely handling of complex claims.

**Clive R. Tobin**

Executive Vice President,  
Chief Executive  
of Insurance Operations

**David B. Duclos**

Executive Vice President,  
Chief Executive Designate  
of Insurance Operations

**Q Clive, looking back at the 12 years you spent in XL Insurance, what do you think are the major milestones for the segment?**

**A CLIVE:** XL Insurance has certainly come a long way in those twelve years. When I started we were a successful but small excess insurer, with 150 employees in Bermuda and Dublin. Now XL Insurance has over 2,000 employees in offices in 25 countries as well as branches in most major U.S. cities. Gross written premiums have grown from \$700 million per year in 1995 to over \$5.4 billion today.

The major changes in our insurance operations started in the late 1990s when we expanded our original product offerings through the acquisition of our Lloyd's and environmental operations and establishment of an aviation unit. This was followed by several acquisitions in the U.S. Clearly the largest change came with the 2001 acquisition of Winterthur International as it changed the dynamics of our operations entirely. We quickly went from being a Bermuda-based insurer to being a global insurer. From that point forward the mindset of the company totally changed to thinking and expanding globally. Today for example, outside of our core markets, we have 250 technical support staff in India, a representative office in China and a joint venture with a leading bank in Brazil.

Over the last five years we have worked hard to integrate our businesses to allow us to deliver more products and solutions for our customers, taking the best from each of the operations and geographies that came together to form XL Insurance. Of course, none of this could have been achieved without the tremendous teamwork and diverse talent we have across the globe. It's been a tremendously demanding and exciting period and I am very proud of the organization we have become.

**“Customer confidence in XL as a long-term partner is paramount so it was particularly gratifying this year to receive the European Commercial Insurer of the Year award from *Strategic Risk* magazine, which is based on a poll of 3,500 risk managers.”**

**Q How did the insurance segment perform in 2007?**

**A CLIVE:** Our full year performance in 2007 was strong and we finished the year with a combined ratio of 91.4%. We delivered a strong ROE and I also think we did a very good job balancing customer needs with our growth objectives, risk management goals and underwriting standards. Nonetheless, it is clear that the softening market cycle is a major factor for the industry and our numbers are starting to reflect its impact. Pricing is clearly down in most lines, with variations by region. Achieving responsible top line growth will require expanding the distribution of existing and new products, such as private company D&O, and more product innovation, which continues to be an important focus for us. In 2007, we launched our WorldPass and EuroPass products to facilitate easier execution of cross border programs for our customers. We also acquired GAPS, a leading risk engineering company. The combination of XL engineers and GAPS engineers into the new XL GAPS means we are even more equipped to meet the extensive engineering needs of customers in developed and emerging markets.

Customer confidence in XL as a long-term partner is paramount so it was particularly gratifying this year to receive the European Commercial Insurer of the Year award from *Strategic Risk* magazine, which is based on a poll of 3,500 risk managers.

**Q Dave, what will your growth strategy be going forward, given the current market cycle?**

**A DAVE:** Clive and I have always been very much in synch on this. We spent a great deal of time in 2007 identifying growth opportunities for XL in the markets in which we want to compete and have identified a number of these to pursue in 2008. Most of these are small enhancements to existing operations. All will leverage skills we have or can readily acquire. The best way to grow in this type of market is to do so carefully and deliberately. We will closely monitor pricing and market conditions over the coming years and will be happy to use either the brake or the accelerator as appropriate.

**Q Clive, you will be undertaking a new role looking at opportunities in emerging markets, primarily in South America and Asia. With the continued opening of the Brazilian reinsurance market what opportunities do you see for XL Insurance? Also, what other markets do you see as potential future opportunities?**

**A CLIVE:** XL is very fortunate to have a partner of the caliber of Banco Itaú, one of the top banks in Brazil. Our partnership is great in that we each bring something to the table that the other does not have and together are able to accomplish more than either could independently. XL's knowledge of and access to the international reinsurance markets will be an asset for ItaúXL as the Brazilian reinsurance market opens up. Our other main emerging market focus at the moment is Asia. We received our license to open a branch office in Singapore in December and are now open for business. We also have staff on the ground in China and Japan. We are actively researching other opportunities in the region and, in fact, that will be a major focus of mine starting in April 2008.

**“We quickly went from being a Bermuda-based insurer to being a global insurer. From that point forward the mindset of the company totally changed to thinking and expanding globally.”**





## Weather Wise

“Our team utilized the best of our strengths and expertise for when and where the customer needed it most. The customer appreciated our flexibility in refining the program as it evolved, which I believe demonstrated our commitment to them.”

– TONY CABOT, XL Insurance

Selling air-conditioners in the midst of sizzling, summer temperatures is almost a breeze. But what happens when cooler-than-average temperatures kick in during summer months?

That’s what an Italian electronic equipment retailer promoting a summer sales program of air conditioners had to consider – so they turned to an XL Insurance team of Jon Cassity in Kansas, Tony Cabot in Italy, and Vivek Kumar in Stamford to structure a risk management solution.

“With unseasonal temperature changes becoming more a reality, we worked with our customer to devise the right insurance program for them. The customer’s bottom

line can be impacted considerably should the affects of a cooler summer actually slow down sales of air conditioning products, so our insurance policy had to address these risks,” says Cassity.

Working with the retailer and its broker, the XL Insurance team pulled together various components to the program, which had to be adaptable for all regions in Italy and provide an independent and externally viewable source of daily weather data. First, the team estimated the retailer’s sales for more than 90 stores during a promotional period. Next, they compared these figures with available weather data. Finally, the XL Insurance team defined



a set of temperatures which would result in a claim paid to the customer and tie in to the retailer's promotional materials.

Other XL Insurance team members, Piera Montanari and Michael Mulligan, also assisted in drafting the policy in Italian and English to reflect the various components of the program, as well as the local legal and compliance issues.

"Our team utilized the best of our strengths and expertise for when and where the customer needed it most," says Cabot. "The customer appreciated our flexibility in refining the program as it evolved, which I believe demonstrated our commitment to them."

#### Q How does GAPS fit into your market strategy?

**A DAVE:** XL Insurance already had a very strong engineering group in our Property unit. A very important part of what we offer our property customers is engineering services geared toward loss prevention. By acquiring GAPS and merging our engineering staff into theirs we were able to immediately provide our customers with access to outstanding engineering services around the world. We're not a capacity player and customer service is important to us so this was an easy choice. GAPS had a great reputation in the market, was well known to our staff and was an operation that complemented ours very well from a geographical perspective. And, importantly, we have set this up as a distinct operation that will continue to provide quality services to all its customers. XL is one of those customers but independent nonetheless. GAPS customers can rest assured that GAPS' historically high level of service will continue and that all customer information will remain confidential.

#### Q Dave, XL Insurance also announced some new products recently. Can you elaborate on this?

**A DAVE:** Yes. Most recently we introduced two products designed to help our global risk customers, EuroPass and WorldPass. Both are designed to deal with the complexity of operating in multiple regulated markets. But more importantly, we think that product development is a key part of our responsibility to our customer base and needs to be a part of our everyday activities. Over the last year or two we've launched a number of other products ranging from E&S to product recall to A-side D&O insurance, but more importantly, we have recently strengthened our product management function so we can improve our offerings even more in the future.

#### Q What do you see ahead as you take the helm in 2008?

**A DAVE:** I wish I could say that there was nothing but clear sailing ahead, but the insurance market is in one of its periodic soft cycles and that makes everything a little more of a challenge. However, our core businesses are performing well and I am very fortunate that Clive has done such a great job in building the team that we have in the insurance segment. I am inheriting a strong organization with the right values, priorities and capabilities and I expect that to be borne out in our performance.

Despite market conditions, we are also looking ahead and investing in our future. We have started a long-term project to renew and strengthen our infrastructure. We have made a few organizational changes recently that will improve the effectiveness of our operations in the long-term and which, coupled with growth initiatives we have identified, will help us expand when and where we can do so responsibly. Despite the expected market challenges in the short-term, I am very bullish about the prospects for XL Insurance and am extremely excited to have this opportunity to lead the operation.



This page: David B. Duclos, Executive Vice President, Chief Executive Designate of Insurance Operations

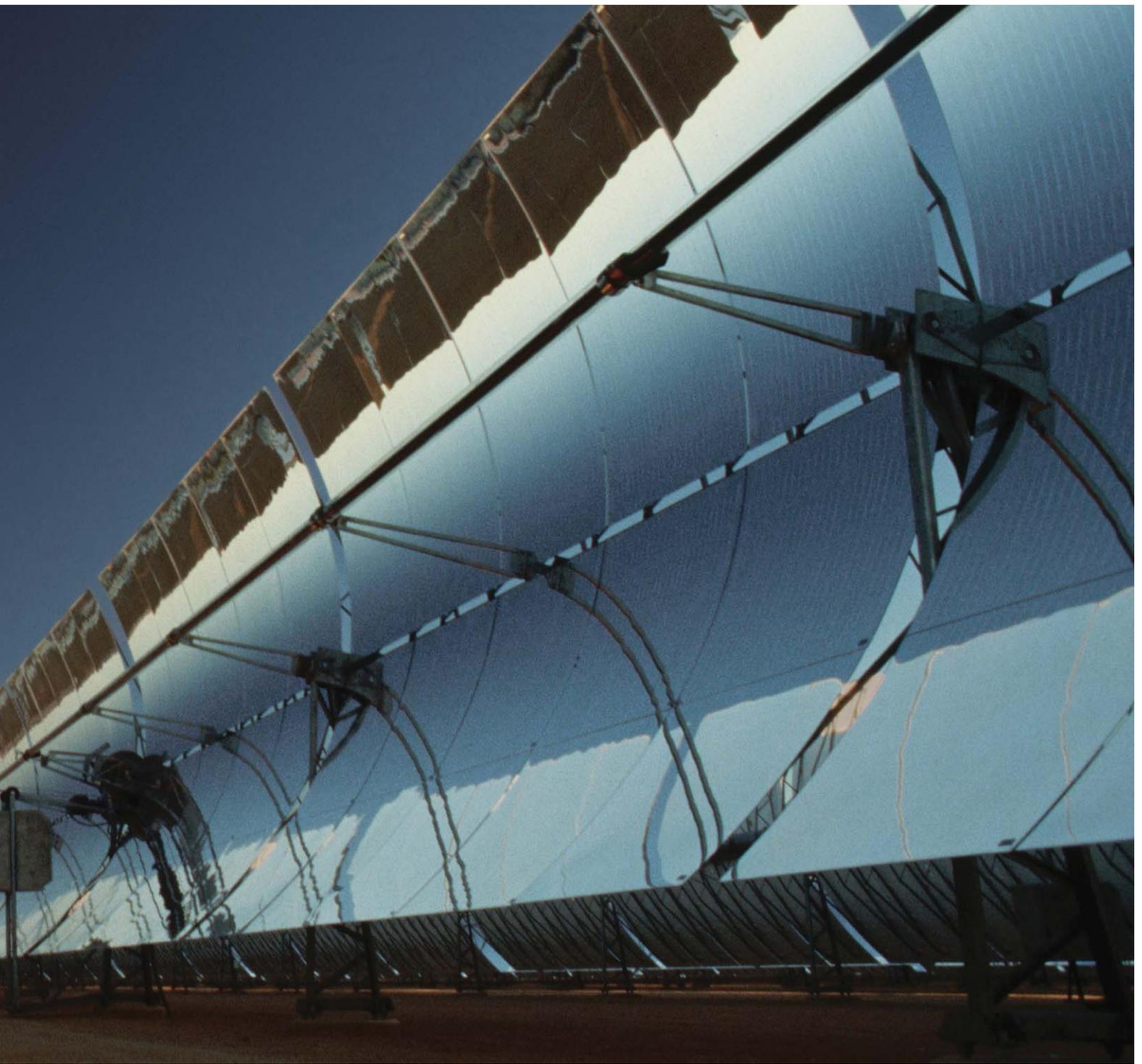
Opposite page\_left to right from XL Insurance: Tony Cabot, Country Manager Italy; Vivek Kumar, Managing Director; Jon Cassity, Vice President



## Kramer Junction Facility

Mojave Desert, California

Kramer Junction is the largest solar power facility in the world.



