XL CAPITAL LTD
Form DEF 14A
March 17, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)
of the Securities Exchange Act of 1934

Filed by the Registrant [X]

Filed by a Party other than the Registrant [ ]

Check the appropriate box:
[ ] Preliminary Proxy Statement
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XL CAPITAL LTD

(Name of Registrant as Specified in Its Charter)

Not Applicable

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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XL CAPITAL LTD

NOTICE OF ANNUAL GENERAL MEETING OF HOLDERS OF CLASS A ORDINARY SHARES TO BE HELD ON FRIDAY, APRIL 25, 2008

Hamilton, Bermuda

March 17, 2008

To the Holders of Class A Ordinary Shares of XL Capital Ltd:

Notice is hereby given that the Annual General Meeting of Holders (the Shareholders) of Class A Ordinary Shares of XL Capital Ltd (the Company) will be held at the principal executive offices of the Company, located at XL House, One Bermudiana Road, Hamilton HM 11, Bermuda, on Friday, April 25, 2008 at 8:30 a.m. local time for the following purposes:

1. To elect three Class I Directors to hold office until 2011;
2. To ratify the appointment of PricewaterhouseCoopers LLP, New York, New York, to act as the independent registered public accounting firm of the Company for the year ending December 31, 2008;
3. To approve the amendment and restatement of the Company s Directors Stock & Option Plan that expires in 2008; and
4. To transact such other business as may properly come before the meeting or any adjournments thereof.

Only Shareholders of record, as shown by the transfer books of the Company at the close of business on March 7, 2008, are entitled to receive notice of and to vote at the Annual General Meeting.

PLEASE VOTE YOUR PROXY BY TELEPHONE, INTERNET OR MAIL AS DIRECTED ON THE

ENCLOSED PROXY CARD AS PROMPTLY AS POSSIBLE, WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING. IF YOU LATER DESIRE TO REVOKE YOUR PROXY FOR ANY REASON, YOU MAY DO SO IN THE MANNER DESCRIBED IN THE ATTACHED PROXY STATEMENT. YOUR SHARES WILL BE VOTED WITH THE INSTRUCTIONS CONTAINED IN THE PROXY STATEMENT. IF NO INSTRUCTION IS GIVEN, YOUR SHARES WILL BE VOTED FOR ITEMS 1 THROUGH 3 ABOVE.

By Order of The Board of Directors,

Kirstin Romann Gould
Secretary

XL CAPITAL LTD

PROXY STATEMENT
FOR THE
ANNUAL GENERAL MEETING OF HOLDERS OF CLASS A ORDINARY SHARES
TO BE HELD ON APRIL 25, 2008

The accompanying proxy is solicited by the Board of Directors of XL Capital Ltd (the Company) to be voted at the Annual General Meeting of holders (the Shareholders) of the Company s Class A Ordinary Shares (the Shares) to be held on April 25, 2008 and any adjournments thereof.

When such proxy is properly executed and returned, the Shares of the Company it represents will be voted at the meeting on the following: (1) the election of the three nominees for Class I Directors identified herein, (2) the ratification of the appointment of PricewaterhouseCoopers LLP, New York, New York (the Independent Auditor), to act as the independent registered public accounting firm of the Company for the year ending December 31, 2008 and (3) to approve the amendment and restatement of the Company s Directors Stock and Option Plan that expires in 2008 (the Directors Plan).

Any Shareholder giving a proxy has the power to revoke it prior to its exercise by giving notice of such revocation to the Secretary of the Company in writing at XL House, One Bermudiana Road, Hamilton, HM 11, Bermuda, by attending and voting in person at the Annual General Meeting or by executing a subsequent proxy, provided that such action is taken in sufficient time to permit the necessary examination and tabulation of the subsequent proxy or revocation before the votes are taken.

Shareholders of record as of the close of business on March 7, 2008 will be entitled to vote at the Annual General Meeting. As of March 7, 2008, there were 179,101,089 outstanding Shares entitled to vote at the Annual General Meeting, with each Share entitling the holder of record thereof to one vote at the Annual General Meeting (subject to certain limitations set forth in the Company s Articles of Association see footnote 1 under the heading Beneficial Ownership).

This Proxy Statement, the attached Notice of Annual General Meeting and the accompanying proxy card are first being mailed to Shareholders on or about March 17, 2008.

Other than the approval of the minutes of the 2007 Annual General Meeting, the Company knows of no specific matter to be brought before the Annual General Meeting that is not referred to in the Notice of Annual General Meeting. If any such matter comes before the Annual General Meeting, including any Shareholder proposal properly made, the proxy holders will vote proxies in accordance with their judgment.

