

December 15, 2008

Research Update:

XL Capital Ltd. And Subsidiaries Ratings Lowered One Notch; Outlook Negative

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Rationale

On Dec. 15, 2008, Standard & Poor's Ratings Services lowered its counterparty credit and financial strength ratings on XL Capital Ltd.'s (NYSE:XL) core operating companies to 'A' from 'A+'. At the same time, Standard & Poor's lowered its counterparty credit rating on XL to 'BBB+' from 'A-'. The outlook on all these companies is negative.

These rating actions reflect our belief that XL's prospective competitive position and resulting underwriting performance have diminished because of perceived franchise issues stemming from a string of material earnings and capital charges over the past several years. Although XL remedied many of these issues this past summer, the material deterioration in the unrealized position of XL's investment portfolio in the third quarter has again pressured XL's market presence. Accordingly, the rating action incorporates our belief that renewal activity will be modestly below historical norms, with a more substantive reduction in new business opportunities. This would hamper prospective underwriting performance, which, though strong, is inconsistent with what we typically expect for the prior rating. Notwithstanding XL's strong liquidity position, its financial flexibility, in our opinion, is a weakness to the rating.

Although we are comfortable with XL's investment-impairment process and believe that XL's strong liquidity position (\$7.2 billion in cash and short-term investments as of Sept. 30, 2008) supports the intent to hold these securities to recovery, further deterioration in economic conditions (as experienced so far the fourth quarter) will result in additional unrealized losses and economic impairments. Although XL continues to actively reduce the volatility of its portfolio, the rating action reflects our belief that realized losses will largely offset operating income through 2009.

XL's capitalization is strong and reflects our comfort in XL's detailed and comprehensive investment-impairment process, supplemented by the application of Standard & Poor's derived default factors by rating level and vintage for certain classes of structured assets. Accordingly, the assessment is strong despite a quantitative calculation that was modestly below what is expected for the rating level when incorporating projected unrealized losses as of Nov. 30, 2008. We believe that capital adequacy will remain strong for the foreseeable future.

XL's management team has undertaken several initiatives structured to simplify and refocus XL's operations on its strongly performing property/casualty insurance and reinsurance operations while materially reducing noncore risks, including investments and financial lines exposure. These initiatives--in combination with an enhanced focus on enterprise risk management (ERM), which we view as adequate--markedly reduce the potential for unexpected material charges outside of the investment portfolio.

Outlook

We expect that XL's continued enhancement of its ERM, especially strategic and operational risk, will materially reduce the potential for unexpected losses. Although additional realized losses in the investment portfolio are likely because of continued economic uncertainty, these losses will be offset by continued strong underwriting performance as measured by an accident-year and calendar-year combined ratios of less 100% and a return on revenue (excluding realized investment losses) approaching 15%. Financial leverage (debt plus preferreds, including hybrids) will be no more than 40% of total capital when reflecting the February 2009 conversion of \$745 million of senior notes into equity, and fixed-charge coverage will exceed 4.5x in 2009.

If, in the next two years, ERM continues to develop, additional investment losses fail to materialize, and no negative surprises arise that dampen consolidated results, we could revise the outlook to stable. However, if more unexpected adverse events occur (such as unexpected additional realized investment losses, large underwriting losses, or large operational related risk), if the company does not meet our financial tolerance levels, or if there is inadequate progress related to XL's ERM, another downgrade would most likely result.

Ratings List

Downgraded

	To	From
XL Capital Ltd.		
X.L America Inc.		
Nac Re Corp.		
Counterparty Credit Rating		
Local Currency	BBB+/Negative/--	A-/Negative/--
Greenwich Insurance Co.		
XL Specialty Insurance Co.		
XL Select Insurance Co.		
XL Reinsurance America Inc.		
XL Re Ltd.		
XL Re Latin America Ltd.		
XL Re Europe Ltd.		
XL Life Insurance and Annuity Co.		
XL Insurance Switzerland		
XL Insurance Co. of New York Inc.		
XL Insurance America Inc.		
XL Insurance (Bermuda) Ltd.		
XL Europe Ltd.		
Indian Harbor Insurance Co.		
Counterparty Credit Rating		
Local Currency	A/Negative/--	A+/Negative/--
Greenwich Insurance Co.		

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XL Specialty Insurance Co.		
XL Select Insurance Co.		
XL Reinsurance America Inc.		
XL Re Ltd. - U.K.		
XL Re Ltd.		
XL Re Latin America Ltd.		
XL Re Europe Ltd.		
XL Life Insurance and Annuity Co.		
XL Insurance Switzerland		
XL Insurance Co. of New York Inc.		
XL Insurance Co. Ltd.		
XL Insurance America Inc.		
XL Insurance (Bermuda) Ltd.		
XL Europe Ltd.		
Indian Harbor Insurance Co.		
Financial Strength Rating		
Local Currency	A/Negative/--	A+/Negative/--
XL Insurance (Bermuda) Ltd.		
Financial Enhancement Rating		
Local Currency	A/--/--	A+/--/--
XL Capital Ltd.		
Senior Unsecured (4 issues)	BBB+	A-
Junior Subordinated (1 issue)	BBB-	BBB
Preferred Stock (3 issues)	BBB-	BBB
Preference Stock (1 issue)	BBB-	BBB
Premium Asset Trust Certificates 2004-9		
Senior Secured (1 issue)	A	A+
Stoneheath Re		
Preferred Stock (1 issue)	BBB-	BBB
XL Capital Finance (Europe) plc		
Senior Unsecured (1 issue)	BBB+	A-
XLLIAC Global Funding		
Senior Secured (2 issues)	A	A+
Downgraded; Ratings Affirmed		
	To	From
XL Insurance Co. Ltd.		
Counterparty Credit Rating		
Local Currency	A/Negative/NR	A+/Negative/NR
Ratings Affirmed		
Vitodurum Reinsurance Co.		
Counterparty Credit Rating		

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Local Currency	BBB+/Stable/--
Financial Strength Rating	
Local Currency	BBB+/Stable/--
XL London Market - Syndicate 1209	
Lloyds Syndicate Assessment	
Local Currency	NA

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