The Kramer Junction Solar Electric Generating Station, located in California's Mojave Desert, has been in operation since 1986. This 150 megawatt solar power plant produces electricity for the Southern California Edison power grid, supplying power to some 150,000 Los Angeles-area homes. The Kramer Junction plant consists of an array of parabolic mirrors which focus the sun's energy on a narrow tube containing a synthetic oil. The oil is heated and then flows into the power generating station where it heats water to boiling point so that the resulting steam can drive huge turbines. Kramer Junction is one of several plants in the Mojave Desert which produce a total of 354 megawatts of power. According to the U.S. Department of Energy, parabolic solar thermal electric power plant technology represents one of the major renewable energy success stories of the last two decades. Parabolic troughs are one of the least expensive electric power options available today.

**Reinsurance Operations:** Among the 12 largest reinsurers worldwide, the XL Re companies have the fundamental strength, underwriting experience and broad range of products to meet the needs of each individual insurer. The XL Re companies – comprised of XL Reinsurance America Inc., XL Re Ltd, XL Re Europe Limited and XL Re Latin America Ltd – work towards the same goals and share a common culture of underwriting excellence and customer service. Collectively, our vision is to assure XL's position amongst the world's top reinsurers, to be the 'reinsurer of choice' in selected markets and to, over time, provide shareholders with superior returns. The XL Re companies strive to deliver the highest quality products and services, irrespective of market conditions. While XL Re operations are geographically-focused and located in 11 countries, they are unified by a shared leadership team. In addition, the XL Re companies offer a consistent underwriting approach and risk appetite, coupled with knowledgeable and transparent underwriting decisions. Speed, agility, high quality service and reputation set us apart from other reinsurers. Our broad range of product lines includes casualty, property, life, marine & aerospace, specialty reinsurance and structured reinsurance. Our core competencies are based on offering value through a persistent focus on customer support and underwriting excellence, and providing a consistent approach across the XL Re companies.

**James H. Veghte**  
Executive Vice President,  
Chief Executive  
of Reinsurance Operations

**Q How did the reinsurance segment perform in 2007?**

**A JAMIE:** From a financial perspective, 2007 was an excellent year by all commonly accepted metrics. For the second consecutive year, XL Re achieved a truly outstanding combined loss and expense ratio considering our size, geographic scope and product diversity. This year we had a combined ratio of 83.9% which produced a GAAP underwriting profit of \$371 million. The segment produced a Return on Equity exceeding 20% with all profit centers producing acceptable returns. While the results were certainly enhanced by another year of reasonably benign natural catastrophe activity, it is important to note that premiums from Direct Property Catastrophe business represent only 11.5% of our global portfolio. In other words, our strategy of product and geographic diversification produced truly outstanding returns for XL in 2007.

**“...our strategy of product and geographic diversification produced truly outstanding returns for XL in 2007.”**

From an operational perspective, 2007 also was a rewarding year. The reinsurance segment made significant progress in each of our targeted areas of strategic focus including, risk management, cycle management, infrastructure and human resource development. Of particular note was the migration of XL Re Latin America to the Destiny transactional system, the continued development of XLeRate, our web-based pricing system, and the development of a “real time” portfolio tool that measures the incremental impact of new business on the Property catastrophe business. Most importantly, the reinsurance segment remains dedicated to the development of our people through a robust talent review and succession planning program.

**Q How has the competitive arena changed in the last year?**

**A JAMIE:** There were several significant themes that emerged in 2007. First, as we had anticipated, the reinsurance market showed a marked increase in capacity during 2006 and 2007. This has naturally put competitive pressure across virtually all classes in our portfolio. Of particular interest in 2007 was the significant increase in activity in insurance linked securities. The catastrophe bond market expanded dramatically in 2007 with just under \$14 billion of principal outstanding at the end of the year, an increase of over 60% from year end 2006. This included over \$7 billion of new issuances during the year. While the traditional market still accounts for the vast majority of capacity placed in the catastrophe market, this source of capacity will inevitably impact pricing.

In addition, we continue to see our customers increase their retentions and cede less business to the reinsurance market. It is estimated that natural catastrophe activity globally generated insured losses of \$25 to \$30 billion in 2007, yet the reinsurance market was not significantly impacted as many medium-size losses were largely absorbed net by the insurance industry. While increased retention is ultimately a healthy dynamic for the market as it promotes pricing discipline, growth opportunities for the reinsurance market have been limited.

Finally, we have observed mid to high single digit price reductions across virtually all lines in our portfolio. We still believe the vast majority of our business is attractively priced, but the trend is something we are very focused on. XL Re has a well deserved reputation for underwriting excellence. We will continue to emphasize underwriting discipline, continuous improvement in our analytical skills and prompt and consistent service to our customers and brokers through this market cycle.

**“We will continue to emphasize underwriting discipline, continuous improvement in our analytical skills and prompt and consistent service to our customers and brokers through this market cycle.”**

**Q Given XL's strategy to responsibly grow the insurance segment, what is the reinsurance segment's strategy?**

**A JAMIE:** The reinsurance segment will follow the same strategy that has been its foundation for fourteen years. We view ourselves as a “bellows” that will expand and contract as market conditions warrant. We focus on underwriting discipline, service standards and





## Sidecar Solution

“The successful funding of Cyrus Re II during the credit market crisis is a testament to the vigor of XL Re’s underwriting and analytics and to the strength of its global franchise – making them the ideal partner for us.”

– MATTHEW BOTEIN, *Highfields*

Highfields Capital Management LP, a global investment management firm, knew the benefits of sidecars which surged in popularity with investors and reinsurers following the 2004 and 2005 hurricane seasons. For Highfields, it was a matter of structuring a transaction which reflected the shifting conditions in the financial and reinsurance markets and doing this with the right partner.

“The reinsurance market has been offering innovative solutions, such as sidecars, to investors for almost a decade,” says Matthew Botein, Managing Director at Highfields. “Following the success of XL Re’s initial side-

car, Cyrus Re, we were ready to explore another partnership beneficial to both sides.”

Highfields wanted an attractive rate of return and a diversifying investment for its portfolio while XL Re wanted to continue to access catastrophe protection in peak exposure zones. The challenge? In a softening insurance industry with volatile financial markets, many investors were nervous about committing to a new sidecar.

XL Re and Highfields structured a solution that allowed investors to realize Cyrus Re profits and fund the new equity stake in Cyrus Re II.

**“We have the finest staff in the reinsurance industry and I remain confident we will outperform the market across the underwriting cycle.”**

continuous improvement in our analytical skills. While we certainly like and expect to see growth over the long-term, current market conditions mandate extraordinary care in our underwriting decisions and top line growth is simply not a primary objective. We will continue to service our business and improve our processes during this period. Our objective is to provide superior underwriting returns throughout the course of the underwriting cycle. Our staff is motivated and compensated to fulfill this critical objective. While the growth within XL is currently focused on the insurance segment, the reinsurance team has a well developed strategy that will be core to the overall success of the group during this phase of the cycle.

**Q What growth opportunities, if any, does XL Re see in Brazil?**

**A JAMIE:** The new Brazilian reinsurance regulations, which become effective on April 17, 2008, mark the end of a 60 year reinsurance monopoly in Brazil. Through 2007 we have closely monitored developments, provided comments on the initial draft regulations, assessed likely market developments and carefully evaluated the strategic options for XL Re. We have also had a representative office in the country for many years. The opening of the market will undoubtedly provide us with significant opportunities based on our very strong relationships in the region and the quality of our management team. We are in the process of evaluating the various strategic options we have to enter the market and are excited about our future prospects.

**Q What are your expectations for 2008?**

**A JAMIE:** The industry has been highly profitable for the last two years and has an enormously strong balance sheet going into 2008. This would indicate we are headed into a period of increased competition. While historical behavior in our business would clearly suggest this is the case, I am encouraged by several factors. First, the competitive playing field for long-tail business is narrower than in past soft markets. Customers are very much security focused and this keeps the playing field narrow in these lines. Second, the transparency of the underwriting information we receive and the quality of the analytical tools available today should allow us to understand much more clearly where we are in the market cycle and react accordingly. Finally, we are still in a period of relatively low interest rates where underwriting profits are critical for the industry. All of these factors should keep soft market conditions from being as steep and prolonged as we have seen in previous cycles.

Most importantly, I am confident in the staff and strategy of XL Re as we enter 2008. We have developed a culture that stresses underwriting discipline and continuous improvement of our analytical capabilities. We have the finest staff in the reinsurance industry and I remain confident we will outperform the market across the underwriting cycle.



Opposite page\_left to right: Matthew Botein, Managing Director, Highfields Capital Management LP; From XL Re Bermuda: Greg Hendrick, President; Laurie Orchard, Assistant Vice President, Operations

**Life Operations:** Established in 1999, the life operations segment provides reinsurance to life insurance companies under the “XL Re” brand, principally covering mortality, morbidity, survivorship and investment risks. The life operations segment has accumulated over \$6 billion of assets and has developed into a global team of approximately 80 people based in London, Stamford, Paris, Bermuda and Le Mans.

**Robert W. Douglas**

Executive Vice President,  
Chief Executive  
of Life Operations

“Overall in 2007, we achieved our aims of organically growing life operations in a controlled and profitable manner.”

**Q Can you give an overview of life operations in 2007?**

**A BOB:** The emphasis for life operations in 2007 was to continue the measured expansion within our core life reinsurance markets of the U.K., Continental Europe and the U.S. We saw further growth in the U.K., focused on traditional life and critical illness products, and in Continental Europe, where we were active in key long-term care markets as well as in our core short-term life, accident and health business. At the same time, our Stamford-based operation established itself in the U.S. term life market, following its launch in 2006, steadily building the team and its portfolio of customers. We were also able to supplement the range of corporate entities available to support our European customers during the past year, following establishment of the Irish-based XL Re Europe Limited in 2006. Overall in 2007, we achieved our aims of organically growing life operations in a controlled and profitable manner.

**Q How has the competitive arena changed this past year?**

**A BOB:** The competitive landscape has again been challenging and has illustrated life operations' commitment to underwriting discipline and XL's willingness to turn down insufficiently profitable business. We have seen softening markets for the short-term lines, together with examples of companies setting up new operations and aggressively chasing premium volume in targeted territories. In the U.K., more competitive attitudes have returned to the annuity and critical illness markets in particular, leading to very significant volumes of new business acquisition for certain competitors, along with softening pricing. While there has been a steady flow of new business opportunities in the U.S., most quotes have attracted a wide range of reinsurers. This has led to pressure on the size of the share achievable on any given reinsurance program and has lengthened the lead time from quote to treaty implementation. Despite the pressures across all of these markets, good prospects continue to be presented, with customer companies keen to manage their risk profiles through reinsurance structures.