The election of each nominee for Director, the ratification of the appointment of the Independent Auditor and the approval of the amendment and restatement of the Directors Plan require the affirmative vote of a majority of the votes cast on such proposal at the Annual General Meeting, provided there is a quorum (consisting of one or more Shareholders present in person or by proxy holding at least fifty percent (50%) of the issued and outstanding Shares entitled to vote at the Annual General Meeting). Shares owned by Shareholders electing to abstain from voting with respect to any proposal and broker non-votes will be counted towards the presence of a quorum but will not be considered present and voting with respect to the elections of nominees for Director or other matters to be voted upon at the Annual General Meeting. Therefore, abstentions and broker non-votes will have no effect on the outcome of the proposals to elect directors, to ratify the appointment of the Auditors or to approve the amendment and restatement of the Directors Plan.

XL CAPITAL LTD
2008 PROXY STATEMENT

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PROPOSALS UNDER VOTE

I. ELECTION OF DIRECTORS

At the Annual General Meeting, three Class I Directors are to be elected to hold office until the 2011 Annual General Meeting of Shareholders. All of the nominees are currently serving as Directors and were appointed or elected in accordance with the Company s Articles of Association. Unless authority is withheld by the Shareholders, it is the intention of the persons named in the enclosed proxy to vote for the nominees listed below. All of the nominees have consented to serve if elected, but if any becomes unavailable to serve, the persons named as proxies may exercise their discretion to vote for a substitute nominee. The name, principal occupation and other information concerning each Director are set forth below.

Nominees for Whom Proxies will be Voted

Nominees for Class I Directors for terms to expire in 2008:

Herbert N. Haag, age 61, has been a Director of the Company since June 2006. Mr. Haag was the founding President and Chief Executive Officer of Bermuda-based reinsurer PartnerRe Ltd. from 1993 until his retirement in December 2000. From December 2000 to 2002, Mr. Haag served as Senior Advisor of PartnerRe Ltd. Mr. Haag s insurance industry career spans approximately 40 years, including 24 years with Swiss Reinsurance Company where he held various senior positions, latterly as Executive Vice President responsible for Swiss Re Zurich s reinsurance business for the Americas, Asia, Africa and Southern Europe. Mr. Haag is the President of the Swiss-Japanese Society in Switzerland.

Ellen E. Thrower, age 61, has been a Director of the Company since 1995. Dr. Thrower has been Executive Director and Professor of Risk Management and Insurance at the School of Risk Management, Insurance and Actuarial Science of the Peter J. Tobin College of Business at St. John s University since 2001, and is President Emeritae of the College of Insurance, where she served as President and Chief Executive Officer from 1988 to 2001 (when the College of Insurance merged into St. John s University). Dr. Thrower has also served as a director of SBLI USA Mutual Life Insurance Company, Inc. since 2004 and as a director of United Educators Insurance since 1996.

John M. Vereker, age 63, was appointed as a Director of the Company in November 2007. Sir John was the Governor and Commander-in-Chief of Bermuda from April 2002 to October 2007. Prior to that, he was the U.K. s Permanent Secretary of the Department for International Development and of its predecessor, the Overseas Development Administration from 1994 to 2002. Over the years, Sir John s career has included working in the World Bank, serving as Private Secretary to three U.K. Ministers of Overseas Development, working on public sector issues in the Policy Unit of the British Prime Minister s Office and serving as Deputy Secretary for the Department of Education and Science. He has been a Board Member of the British Council, the Institute of Development Studies and the Institute of Manpower Studies and Voluntary Service Overseas. He has served on the Advisory Councils for the Centre for Global Ethics and for the British Consultancy and Construction Bureau. He has also been an adviser to the UN Secretary-General s Millenium Development Project and a member of the Volcker panel, which investigated the World Bank s institutional integrity.

Directors whose terms of office do not expire at this meeting

Class II Directors whose terms expire in 2009:

Dale R. Comey, age 66, has been a Director of the Company since 2001. Mr. Comey was a director of St. Francis Hospital and Medical Center, Hartford, Connecticut from 1988 to 2006. Prior to his retirement, Mr. Comey was Executive Vice President at the corporate headquarters of the ITT Corporation from 1990 to 1996, where he was responsible for directing the operations of several ITT business units, including ITT Hartford and ITT Financial

Corporation. From 1988 to 1990, Mr. Comey was President of ITT Hartford s Property & Casualty Insurance Business.

Robert R. Glauber, age 68, has been a Director of the Company since September 2006, having originally served on the Company s board from 1998 to May 2005, at which time he stepped down to focus on other business commitments. Mr. Glauber is presently a lecturer at the John F. Kennedy School of Government, Harvard. Most recently, Mr. Glauber served as Chief Executive Officer of the National Association of Securities Dealers, Inc. (the NASD) from November 2000 to August 2006 and, in addition, as Chairman from September 2001 to August 2006. Mr. Glauber, who is currently a director of Moody s Corporation, Federal Home Loan Mortgage Corp. (Freddie Mac) and Quadra Realty Trust, has previously served on the boards of the Federal Reserve Bank of Boston, a number of Dreyfus mutual funds and the Investment Company Institute. From 1989 to 1992, he served as Under Secretary of the Treasury for Finance and, prior to that, was a Professor of Finance at the Harvard Business School. After leaving the Treasury, he was a lecturer at Harvard s John F. Kennedy School of Government before joining NASD. He is currently a visiting Professor at the Harvard Law School and is a Senior Advisor to Peter J. Solomon Company.