**Q What are your expectations for 2008?**

**A BOB:** Life offices will continue to look to de-risk their businesses, driven on by evolving enterprise risk management practices and regulatory initiatives. While this will present opportunities for reinsurers, competition will remain stern, despite the potential for some new entrants to fall by the wayside due to lack of executed deals. Premium rates may face further pressure, but there will continue to be profitable reinsurance business for those prepared to maintain underwriting discipline and provide high standards of service. In this context, life operations will continue with its existing business model of further organic growth, building on the established foundations in our core markets and working with life offices to offer intelligent risk solutions tailored to their needs.



## Life's Opportunity

“This is a good example of lateral thinking on the part of both the customer and ourselves, rather than being constrained to the traditional risk factors for the business.”

– BOB DOUGLAS, *Life Operations*

Over the years, life reinsurers have loaded treaties with protective clauses. The intention is sound risk management but, in effect, policies are medically underwritten for a second time. Apart from the obvious inefficiencies, customers have concerns about certainty of the cover they bought.

Aware of these concerns, XL Re Life saw an opportunity to provide greater contract certainty and streamline the underwriting process.

In early 2007, XL Re Life's chance came in a tender involving all reinsurers active in the U.K. The prospective customer had built a market leading audit process for its medical underwriting. It was justifiably proud of its achievement but it

saw little value in sharing the detailed outcome with reinsurers. It argued, “What's the point if the business is re-underwritten anyway!”

During the tender XL Re Life convinced the prospective customer that, if XL Re Life's underwriting team could test and evaluate their process, XL Re Life may take a more progressive approach. The life office accepted the challenge.

“We were impressed with the customer's control processes and as part of the bid we proposed a progressive operational risk approach built upon, and integrated into, their audit process. This was decisive in the tender and resulted in a significant new relationship for us.”





## Falkirk Boat Lift

Falkirk, Scotland

The Falkirk Wheel is the world's first and only rotating boat lift.



The only rotating boat lift in the world, the Falkirk Wheel is an ingenious engineering solution to a challenging problem. A millennium project to regenerate the canals of central Scotland required reconnecting the Forth and Clyde Canal with the Union Canal. Until the 1930s they were connected by a series of 11 locks, but these had been filled in and built over. With a 24 meter difference in depth, the problem of moving boats from one canal to another was substantial. The Falkirk Wheel provided the answer. Boats approaching from the higher Union Canal enter a concrete aqueduct which opens directly into the upper of the two "gondolas" of the Wheel. It then rotates 180° and having descended, what is now the lower gondola opens out into a circular basin. A final lock lowers boats to the level of the Forth and Clyde Canal. The boat lift is 115ft (35m) high, the height of eight double-decker buses stacked upon the other. Each gondola contains 300 tons of water. Since boats displace their own weight in water, the gondolas are always in balance, so moving them takes surprisingly little power despite the wheel's enormous mass.

**Investments Operations:** XL Capital Ltd's investment operations provide investment advisory services and advice to the XL Capital Ltd group of companies and is divided into two main functional areas: XL Investment Management Ltd and XL Capital Investment Partners Inc. Together, they are responsible for managing XL Capital Ltd's investment portfolio and selecting and managing external investment professionals under the direction of the investment operations. Their aim is to generate strong risk-adjusted performance, pursue strategic investments with top quality asset management organizations, support the liabilities arising from the operations of the XL Capital group of companies, generate stable investment income and build book value over the longer term. XL Capital Ltd's overall investment portfolio is structured to accommodate a number of variables including local regulatory requirements, business needs, collateral management and risk tolerance.

**Sarah E. Street**

Executive Vice President,  
Chief Investment Officer

**Q How did XL's investment portfolio perform in 2007?**

**A SARAH:** The year 2007 was an extremely challenging one for the financial markets, particularly in fixed income, where the impact of mortgage credit problems were most widely felt. With the majority of our \$44 billion investment portfolio invested in fixed income, we were not completely sheltered from the storm that hit this area of the markets. We suffered losses on a portion of our lower-rated sub prime and related assets. Most of these losses were attributable to our Muni GIC and funding agreement businesses, where the assets have always been invested predominantly in spread investment products. However, the level of losses sustained were very manageable in the context of XL's overall balance sheet, which remains strong and conservatively managed. The impact of mortgage and credit spread widening was offset to a degree by declining government interest rates in the latter part of 2007. We also benefited from our decision to lengthen our core portfolio duration in the first quarter of 2007. Our fixed income holdings maintain a weighted average rating of AA, are diversified across the U.S. dollar, sterling and Euro fixed income markets and have the appropriate liquidity to support our core insurance and reinsurance businesses.

Our risk asset portfolio performed satisfactorily during the year, generating an 11.9% return. Within the risk asset portfolio, we are especially pleased with the exceptional performance of our alternative portfolio, which generated performance of 17%. This result compares favorably to most leading indices.

**Q How has the investment team responded to the credit market?**

**A SARAH:** The year 2007 was a particularly active year for the investment team. As the market turmoil unfolded, we performed detailed analytics and initiated a series of targeted research projects to quantify the potential impact of the spreading contagion in mortgage credit on the securities within XL's portfolio. Given the extraordinary developments that were taking place in the markets, we adapted our analytical efforts to remain responsive. Further, we were able to expand the resources available to XL through close contact with our external investment managers to develop comprehensive opinions on market developments and execute appropriate portfolio responses.

**“Our absolute performance has been strong: we outperformed a peer group of premier institutional funds of funds as well as our internal benchmark over the past five years.”**



**Q What drives the size and composition of the Risk Asset Portfolio?**

**A SARAH:** Our Risk Asset Portfolio activities, which are focused on generating total return performance, have been an important source of book value growth for the Company. We size our risk assets, which for XL include equities, alternatives, high yield and private investments, to be no greater than 50% of shareholders’ equity. Actual levels of investment at any time reflect our views on whether asset prices and return potential are adequately compensating us for the risk within the portfolio. We remained under invested in risk assets during 2007, based on our opinion that risk premiums were too low for most of the year.

We have a disciplined approach for risk asset allocation that is focused on maximizing the return for a given level of risk. We establish and agree upon a risk budget, reflecting the losses that we are willing to take in both normal and stressed markets. This budget is then allocated among the four asset classes outlined above, with the goal of maximizing the aggregate return. Our model is dynamic: as asset risks change, so may our allocation, in order to maintain the risk exposure within our pre-established risk budgets.

This framework has helped ensure that the risk portfolio has been a large contributor to XL’s long-term book value growth. Over the past five years, the risk portfolio has generated over \$1.4 billion of incremental book value above what would have been generated if the assets had remained invested in our fixed income portfolio.

Risk premiums have been driven higher across most asset classes by the recent turmoil in the structured credit markets. We have been under invested in risk assets and therefore have the ability to take advantage of attractive opportunities as we see them in 2008. However, our stance in the early part of 2008 remains cautious, as it is possible that the fallout from the market turmoil may continue.

**Q XL continues to be an active investor in the alternative asset classes. What drives this?**

**A SARAH:** XL was an early adopter of alternatives, as we have firmly believed that alternative strategies can generate superior risk-adjusted returns for our shareholders. XL’s performance in alternatives over the past ten years strongly validates our convictions. We construct this portfolio to be highly diversified – both by strategy and by manager. This diversification, along with our robust due diligence and disciplined risk management, significantly reduces our risk of loss in this portfolio.

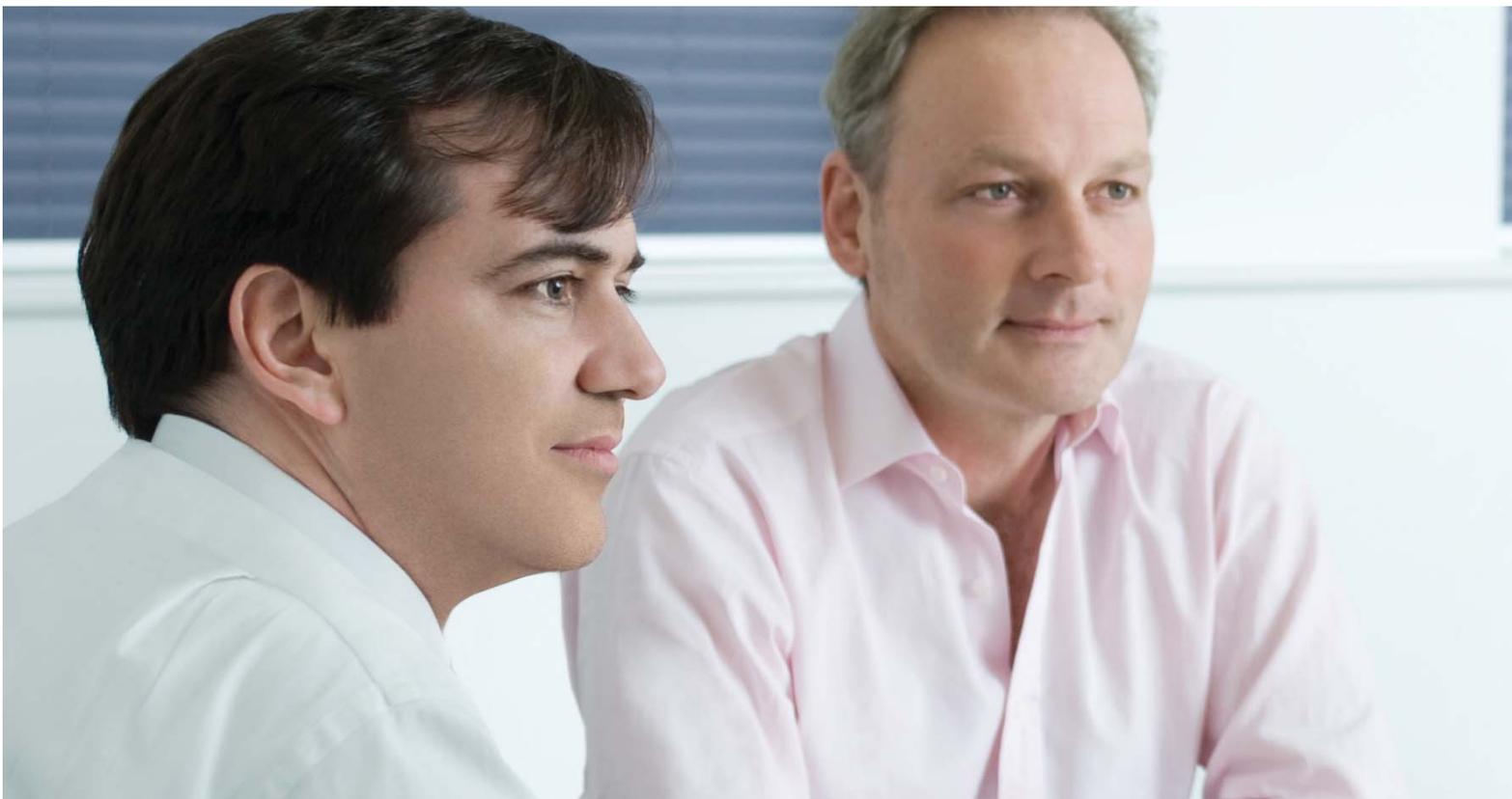
Our absolute performance has been strong: we outperformed a peer group of premier institutional funds of funds as well as our internal benchmark over the past five years. The portfolio generated an annualized rate of return of 10.4%, which while lagging most equity markets over this period, was achieved at a considerably lower risk. For example, the alternative portfolio suffered one quarterly loss of -0.7%, whereas the S&P 500 suffered five quarterly drawdowns averaging -2.4%. The superior risk adjusted returns of the alternative portfolio are best demonstrated by the portfolio’s Sharpe ratio of 2.4, which was more than twice the ratio for the S&P 500 over this period.

“We strongly believe that out of market turmoil comes opportunity...Turmoil can create opportunities for sophisticated investors...”

**Q What are the investment group’s key priorities for 2008?**

**A SARAH:** We have a number of key priorities for 2008. We strongly believe that out of market turmoil comes opportunity. We are therefore focused on identifying sectors and securities where risk is genuinely mispriced as a result of the dislocations in the markets. Turmoil can create opportunities for sophisticated investors who can identify good value in assets and benefit from the stress of others.

We have also initiated a major project to enhance our overall portfolio analytics and risk management capabilities. As XL’s portfolio continues to grow and as the capital markets become more complex, it is critical that we continue to expand our analytics and risk management capabilities with more robust systems and higher levels of granularity in our data.



## Polar Capital Partnership

“Starting in 2004, Polar Capital began quietly to explore a variety of alternatives to help it provide seed capital for its start up funds. We were very fortunate to be introduced to XL Capital Investment Partners and soon decided that their considerable industry experience, their long-term investment horizons and the personal chemistry with their management team were the critical ingredients we were looking for to bring an equity partner into our business. Our formal relationship is only just over a year old, but our experience thus far has been a very positive one.”

– MARK KARY, *Polar Capital Partners*

**“The investment manager business is an integral part of our investment operations, where we seek to deploy our investable assets intelligently to help our partners grow their businesses and drive book value accretion for XL.”**

**Q Can you explain how XL’s investment manager program fits into XL’s new refined strategy?**

**A SARAH:** XL has been active in making minority equity investments in specialist asset management firms for more than a decade. Over the years, this strategy has contributed substantially to book value growth—both through profits from ongoing operations of our investment manager affiliates and through sale events. The investment manager business is an integral part of our investment operations, where we seek to deploy our investable assets intelligently to help our partners grow their businesses and drive book value accretion for XL. In addition, XL benefits considerably from our affiliations with these companies by leveraging the intellectual capital within these businesses.



In August 2004 when XL Capital Investment Partners (XLCIP) first met the senior management team at London-based investment manager Polar Capital, the firm had launched nine investment products across five investment teams and had \$2.2 billion in customer assets under management. Polar, which provides an entrepreneurial environment for portfolio managers and centralized marketing, administrative and operational support for its investment teams, had ambitions to expand

its franchise, with a particular focus on expanding its offerings of alternative investment products. Polar’s founders also planned, at some point, to list as a public company, to enhance its franchise and strengthen the business model.

XL acquired a minority equity stake in Polar in late 2006. In addition to providing working capital to the company, XL’s investment included a multi-year commitment of seed capital for new Polar fund launches. Having secured launch capital for its

strategic growth plans from XL, Polar successfully listed on London’s AIM stock market in early 2007.

Today, Polar offers 17 investment products across nine investment teams and has over \$3.5 billion in customer assets under management. The XLCIP team has an active dialogue with Polar Capital’s management team and investment professionals, contributing ideas and opinions to assist Polar in managing the risks to its business and achieving its strategic goals.



## Itaipu Dam

Brazil/Paraguay Border

To construct the Itaipu Dam, workers had to divert the course of the seventh largest river in the world.



The Itaipu Dam is the world's largest hydroelectric power plant, and one of the Seven Wonders of the Modern World, according to a worldwide survey conducted by the American Society of Civil Engineers. Built from 1975 to 1991 on the Parana River at the Brazil/Paraguay border, the hollow concrete gravity dam is a joint effort by the two countries' governments. The 4.8 mile complex has 18 generators, took 16 years to complete, and cost \$18 billion to build. In order to build the dam, engineers had to shift the course of the river, which is the seventh largest in the world, around the construction site. It took almost three years for workers to carve the 1.3 mile long, 300 foot deep, 490 foot wide diversion channel, and fifty million tons of earth and rock were removed in the process. The true marvel of Itaipu, however, is its powerhouse, a single building with a total production capacity of 12,600 megawatts and a reliable output of 75 million megawatt hours a year. That is enough to provide 25% of Brazil's power supply and 78% of Paraguay's supply.

**Corporate Operations:** The XL Capital group's corporate functions comprise a network of people who are responsible for finance, legal, real estate, human resources, marketing and communication strategies, as well as the development of XL's culture and corporate social responsibility programs. These critical functions enable the XL Capital group to efficiently deliver high quality local services globally, to provide innovative products and solutions to its customers while delivering value to its shareholders. The overall aim is to make the most of the XL Capital group's fundamental strengths – capital and people – and to best leverage its global and diversified platform. In addition to the critical business platforms that it has created, the XL Capital group has also worked hard to encourage an ethical, responsive and innovative culture – all critical components of the organization's fundamental strength. Furthermore, the XL Capital group's core values – ethics, teamwork, excellence, development and respect – ensure that employees and the XL Capital group are held to the highest standards.

**Brian W. Nocco**

Executive Vice President,  
Chief Financial Officer

**Henry C. V. Keeling**

Executive Vice President,  
Chief Operating Officer

**Fiona E. Luck**

Executive Vice President,  
Chief of Staff and  
Assistant Secretary

**Michael "Spike" Lobdell**

Executive Vice President,  
Chief Executive of  
Global Business Services

**Q XL had a significant amount of capital management activity this year involving preference shares, debt, Equity Security Units and the share buy back program; has XL achieved its 2007 capital management objectives?**

**A BRIAN:** During 2007, we undertook a number of activities which improved the efficiency of our capital structure. The end result is that we have a more appropriate capital structure to support our business franchise, absorb potential contingencies and maintain our financial strength.

**Q How has XL's relationship with the rating agencies evolved over the past year?**

**A BRIAN:** We have always enjoyed regular contact and open communication with our rating agencies. In particular, beginning in the second half of 2007, we have provided frequent updates on our exposures to developments in the credit markets as well as our core insurance operations. Our goal is to provide as much transparency on our business as possible.

**Q Given the need for more information in today's environment, what has XL done to meet the need?**

**A HENRY:** One of the best examples of this was the launch of our Global Loss Triangles (GLTs) in June 2007, in response to an increased demand by analysts to better understand the nature of our business and risk. GLTs are essentially a compilation of loss

**“Our goal is to provide as much transparency on our business as possible.”**

information from business that XL's insurance and reinsurance companies have underwritten over the years. They are used as a guide as to how losses may arise in the future. GLTs are considered an important tool by analysts because they ultimately enhance transparency and disclosure around our loss reserves. In addition to the actual GLTs, we compiled an extensive document that provides descriptions of each of the classes of business, details of the way that business has changed over time, and key considerations to keep in mind when analyzing the information.

**Q In the Spring of 2007, XL announced that it would seek growth opportunities in the U.S. What opportunities, if any, is XL pursuing in Europe and the emerging markets?**

**A HENRY:** We are certainly pursuing growth wherever there are attractive opportunities, but not in pursuit of market-share or at the expense of our underwriting discipline.

In Europe, we continue to build-out our businesses based on our reputation and established customer relationships. We expect to see greater European distribution of Specialty products – Professional Lines, Environmental, Construction – that are well established in the U.S. And our strengths in Europe have been recognized already – XL Insurance was named ‘2007 European Business Insurer of the Year’ by *Strategic Risk* magazine, which polled more than 3,500 risk managers in some of Europe's largest companies.

We are also taking advantage of growing opportunities in Asia. We recently opened a branch office for our insurance operations in Singapore, where we are initially focusing on four business lines: Professional, Fine Art and Specie, Property, and Casualty. The Singapore branch office is also the management and underwriting hub for Asia, which includes the XL Insurance Hong Kong branch and Tokyo representative office, as well as XL Capital's Beijing representative office.

**Q Given several executive retirements announced in 2007, how has XL's succession planning process responded?**

**A FIONA:** A critical element of talent management at XL is succession planning. Through a comprehensive process, we continually review all key positions to assess bench strength and succession gaps. We identify individuals who are candidates for promotion and focus on their development to ensure readiness. With each actual retirement, we evaluate the slate of potential internal candidates and we consider whether external hiring is warranted. Through this process we have seen the advancement of many internal leaders and we have enhanced our capabilities by bringing in external talent with fresh perspectives.

**“We are...pursuing growth wherever there are attractive opportunities, but not in pursuit of market-share or at the expense of our underwriting discipline.”**

**Q How has XL's infrastructure responded to the increased need for flexibility to support the business?**

**A SPIKE:** Historically, XL Capital has had dramatic growth organically and through acquisition. Consequently, we continue to place a strategic premium on operational flexibility and our



This page\_left to right: Michael “Spike” Lobdell, Executive Vice President, Chief Executive of Global Business Services; Henry C. V. Keeling, Executive Vice President, Chief Operating Officer



## Pioneering Policy

“We work hard to ensure that our global customers’ unique needs are met at a level which goes beyond selling a basic policy.”

– HANS MAZENAUER, *XL Insurance*

Today’s multinational companies face complex challenges as they seek growth opportunities in new and emerging markets. More than ever, they are looking for integrated and consistent global risk management solutions, while also respecting local market practices and regulations, and paying taxes when and where they are due.

“Fortune 500 companies all over the world look to XL Insurance companies to address the dynamics of these varying issues, and XL WorldPass helps them to achieve those requirements,” says Hans Mazenauer.

Launched by XL Insurance in October 2007 at the Federation of European Risk Management Associations’ conference, the XL WorldPass solution gives customers more than a standard policy. XL Insurance has leveraged its global reach – a network of subsidiaries and fronting partner companies in over 100 countries – to develop the XL WorldPass product. In conjunction with a single integrated global IT platform, the XL WorldPass suite of solutions allows underwriters to issue local policies, service customers, and access and implement detailed tax and licensing/ regulatory information for over 155 countries. This allows an innovative coverage – known as “financial interest insurance” – which ensures compliance with all applicable licensing and tax regulation for companies in countries where providing direct licensed or unlicensed cover may be either illegal or impractical.

“We work hard to ensure that our global customers’ unique needs are met at a level which goes beyond selling a basic policy,” Mazenauer says. “Our customers appreciate that we understand and respond to their needs while remaining focused on one of their top priorities – compliance. It is imperative for them that they understand and act in accordance with local regulations wherever they operate in the world.”

**“... we have seen the advancement of many internal leaders and we have enhanced our capabilities by bringing in external talent with fresh perspectives.”**

key infrastructure projects and initiatives reflect this drive for flexibility. Flexibility provided by standardization, business alignment and improved services.

The development of five new Operating Principles will guide XL's operational/ infrastructure initiatives firm-wide by better aligning our infrastructure strategy to the corporate strategy.

As an example, they provide a framework for the following key infrastructure initiatives:

- XL Insurance is committed to a major strategic and long-term infrastructure effort to enhance our operating platform to enable growth in key market areas
- In partnership with Microsoft, we are working to provide all XL employees with standard, secure, supportable desktops, which will reduce costs, modernize our software and improve services
- Consolidating our data centers from 13 down to two to improve reliability and disaster recovery, while reducing costs
- XL Re is in its fourth year of migrating from 11 different technological platforms, where 80% of functionality was repeated, towards a single, reliable reinsurance platform for its Property and Casualty business

XL's management is committed to improving our operational processes.

**Q What are the key initiatives contributing to XL's long-term strategic plan to increase Operational Efficiency?**

**A SPIKE:** Operational efficiency has become an essential component for competing in today's challenging marketplace and it is the major focus of many key initiatives for XL Capital.

One of the most successful of these initiatives for XL continues to be Operations Center India (OCI), the project that led to the expansion and redesign of our existing XL India office, the fastest growing XL office. The benefits of the India office enable us to provide top quality business support services around the clock, cost effectively. In terms of total program savings by the end of this year, the India office will have achieved savings for XL of more than \$23.5 million. Annual run rate savings for 2009 onwards are expected to be close to \$30 million.

The India office has without doubt proven to be essential to our global strategy and we want to leverage this success. In 2008, we are embarking on the second major phase of the OCI project, which is designed to expand OCI involvement to all aspects of XL's operations with particular focus in the U.S., in alignment with XL's insurance strategy for growth in the region.

**“...we continue to place a strategic premium on operational flexibility and our key infrastructure projects and initiatives reflect this drive for flexibility.”**



This page\_left to right\_Brian W. Nocco, Executive Vice President, Chief Financial Officer; Fiona E. Luck, Executive Vice President, Chief of Staff and Assistant Secretary

Opposite page\_left to right from XL: Fraser Hillcoat, Global Indirect Tax Manager, Finance; Jonathan Post, General Counsel for Global Programs – Europe/ROW, Legal; Hans Mazenauer, Deputy Director of Global Programs and Network Services, Insurance



## 2007 Global Day of Giving: Working in partnership with local communities around the world

This page: 01\_London: A splash of color at a local primary school; 02\_Bermuda: Employees spruce up the Girl Guides Association's meeting grounds; 03\_Stamford: Restoring a fence at the Sherwood Island State Park to protect against erosion; 04\_Switzerland: Supporting The Theodora Foundation which entertains sick children in more than 90 hospitals; 05\_Spain: Time well spent at a seniors' home near Madrid; 06\_India: The gift of laughter continues at an SOS Children's Village; Opposite page: 07\_XL Insurance's David Duclos (left) and Clive Tobin assemble Red Cross emergency kits in New Orleans; 08\_California's Altamont Path Wind Farm is a renewable energy source and example of good environmental practice; 09\_XL's CSR Director Gavin Arton (left) and Brian O'Hara present a plaque to the Spencer Educational Foundation, Inc., administrators of the XL Ian R. Heap Memorial Scholarship.

## May 10, 2007 – Spirit of Volunteering Continues:

Following the success of XL's first Global Day of Giving in 2006, which marked the XL Capital Ltd group of companies' 20th anniversary, a second Day of Giving was enthusiastically embraced by XL employees. More than 2,500 people took part in 2007's Day of Giving on May 10, a 25% increase on the first event. Senior executives to the most junior employees participated in 238 individual projects in 44 locations around the world. They gardened, painted, cleaned, renovated buildings, labored in parks and nature reserves, and volunteered at schools, historic sites and community centers. The Global Day of Giving is an inspired way to put into practice XL's mission to promote employee participation, support local communities and influence industry-wide social responsibility. It looks set to become a popular XL tradition with the next event scheduled for May 21, 2008.

## 2007 Corporate Social Responsibility Highlights

**Corporate caring:** To contribute to New Orleans' post-Katrina recovery efforts, XL funded Red Cross Emergency Preparedness Kits to be given to former residents returning to the community. XL employees attending the 2007 Risk & Insurance Management Society's (RIMS) conference in the city helped to assemble the 250 kits for local families.

**Environment:** XL supported the United Nations Environmental Program to identify and adopt best environmental and sustainability practices; participated in the Carbon Disclosure Project, which gathered information on companies' greenhouse gas emissions; and joined Climate Wise, a group of leading insurance organizations taking action on climate change.

**Education:** For years XL has provided financial support to young people pursuing careers in the insurance industry. In 2007, a new scholarship was created in memory of XL's first chairman, the late Ian R. Heap, which will be awarded to university students pursuing a degree in risk management or insurance in the United States.



## XL at a Glance

| BRAND & BUSINESS DESCRIPTION   | EXECUTIVES   |
|--|--|
| <p><b>XL CAPITAL</b></p> <p>Our corporate functions cover the network of people, systems, processes and disciplines that enable the XL Capital group of companies to efficiently deliver local services in the worldwide marketplace and to operate as a publicly traded global company.</p>                                 | <p>Celia R. Brown: EVP / Head of Global Human Resources &amp; Corporate Relations</p> <p>Henry C. V. Keeling: EVP / Chief Operating Officer</p> <p>Michael C. Lobdell: EVP / Chief Executive, Global Business Services</p> <p>Fiona E. Luck: EVP / Chief of Staff and Assistant Secretary</p> <p>Brian W. Nocco: EVP / Chief Financial Officer</p> <p>Kirstin Romann Gould: EVP / General Counsel and Secretary</p> <p>Sarah E. Street: EVP / Chief Investment Officer</p> |
| <p><b>XL INSURANCE</b></p> <p>The insurance segment encompasses the Company's worldwide property, casualty, professional liability, specialty insurance and financial lines operations. Products are offered globally under the "XL Insurance" brand, with major offices in Europe, North America and Bermuda.</p>           | <p>Clive R. Tobin: EVP / Chief Executive, Insurance Operations</p> <p>David B. Duclos: EVP / Chief Executive Designate, Insurance Operations</p>   |
| <p><b>XL RE</b></p> <p>The reinsurance segment, branded as "XL Re", is organized on a geographical basis, reflecting the locations of the insurance and reinsurance companies that purchase property, specialty and structured casualty reinsurance coverage from the Company.</p>   | <p>James H. Veghte: EVP / Chief Executive, Reinsurance Operations</p>  |
| <p><b>XL RE</b></p> <p>The life operations segment provides reinsurance to life insurance companies, under the "XL Re" brand, principally covering mortality, morbidity, survivorship and investment risks. The segment covers a range of geographic markets, with an emphasis on the U.K., U.S. and Continental Europe.</p> | <p>Robert W. Douglas: EVP / Chief Executive, Life Operations</p>   |

| KEY OPERATIONS  | FINANCIAL HIGHLIGHTS 12.31.07 (\$M)   | RATINGS**   |
|---|---|---|
| <p>Human Resources, Marketing, Global Communications, Public Relations, Knowledge Services, Corporate Social Responsibility</p> <p>Insurance, Reinsurance, Life</p> <p>Information Technology, Real Estate, Global Shared Services</p> <p>Strategic Planning, Corporate Development, Legal, Actuarial</p> <p>Finance, Treasury, Investor Relations, Tax</p> <p>Legal, Corporate Secretary</p> <p>Investments, XL Capital Investment Partners Inc.</p>   | <p><b>Consolidated</b></p> <p>Net Premiums Earned \$ 7,205</p> <p>Net Investment Income \$ 2,249</p> <p>Net Income* \$ 206</p> <p>Total Investments Available for Sale \$ 36,266</p> <p>Total Assets \$ 57,762</p> <p>Total Liabilities \$ 47,812</p> <p>Total Shareholders' Equity \$ 9,948</p> <p>*Available to Class A ordinary shareholders</p> | <p><b>Long Term Debt Ratings</b></p> <p>Debt Securities issued by XL Capital Ltd have one or more of the following ratings:</p> <p>S&amp;P A- (Stable)</p> <p>Moody's Baa1 (Stable)</p> <p>Fitch A (Stable)</p> <p>A.M. Best bbb (Stable)</p> <p>**Selected Ratings as of February 1, 2008.</p> <p>There can be no assurance that any such ratings will be retained for any period of time or that they will not be qualified, suspended, revised downward or withdrawn entirely by such agencies.</p> <p>For a full list of all XL Capital Group company ratings, visit <a href="http://www.xlcapital.com">www.xlcapital.com</a></p> |
| <p><b>Companies within this segment include:</b></p> <ul style="list-style-type: none"> <li>- Greenwich Insurance Company</li> <li>- Indian Harbor Insurance Company</li> <li>- XL Europe Ltd</li> <li>- XL Insurance America, Inc.</li> <li>- XL Insurance (Bermuda) Ltd.</li> <li>- XL Insurance Company Limited</li> <li>- XL Insurance Company of New York, Inc.</li> <li>- XL Insurance Switzerland</li> <li>- XL Select Insurance Company</li> <li>- XL Specialty Insurance Company</li> </ul> <p><b>Specialty underwriting operations include:</b></p> <p>Aerospace, Environmental, Excess &amp; Surplus, Programs, Marine and Offshore Energy</p> | <p>Net Premiums Earned \$ 4,117</p> <p>Combined Ratio 91.4%</p> <p>Underwriting Profit \$ 366</p>   | <p>Most of the insurance segment's operating companies have one or more of the following financial strength ratings:</p> <p>S&amp;P A+ (Stable)</p> <p>Moody's A1 (Stable)</p> <p>Fitch A+ (Stable)</p> <p>A.M. Best A (Stable)</p>   |
| <p><b>Companies within this segment include:</b></p> <ul style="list-style-type: none"> <li>- XL Re Ltd</li> <li>- XL Reinsurance America, Inc.</li> <li>- XL Re Latin America Ltd</li> <li>- XL Re Europe Limited</li> </ul>   | <p><b>P&amp;C Operations</b></p> <p>Net Premiums Earned \$ 2,302</p> <p>Combined Ratio 83.9%</p> <p>Underwriting Profit \$ 371</p>  | <p>Most of the reinsurance segment's operating companies have one or more of the following financial strength ratings:</p> <p>S&amp;P A+ (Stable)</p> <p>Moody's A1 (Stable)</p> <p>Fitch A+ (Stable)</p> <p>A.M. Best A (Stable)</p>   |
| <p><b>Companies within this segment include:</b></p> <ul style="list-style-type: none"> <li>- XL Re Ltd</li> <li>- XL Re Europe Limited</li> <li>- XL Life Ltd</li> <li>- XL Re Life America Inc.</li> </ul>  | <p><b>Life Operations</b></p> <p>Net Premiums Earned \$ 701</p> <p>Contribution from Life Operations \$ 79</p>  | <p>Most of the life operations segment's companies have one or more of the following financial strength ratings:</p> <p>S&amp;P A+ (Stable)</p> <p>Moody's A1 (Stable)</p> <p>Fitch A+ (Stable)</p> <p>A.M. Best A (Stable)</p>   |

XL CAPITAL LTD

## Selected Financial Data

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

The selected consolidated financial data below is based upon the Company's 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 in the Company's Annual Report on Form 10-K for the year ended December 31, 2007, on file with the U.S. Securities and Exchange Commission.

|  | 2007         | 2006 (7)     | 2005 (7)       | 2004 (7)     | 2003 (7)     |
|--|--------------|--------------|----------------|--------------|--------------|
| <b>Income Statement Data</b>   |              |              |                |              |              |
| Net premiums earned  | \$ 7,205,356 | \$ 7,569,518 | \$ 9,365,495   | \$ 8,582,014 | \$ 6,993,916 |
| Net investment income  | 2,248,807    | 1,978,184    | 1,475,039      | 1,035,012    | 815,487      |
| Net realized (losses) gains on investments   | (603,268)    | (116,458)    | 241,882        | 246,547      | 120,195      |
| Net realized and unrealized (losses) gains on derivative instruments                                 | (55,451)     | 101,183      | 28,858         | 73,493       | 6,073        |
| Net income from investment fund affiliates (1)   | 326,007      | 269,036      | 154,844        | 124,008      | 119,200      |
| Fee income and other   | 14,271       | 31,732       | 19,297         | 35,317       | 41,744       |
| Net losses and loss expenses incurred (2)  | 3,841,003    | 4,201,194    | 7,434,336      | 4,865,102    | 4,652,064    |
| Claims and policy benefits – life operations   | 888,658      | 807,255      | 2,510,029      | 1,526,921    | 835,817      |
| Acquisition costs, operating expenses and foreign exchange gains and losses                          | 2,188,889    | 2,374,358    | 2,188,357      | 2,277,321    | 1,926,393    |
| Interest expense   | 621,905      | 552,275      | 403,849        | 292,234      | 233,929      |
| Amortization of intangible assets  | 1,680        | 2,355        | 10,752         | 15,827       | 4,637        |
| Income (loss) before minority interests, net income from operating affiliates and income tax expense | 1,593,587    | 1,895,758    | (1,261,908)    | 1,118,986    | 443,775      |
| Net (loss) income from operating affiliates (1)  | (1,059,848)  | 111,670      | 67,426         | 147,357      | 8,923        |
| Preference share dividends   | 69,514       | 40,322       | 40,322         | 40,321       | 40,321       |
| Net income (loss) available to ordinary shareholders   | \$ 206,375   | \$ 1,722,445 | \$ (1,292,298) | \$ 1,126,292 | \$ 371,658   |
| <b>Per Share Data</b>  |              |              |                |              |              |
| Net income (loss) per ordinary share – basic (3)   | \$ 1.16      | \$ 9.63      | \$ (9.14)      | \$ 8.17      | \$ 2.71      |
| Net income (loss) per ordinary share – diluted (3)   | \$ 1.15      | \$ 9.60      | \$ (9.14)      | \$ 8.13      | \$ 2.69      |
| Weighted average ordinary shares outstanding – diluted (3)   | 179,693      | 179,450      | 141,406        | 138,582      | 138,187      |
| Cash dividends per ordinary share  | \$ 1.52      | \$ 1.52      | \$ 2.00        | \$ 1.96      | \$ 1.92      |

## Selected Financial Data (continued)

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

|   | 2007                 | 2006 (7)      | 2005 (7)      | 2004 (7)      | 2003 (7)      |
|---|----------------------|---------------|---------------|---------------|---------------|
| <b>Balance Sheet Data</b>                   |                      |               |               |               |               |
| Total investments available for sale        | \$ <b>36,265,803</b> | \$ 39,350,983 | \$ 35,724,439 | \$ 27,823,828 | \$ 20,775,256 |
| Cash and cash equivalents                   | <b>3,880,030</b>     | 2,223,748     | 3,693,475     | 2,203,726     | 2,722,405     |
| Investments in affiliates                   | <b>2,611,149</b>     | 2,308,781     | 2,046,721     | 1,936,852     | 1,903,341     |
| Unpaid losses and loss expenses recoverable | <b>4,697,471</b>     | 5,027,772     | 6,441,522     | 6,971,356     | 6,045,025     |
| Premiums receivable                         | <b>3,637,452</b>     | 3,591,238     | 3,799,041     | 3,838,228     | 3,487,322     |
| Total assets                                | <b>57,762,264</b>    | 59,308,870    | 58,454,901    | 49,245,469    | 41,455,745    |
| Unpaid losses and loss expenses             | <b>23,207,694</b>    | 22,895,021    | 23,597,815    | 19,615,773    | 16,553,084    |
| Future policy benefit reserves              | <b>6,772,042</b>     | 6,476,057     | 5,776,318     | 4,556,952     | 3,443,885     |
| Unearned premiums                           | <b>4,681,989</b>     | 5,652,897     | 5,388,996     | 5,191,368     | 4,729,989     |
| Notes payable and debt                      | <b>2,868,731</b>     | 3,368,376     | 3,412,698     | 2,721,431     | 1,905,483     |
| Shareholders' equity                        | <b>9,948,142</b>     | 10,131,166    | 8,471,811     | 7,738,695     | 6,936,915     |
| Book value per ordinary share               | \$ <b>50.30</b>      | \$ 53.12      | \$ 44.31      | \$ 51.98      | \$ 46.74      |
| <b>Operating Ratios</b>                     |                      |               |               |               |               |
| Loss and loss expense ratio (4)             | <b>59.8%</b>         | 62.2%         | 107.4%        | 68.8%         | 75.6%         |
| Underwriting expense ratio (5)              | <b>29.0%</b>         | 27.3%         | 25.6%         | 27.3%         | 27.1%         |
| Combined ratio (6)                          | <b>88.8%</b>         | 89.5%         | 133.0%        | 96.1%         | 102.7%        |

(1) The Company generally records the income related to alternative fund affiliates on a one month lag and the private investment fund affiliates on a three month lag in order for the Company to meet the accelerated filing deadlines. The Company generally records the income related to operating affiliates on a three month lag.

(2) In 2007, \$351.0 million of financial guarantee reserves related to reinsurance agreements with SCA were recorded within "net loss from operating affiliates".

(3) Net income per ordinary share is based on the basic and diluted weighted average number of Class A ordinary shares and share equivalents outstanding for each period. Net loss per ordinary share is based on the basic weighted average number of ordinary shares outstanding.

(4) The loss and loss expense ratio related to the property and casualty operations is calculated by dividing the losses and loss expenses

incurred by the net premiums earned for the Insurance and Reinsurance segments.

(5) The underwriting expense ratio related to the property and casualty operations is the sum of acquisition expenses and operating expenses for the Insurance and Reinsurance segments divided by net premiums earned for the Insurance and Reinsurance segments.

(6) The combined ratio related to the property and casualty operations is the sum of the loss and loss expense ratio and the underwriting expense ratio. A combined ratio under 100% represents an underwriting profit and over 100% represents an underwriting loss.

(7) Certain reclassifications to prior period information have been made to conform to current year presentation.

XL CAPITAL LTD

## Consolidated Balance Sheets

As at December 31, 2007 and 2006

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

|   | 2007                 | 2006                 |
|---|----------------------|----------------------|
| <b>Assets</b>   |                      |                      |
| <b>Investments</b>  |                      |                      |
| Fixed maturities at fair value <i>(amortized cost: 2007, \$34,233,816; 2006, \$35,979,759)</i>      | \$ 33,607,790        | \$ 36,121,358        |
| Equity securities, at fair value <i>(cost: 2007, \$664,213; 2006, \$705,517)</i>                    | 854,815              | 891,138              |
| Short-term investments, at fair value <i>(amortized cost: 2007, \$1,814,445; 2006, \$2,340,304)</i> | 1,803,198            | 2,338,487            |
| Total investments available for sale  | 36,265,803           | 39,350,983           |
| Investments in affiliates   | 2,611,149            | 2,308,781            |
| Other investments <i>(cost: 2007, \$614,848; 2006, \$417,762)</i>                                   | 708,476              | 476,889              |
| Total investments   | 39,585,428           | 42,136,653           |
| Cash and cash equivalents   | 3,880,030            | 2,223,748            |
| Accrued investment income   | 447,660              | 432,618              |
| Deferred acquisition costs  | 756,854              | 870,237              |
| Prepaid reinsurance premiums  | 972,516              | 1,178,516            |
| Premiums receivable   | 3,637,452            | 3,591,238            |
| Reinsurance balances receivable   | 817,931              | 1,106,651            |
| Unpaid losses and loss expenses recoverable   | 4,697,471            | 5,027,772            |
| Goodwill and other intangible assets  | 1,841,591            | 1,818,096            |
| Deferred tax asset, net   | 370,419              | 346,122              |
| Other assets  | 754,912              | 577,219              |
| <b>Total assets</b>   | <b>\$ 57,762,264</b> | <b>\$ 59,308,870</b> |
| <b>Liabilities and Shareholders' Equity</b>   |                      |                      |
| <b>Liabilities</b>  |                      |                      |
| Unpaid losses and loss expenses   | \$ 23,207,694        | \$ 22,895,021        |
| Deposit liabilities   | 7,920,085            | 7,857,827            |
| Future policy benefit reserves  | 6,772,042            | 6,476,057            |
| Unearned premiums   | 4,681,989            | 5,652,897            |
| Notes payable and debt  | 2,868,731            | 3,368,376            |
| Reinsurance balances payable  | 843,511              | 902,841              |
| Net payable for investments purchased   | 191,472              | 104,739              |
| Other liabilities   | 1,326,179            | 1,357,825            |
| <b>Total liabilities</b>  | <b>\$ 47,811,703</b> | <b>\$ 48,615,583</b> |

XL CAPITAL LTD

## Consolidated Balance Sheets (continued)

As at December 31, 2007 and 2006

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

|   | 2007                 | 2006                 |
|---|----------------------|----------------------|
| <b>Commitments and Contingencies</b>  |                      |                      |
| Minority interest in equity of consolidated subsidiaries  | \$ 2,419             | \$ 562,121           |
| <b>Shareholders' Equity:</b>  |                      |                      |
| Series A preference ordinary shares, 23,000,000 authorized, par value \$0.01<br>Issued and outstanding: (2007, nil; 2006, 9,200,000)  | \$ —                 | \$ 92                |
| Series B preference ordinary shares, 27,000,000 authorized, par value \$0.01<br>Issued and outstanding: (2007, nil; 2006, 11,500,000) | —                    | 115                  |
| Series E preference ordinary shares, 1,000,000 authorized, par value \$0.01<br>Issued and outstanding: (2007, 1,000,000; 2006, nil)   | 10                   | —                    |
| Class A ordinary shares, 999,990,000 authorized, par value \$0.01<br>Issued and outstanding: (2007, 177,910,151; 2006, 180,983,611)   | 1,779                | 1,810                |
| Additional paid in capital  | 7,358,801            | 6,451,569            |
| Accumulated other comprehensive income  | 9,159                | 411,405              |
| Retained earnings   | 2,578,393            | 3,266,175            |
| Total shareholders' equity  | \$ 9,948,142         | \$ 10,131,166        |
| <b>Total liabilities and shareholders' equity</b>   | <b>\$ 57,762,264</b> | <b>\$ 59,308,870</b> |

XL CAPITAL LTD

## Consolidated Statements of Income and Comprehensive Income

For the years ended December 31, 2007, 2006 and 2005

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

|   | 2007                | 2006                | 2005                  |
|---|---------------------|---------------------|-----------------------|
| <b>Revenues</b>   |                     |                     |                       |
| Net premiums earned   | \$ 7,205,356        | \$ 7,569,518        | \$ 9,365,495          |
| Net investment income   | 2,248,807           | 1,978,184           | 1,475,039             |
| Net realized (losses) gains on investments  | (603,268)           | (116,458)           | 241,882               |
| Net realized and unrealized (losses) gains on derivative instruments                        | (55,451)            | 101,183             | 28,858                |
| Net income from investment affiliates   | 326,007             | 269,036             | 154,844               |
| Fee income and other  | 14,271              | 31,732              | 19,297                |
| <b>Total revenues</b>   | <b>\$ 9,135,722</b> | <b>\$ 9,833,195</b> | <b>\$ 11,285,415</b>  |
| <b>Expenses</b>   |                     |                     |                       |
| Net losses and loss expenses incurred   | \$ 3,841,003        | \$ 4,201,194        | \$ 7,434,336          |
| Claims and policy benefits  | 888,658             | 807,255             | 2,510,029             |
| Acquisition costs   | 1,063,713           | 1,102,046           | 1,195,344             |
| Operating expenses  | 1,144,910           | 1,182,939           | 982,059               |
| Exchange (gains) losses   | (19,734)            | 89,373              | 10,954                |
| Interest expense  | 621,905             | 552,275             | 403,849               |
| Amortization of intangible assets   | 1,680               | 2,355               | 10,752                |
| <b>Total expenses</b>   | <b>\$ 7,542,135</b> | <b>\$ 7,937,437</b> | <b>\$ 12,547,323</b>  |
| Income (loss) before minority interest, income tax and net income from operating affiliates | 1,593,587           | 1,895,758           | (1,261,908)           |
| Minority interest in net income of subsidiaries   | 23,928              | 25,016              | 8,210                 |
| Provision for income tax  | 233,922             | 219,645             | 49,284                |
| Net (loss) income from operating affiliates   | (1,059,848)         | 111,670             | 67,426                |
| <b>Net income (loss)</b>  | <b>\$ 275,889</b>   | <b>\$ 1,762,767</b> | <b>\$ (1,251,976)</b> |
| Preference share dividends  | (69,514)            | (40,322)            | (40,322)              |
| <b>Net income (loss) available to ordinary shareholders</b>                                 | <b>\$ 206,375</b>   | <b>\$ 1,722,445</b> | <b>\$ (1,292,298)</b> |
| Net income (loss)   | \$ 275,889          | \$ 1,762,767        | \$ (1,251,976)        |
| Change in net unrealized (depreciation) of investments, net of tax                          | (747,941)           | (103,834)           | (314,719)             |
| Additional pension liability  | 3,080               | (9,809)             | –                     |
| Change in value on cash flow hedge  | 4,338               | 630                 | 630                   |
| Change in net unrealized gain (loss) on future policy benefit reserves                      | 16,005              | 94,904              | (46,743)              |
| Foreign currency translation adjustments  | 317,319             | 153,610             | 168,802               |
| Realization of accumulated other comprehensive loss on sale of SCA                          | 4,953               | 14,224              | –                     |
| Minority interest share in change in accumulated other comprehensive loss in SCA            | –                   | (6,563)             | –                     |
| <b>Comprehensive (loss) income</b>  | <b>\$ (126,357)</b> | <b>\$ 1,905,929</b> | <b>\$ (1,444,006)</b> |
| Weighted average ordinary shares and ordinary share equivalents outstanding – basic         | 178,500             | 178,793             | 141,406               |
| Weighted average ordinary shares and ordinary share equivalents outstanding – diluted       | 179,693             | 179,450             | 141,406               |
| Earnings (loss) per ordinary share and ordinary share equivalent – basic                    | \$ 1.16             | \$ 9.63             | \$ (9.14)             |
| Earnings (loss) per ordinary share and ordinary share equivalent – diluted                  | \$ 1.15             | \$ 9.60             | \$ (9.14)             |

XL CAPITAL LTD

# Consolidated Statements of Shareholders' Equity

For the years ended December 31, 2007, 2006 and 2005

( U.S. dollars in thousands )

|  | 2007                | 2006                 | 2005                |
|--|---------------------|----------------------|---------------------|
| <b>Series A, B and E Preference Ordinary Shares</b>                              |                     |                      |                     |
| Balance – beginning of year  | \$ 207              | \$ 207               | \$ 207              |
| Issuance of Series E preference ordinary shares                                  | 10                  | –                    | –                   |
| Redemption of Series A preference ordinary shares                                | (92)                | –                    | –                   |
| Redemption of Series B preference ordinary shares                                | (115)               | –                    | –                   |
| <b>Balance – end of year</b>   | <b>\$ 10</b>        | <b>\$ 207</b>        | <b>\$ 207</b>       |
| <b>Ordinary Shares</b>   |                     |                      |                     |
| Balance – beginning of year  | \$ 1,810            | \$ 1,795             | \$ 1,389            |
| Issuance of Class A ordinary shares  | 113                 | 9                    | 398                 |
| Exercise of stock options  | 9                   | 7                    | 9                   |
| Repurchase of Class A ordinary shares  | (153)               | (1)                  | (1)                 |
| <b>Balance – end of year</b>   | <b>\$ 1,779</b>     | <b>\$ 1,810</b>      | <b>\$ 1,795</b>     |
| <b>Additional Paid in Capital</b>  |                     |                      |                     |
| Balance – beginning of year  | \$ 6,451,569        | \$ 6,377,375         | \$ 3,880,187        |
| Issuance of Class A ordinary shares  | 874,172             | 56,308               | 2,504,872           |
| Issuance of Series E preference ordinary shares                                  | 984,573             | –                    | –                   |
| Repurchase of Class A ordinary shares  | (515,677)           | (2,846)              | (2,036)             |
| Redemption of Series A preference ordinary shares                                | (229,908)           | –                    | –                   |
| Redemption of Series B preference ordinary shares                                | (287,385)           | –                    | –                   |
| Stock option expense   | 15,114              | 27,216               | 20,457              |
| Exercise of stock options  | 65,832              | 33,062               | 36,293              |
| Equity units / debt value  | –                   | –                    | (36,922)            |
| Net change in deferred compensation  | 511                 | 1,554                | (25,476)            |
| Net loss on sale of SCA  | –                   | (30,100)             | –                   |
| Realization of accumulated other comprehensive loss on sale of SCA               | –                   | (11,000)             | –                   |
| <b>Balance – end of year</b>   | <b>\$ 7,358,801</b> | <b>\$ 6,451,569</b>  | <b>\$ 6,377,375</b> |
| <b>Accumulated Other Comprehensive Income</b>                                    |                     |                      |                     |
| Balance – beginning of year  | \$ 411,405          | \$ 268,243           | \$ 460,273          |
| Net change in unrealized (losses) on investment portfolio, net of tax            | (775,159)           | (136,090)            | (340,156)           |
| Net change in unrealized gains on affiliate and other investments, net of tax    | 27,218              | 32,256               | 25,437              |
| Additional pension liability   | 3,080               | (9,809)              | –                   |
| Change in value of cash flow hedge   | 4,338               | 630                  | 630                 |
| Change in net unrealized gain (loss) on future policy benefit reserves           | 16,005              | 94,904               | (46,743)            |
| Currency translation adjustments   | 317,319             | 153,610              | 168,802             |
| Realization of accumulated other comprehensive loss on sale of SCA               | 4,953               | 14,224               | –                   |
| Minority interest share in change in accumulated other comprehensive loss in SCA | –                   | (6,563)              | –                   |
| <b>Balance – end of year</b>   | <b>\$ 9,159</b>     | <b>\$ 411,405</b>    | <b>\$ 268,243</b>   |
| <b>Retained Earnings</b>   |                     |                      |                     |
| Balance – beginning of year  | \$ 3,266,175        | \$ 1,824,191         | \$ 3,396,639        |
| Net income (loss)  | 275,889             | 1,762,767            | (1,251,976)         |
| Dividends on Class A ordinary shares   | (274,037)           | (277,682)            | (276,655)           |
| Dividends on Series A, B and E preference ordinary shares                        | (69,514)            | (40,322)             | (40,322)            |
| Repurchase of shares   | (620,120)           | (2,779)              | (3,495)             |
| <b>Balance – end of year</b>   | <b>\$ 2,578,393</b> | <b>\$ 3,266,175</b>  | <b>\$ 1,824,191</b> |
| <b>Total shareholders' equity</b>  | <b>\$ 9,948,142</b> | <b>\$ 10,131,166</b> | <b>\$ 8,471,811</b> |

See Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2007 on file with the U.S. Securities and Exchange Commission.

XL CAPITAL LTD

## Consolidated Statements of Cash Flows

For the years ended December 31, 2007, 2006 and 2005

( U.S. dollars in thousands )

|  | 2007                | 2006                  | 2005                  |
|--|---------------------|-----------------------|-----------------------|
| <b>Cash Flows Provided by Operating Activities</b>   |                     |                       |                       |
| Net Income (loss)  | \$ 275,889          | \$ 1,762,767          | \$ (1,251,976)        |
| <b>Adjustments to reconcile net income (loss) to net cash provided by operating activities</b> |                     |                       |                       |
| Net realized losses (gains) on sales of investments  | 603,268             | 116,458               | (241,882)             |
| Net realized and unrealized (gains) on derivative instruments                                  | 55,451              | (101,183)             | (28,858)              |
| Amortization of (premiums) discounts on fixed maturities                                       | (86,826)            | (29,435)              | 50,206                |
| Amortization of intangible assets  | 1,680               | 2,355                 | 10,752                |
| Amortization of deferred compensation  | 49,666              | 56,163                | 33,004                |
| Accretion of convertible debt  | 988                 | 969                   | 976                   |
| Accretion of deposit liabilities   | 421,074             | 350,053               | 227,743               |
| Net loss (income) from investment and operating affiliates                                     | 733,841             | (380,706)             | (222,270)             |
| Unpaid losses and loss expenses  | (231,400)           | (1,290,840)           | 4,715,950             |
| Unearned premiums  | (230,834)           | 130,836               | 334,392               |
| Premiums receivable  | 33,879              | 341,720               | (148,432)             |
| Unpaid losses and loss expenses recoverable  | 387,263             | 1,562,453             | 284,256               |
| Future policy benefit reserves   | 93,668              | 105,395               | 1,733,856             |
| Prepaid reinsurance premiums   | 173,123             | (89,037)              | (101,064)             |
| Reinsurance balances receivable  | 307,432             | (32,782)              | (35,612)              |
| Reinsurance balances payable   | (78,486)            | (528,697)             | (70,855)              |
| Deferred acquisition costs   | 3,925               | 21,479                | (44,242)              |
| Deferred tax asset   | (20,100)            | 20,729                | (3,122)               |
| Other  | (252,635)           | 419,958               | (205,472)             |
| <b>Total adjustments</b>   | <b>\$ 1,964,977</b> | <b>\$ 675,888</b>     | <b>\$ 6,289,326</b>   |
| <b>Net cash provided by operating activities</b>   | <b>\$ 2,240,866</b> | <b>\$ 2,438,655</b>   | <b>\$ 5,037,350</b>   |
| <b>Cash Flows Provided by (used In) Investing Activities</b>                                   |                     |                       |                       |
| Proceeds from sale of fixed maturities and short-term investments                              | \$ 23,570,285       | \$ 24,409,164         | \$ 21,672,519         |
| Proceeds from redemption of fixed maturities and short-term investments                        | 1,923,459           | 1,451,695             | 2,416,539             |
| Proceeds from sale of equity securities  | 937,994             | 1,130,234             | 1,179,866             |
| Net proceeds from sale of SCA common shares  | -                   | 104,650               | -                     |
| Proceeds from sale of SCA common shares, net of cash sold upon de-consolidation                | (110,843)           | -                     | -                     |
| Purchases of fixed maturities and short-term investments                                       | (25,229,000)        | (29,141,948)          | (33,115,344)          |
| Purchases of equity securities   | (832,385)           | (1,000,775)           | (947,538)             |
| Proceeds from sale of affiliates and dividends received  | 77,500              | 155,358               | 108,174               |
| Acquisition of subsidiaries, net of cash acquired  | (32,918)            | (12,600)              | -                     |
| Other investments  | (185,734)           | (72,190)              | 15,768                |
| Other assets   | -                   | 4,087                 | -                     |
| <b>Net cash provided by (used in) investing activities</b>                                     | <b>\$ 118,358</b>   | <b>\$ (2,972,325)</b> | <b>\$ (8,670,016)</b> |

XL CAPITAL LTD

## Consolidated Statements of Cash Flows (continued)

For the years ended December 31, 2007, 2006 and 2005

( U.S. dollars in thousands )

|   | 2007                | 2006                | 2005                |
|---|---------------------|---------------------|---------------------|
| <b>Cash Flows (used in) Provided by Financing Activities</b>                    |                     |                     |                     |
| Proceeds from exercise of stock options and issuance of Class A ordinary shares | \$ 878,439          | \$ 31,972           | \$ 2,478,065        |
| Proceeds from issuance of Series E preference ordinary shares                   | 984,583             | –                   | –                   |
| Redemption of Series A preference ordinary shares                               | (230,000)           | –                   | –                   |
| Redemption of Series B preference ordinary shares                               | (287,500)           | –                   | –                   |
| Repurchase of Class A ordinary shares   | (1,135,950)         | (5,626)             | (5,531)             |
| Dividends paid on Class A ordinary shares                                       | (274,037)           | (277,682)           | (276,655)           |
| Dividends paid on preference ordinary shares                                    | (69,514)            | (40,322)            | (40,322)            |
| Proceeds from issuance of debt  | 322,836             | –                   | 790,291             |
| Repayment of debt   | (825,000)           | (45,291)            | (100,000)           |
| Deposit liabilities   | (360,029)           | (734,185)           | 2,043,125           |
| Net cash flow on securities lending   | 10,191              | (239,281)           | 274,582             |
| Proceeds from issuance of SCA common shares                                     | –                   | 342,227             | –                   |
| Proceeds from issuance of SCA Series A perpetual preference ordinary shares     | 247,248             | –                   | –                   |
| Dividends paid to minority shareholders of SCA                                  | (16,130)            | –                   | –                   |
| <b>Net cash (used in) provided by financing activities</b>                      | <b>\$ (754,863)</b> | <b>\$ (968,188)</b> | <b>\$ 5,163,555</b> |
| Effects of exchange rate changes on foreign currency cash                       | 51,921              | 32,131              | (41,140)            |
| Increase (decrease) in cash and cash equivalents                                | 1,656,282           | (1,469,727)         | 1,489,749           |
| Cash and cash equivalents – beginning of year                                   | 2,223,748           | 3,693,475           | 2,203,726           |
| Cash and cash equivalents – end of year   | \$ 3,880,030        | \$ 2,223,748        | \$ 3,693,475        |
| Net taxes paid  | \$ 156,315          | \$ 194,217          | \$ 34,500           |
| Interest paid   | \$ 171,677          | \$ 170,286          | \$ 143,437          |

## Letter from the Acting Chairman: XL believes that developing the right corporate culture and values is essential to serving the best interests of our customers, our employees and our shareholders.

|             |
|-------------|
| CORE VALUES |
| ETHICS      |
| TEAMWORK    |
| EXCELLENCE  |
| DEVELOPMENT |
| RESPECT     |

### Chairman Retirement

In December 2007, we announced the retirement of Mike Esposito from the Board of XL Capital Ltd. Throughout his 21 years as a director, including the last 13 years as Chairman, Mike brought unparalleled energy and passion to his role. We are grateful for his leadership and his commitment to XL.

During his tenure as Chairman, Mike played a key role in establishing corporate governance standards that all of us at XL can be proud to take forward. These policies and practices are listed on our web site under "Ethics & Governance". However, this is by no means the extent of our compliance.

### Corporate Governance

Our Code of Business Conduct & Ethics and our policy statements are designed to promote honest and ethical conduct and compliance with the law by all employees. By design, these documents go beyond the requirements in many respects. This is because XL expects a lot more from our employees than the bare minimum when it comes to ethics and adherence to our core values.

Every employee is also required to complete compliance training annually. This is to ensure the effectiveness of our legal compliance program and its application in our day-to-day operations.

More importantly, our Code of Business Conduct & Ethics is embedded in XL's culture. XL believes that developing the right corporate culture and values is essential to serving the best interests of our customers, our employees and our shareholders. We further believe that the XL culture has characteristics that differentiate us from our competitors and part of that differentiation is the core values that underpin our culture. These core values are: ethics, teamwork, excellence, development and respect.

These are not just platitudes. They are an integral part of every employee's performance and development evaluations and are tied to compensation. We believe in instilling XL's core values throughout our organization, starting at the top where XL's senior management and directors are expected to reinforce XL's commitment to ethical conduct.

### Our Commitment

Our commitment to good governance also reflects the fact that our industry is based on our customers' confidence that we will keep our promise to them – the promise that we will honor our contracts with them and their valid claims. By building that customer confidence we expect to build shareholder value over the long-term. And we are convinced that the best way to build that confidence is by instilling and enforcing good governance at all levels in our organization. So corporate governance is ultimately, in my view, simply *good for business*. It is with this in mind that I intend to continue to help build on the solid foundation that XL has developed over the years.

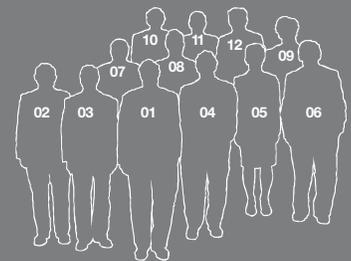



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**Brian M. O'Hara**  
Acting Chairman and President  
and Chief Executive Officer



## Board of Directors



Committees of the Board: **A** Audit **C** Compensation **N&G** Nominating and Corporate Governance **F** Finance **PA** Public Affairs

**01\_Brian M. O'Hara** **F** Acting Chairman and President and Chief Executive Officer, XL Capital Ltd **02\_Robert R. Glauber** **C, F, N&G** Lecturer at the Kennedy School, Harvard and Former Professor, Harvard Law School **03\_John T. Thornton** **A, F** Former Executive Vice President and Chief Financial Officer, Wells Fargo & Co. **04\_Dale R. Comey** **A, C** Former Executive Vice President, ITT Corporation **05\_Ellen E. Thrower** **A, N&G, PA** Executive Director, The School of Risk Management, Insurance & Actuarial Science, St. John's University **06\_Alan Z. Senter** **A, F** Chairman, AZ Senter Consulting LLC **07\_Eugene M. McQuade** **A, C, F** Former President, Chief Operating Officer, Freddie Mac **08\_Joseph Mauriello** **A, N&G** Former Deputy Chairman and Chief Operating Officer, KPMG LLP **09\_Herbert Haag** **F** Founding President and Former Chief Executive Officer, PartnerRe Ltd. **10\_Robert S. Parker** **N&G, F, PA** Dean Emeritus and The Robert S. Parker Chaired Professor, The McDonough School of Business at Georgetown University **11\_Sir John Vereker**, **KCB** **F** Former Governor and Commander-in-Chief of Bermuda **12\_\*Cyril E. Rance** **A, PA** Retired Insurance Executive

\* Retiring April 2008

## Corporate Officers

### Brian M. O'Hara

Acting Chairman  
and President and  
Chief Executive Officer

### Celia R. Brown

Executive Vice President,  
Head of Global Human Resources  
and Corporate Relations

### David B. Duclos

Executive Vice President,  
Chief Executive Designate  
of Insurance Operations

### Henry C. V. Keeling

Executive Vice President,  
Chief Operating Officer

### Michael C. Lobdell

Executive Vice President,  
Chief Executive of  
Global Business Services

### Fiona E. Luck

Executive Vice President,  
Chief of Staff and  
Assistant Secretary

### Brian W. Nocco

Executive Vice President,  
Chief Financial Officer

### Kirstin Romann Gould

Executive Vice President,  
General Counsel  
and Secretary

### Sarah E. Street

Executive Vice President,  
Chief Investment Officer

### Clive R. Tobin

Executive Vice President,  
Chief Executive  
of Insurance Operations

### James H. Veghte

Executive Vice President,  
Chief Executive  
of Reinsurance Operations

### Mark E. Anderson

Senior Vice President,  
Director of Global  
Compensation and Benefits

### Gavin R. Arton

Senior Vice President,  
Director of Global Corporate  
Social Responsibility  
and Philanthropy

### Lori A. Cassidy\*

Senior Vice President,  
Financial Planning and Analysis

### Christopher A. Coelho

Senior Vice President,  
Financial Operations

### Susan L. Cross

Senior Vice President,  
Global Chief Actuary

### Paul D. Dowden

Senior Vice President,  
Chief Risk Officer

### Fiona M. Muldoon

Senior Vice President,  
Corporate Strategy  
Development and  
Planning Officer

### Susan J. L. Newman

Senior Vice President,  
Deputy Controller

### David R. Radulski

Senior Vice President,  
Director of Investor Relations

### Simon D. Rich

Senior Vice President,  
Controller

### Stephen J. H. Robb

Senior Vice President,  
Accounting Policy  
and SEC Reporting Officer

### Roger R. Scotton

Senior Vice President,  
Global Head of Marketing,  
Communications and  
Knowledge Services

\*Effective April 1, 2008

**Disclaimer and Cautionary Statement:** This report should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and the Notes thereto set forth in XL Capital Ltd's Annual Report on Form 10-K for the year ended December 31, 2007 filed with the U.S. Securities and Exchange Commission. This report contains "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995 that reflect XL Capital Ltd's current views with respect to future events, expectations and financial performance. Such statements are based on current plans, estimates, expectations and projections. Actual results may differ materially from those

included in such forward-looking statements and therefore you should not place undue reliance on them. A non-exclusive list of the important factors that could cause actual results to differ materially from those in such forward-looking statements is set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations – Cautionary Note Regarding Forward-Looking Statements" in XL Capital Ltd's Annual Report on Form 10-K for the year ended December 31, 2007 filed with the U.S. Securities and Exchange Commission. XL Capital Ltd undertakes no obligation to publicly update or revise any "forward-looking statements."

# Corporate Information

## Annual General Meeting

The annual general meeting of holders of Class A ordinary shares of XL Capital Ltd will be held on **Friday, April 25, 2008** at the Company's Head Office, XL House, One Bermudiana Road, Hamilton, Bermuda at 8:30 a.m. local time.

## Form 10-K

The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 is filed with the U.S. 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.

## Ordinary Shares

The Company's Class A ordinary shares were first listed on the New York Stock Exchange on July 19, 1991 under the symbol XL.

The table below sets forth the high, low, and closing sales prices per share of the Company's Class A ordinary shares, as reported on the New York Stock Exchange Composite Tape for the four fiscal quarters of 2007 and 2006.

As at December 31, 2007 there were 177,910,151 Class A ordinary shares outstanding.

| IN U.S. DOLLARS | 2007  |       |       | 2006  |       |       |
|-----------------|-------|-------|-------|-------|-------|-------|
|                 | HIGH  | LOW   | CLOSE | HIGH  | LOW   | CLOSE |
| 1ST QUARTER     | 74.40 | 66.93 | 69.96 | 71.97 | 63.80 | 64.11 |
| 2ND QUARTER     | 84.91 | 69.44 | 84.29 | 67.30 | 60.67 | 61.30 |
| 3RD QUARTER     | 85.67 | 70.47 | 79.20 | 69.33 | 59.82 | 68.70 |
| 4TH QUARTER     | 82.10 | 48.16 | 50.31 | 72.90 | 68.25 | 72.02 |

CERTIFICATION STATEMENT: The required Section 303A Annual Certification of the Chief Executive Officer of XL Capital Ltd has been submitted to the New York Stock Exchange, and the certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and required by Rules 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, have been filed with the U.S. Securities and Exchange Commission as exhibits to XL Capital Ltd's Annual Report on Form 10-K for the year ended December 31, 2007.

## XL Capital Ltd

XL House, One Bermudiana Road,  
Hamilton HM 11, Bermuda.  
Telephone: 1 (441) 292-8515  
Website: www.xlcapital.com

## Investor Relations Office

XL House, One Bermudiana Road,  
Hamilton HM 11, Bermuda.  
Telephone: 1 (441) 294-7460  
Fax: 1 (441) 292-5280

## Transfer Agent

Mellon Investor Services LLC,  
480 Washington Boulevard,  
Jersey City, NJ 07310-1900, U.S.A.  
Telephone: 1 (800) 756-3353  
or 1 (201) 329-8660  
Website: www.melloninvestor.com

## Registered Office

C/O Appleby, Spurling & Hunter,  
Clifton House, P.O. Box 190 GT,  
Grand Cayman, Cayman Islands.

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