Brian M. O Hara, age 59, has been President and Chief Executive Officer (CEO) of the Company since 1994 and a Director of the Company since 1986. In addition, he has served as Acting Chairman of the Company since late 2007. He has also served as Chairman of XL Insurance (Bermuda) Ltd since December 1995. Mr. O Hara previously served as a Director and Chairman of the Compensation Committee of Security Capital Assurance Ltd (SCA) from August 2006 to November 2007.

John T. Thornton, age 70, has been a Director of the Company since 1988. He has also been a director of Arcadia Resources, Inc. since June 2004 and a director of the Friends of the Pontifical Irish College, Rome, Italy since 2003. Mr. Thornton served as Executive Vice President and Chief Financial Officer of Wells Fargo & Company (formerly Norwest Corporation) from 1967 to 1998. Mr. Thornton also served as Executive Vice President and Financial Executive of Wells Fargo & Company from December 1998 until November 1999.

Class III Directors for terms to expire in 2010:

Joseph Mauriello, age 63, has been a Director of the Company since 2006. Mr. Mauriello was formerly Deputy Chairman and Chief Operating Officer of KPMG LLP (United States) and KPMG Americas Region from 2004 to 2005 and a director of KPMG LLP (United States) and KPMG Americas Region from 2004 to 2005. During his 40 years at KPMG, Mr. Mauriello has held numerous leadership positions, including Vice Chairman of Financial Services from 2002 to 2004. He is a Certified Public Accountant in New York and is a member of the American Institute of Certified Public Accountants. He is also a member of the Board of Overseers of the School of Risk Management, Insurance and Actuarial Science of the Peter J. Tobin College of Business at St. John s University since 2002, a trustee of the St. Barnabas Medical Center in New Jersey since 2003, a member of the Board of Directors of the Alliance for Lupus Research since 2006, a member of the Board of Directors of Arcadia Resources, Inc. since March 2007, and a member of the Board of Trustees of Fidelity Funds since July 2007.

Eugene M. McQuade, age 59, has been a Director of the Company since 2004. Mr. McQuade was appointed Vice Chairman of Merrill Lynch and President of Merrill Lynch Banks (U.S.) in February 2008. Mr. McQuade was President and Chief Operating Officer of Freddie Mac from September 2004 to September 2007 and a director of Freddie Mac from November 2004 to September 2007. Mr. McQuade was President and a director of Bank of America Corporation from April 2004 to June 2004. He previously had been President and Chief Operating Officer at FleetBoston Financial Corporation from 2002 to March 2004. Mr. McQuade served as Vice Chairman and Chief Financial Officer of FleetBoston Financial Corporation from 1997 to 2002. He also served as a director of FleetBoston Financial Corporation from 2003 until April 2004 (when FleetBoston Financial Corporation merged into Bank of America Corporation). Mr. McQuade is a Certified Public Accountant.

Robert S. Parker, age 70, has been a Director of the Company since 1992. Dr. Parker has been Dean Emeritus and the Robert S. Parker Chaired Professor of the McDonough School of Business at Georgetown University since 1998. He served as Dean and a Professor of the School of Business Administration at Georgetown University from 1986 to 1997. Prior to 1986, Dr. Parker was a

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partner of McKinsey and Company, Inc., a consulting firm he joined in 1969. Dr. Parker has been a director of Middlesex Mutual Assurance Company since 1988.

Alan Z. Senter, age 66, has been a Director of the Company since 1986. Mr. Senter is the Chairman of AZ Senter Consulting LLC, a financial advisory firm that he founded in 1993. Mr. Senter served as Executive Vice President and Chief Financial Officer of NYNEX Corporation from 1994 to 1997 and served as a director and Executive Vice President and Chief Financial Officer of International Specialty Products from 1992 to 1994. Mr. Senter previously served as the Vice President and Senior Financial Officer of Xerox Corporation from 1989 to 1992. In addition, Mr. Senter previously served as a Director and Chairman of the Audit Committee of SCA from August 2006 to December 2007.

Your Board of Directors recommends that Shareholders vote FOR the nominees.

II. RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITOR

The Audit Committee of the Board of Directors is required by law and applicable NYSE rules to be directly responsible for the appointment, compensation and retention of the Company s Independent Auditor. The Audit Committee has appointed PricewaterhouseCoopers LLP, New York, New York as the Company s Independent Auditor for the year ending December 31, 2008. While Shareholder ratification is not required by the Company s Articles of Association or otherwise, the Board of Directors is submitting the appointment of PricewaterhouseCoopers LLP to the Shareholders for ratification as part of good corporate governance practices. If the Shareholders fail to ratify the appointment, the Audit Committee may, but is not required to, reconsider whether to retain PricewaterhouseCoopers LLP. Even if the appointment is ratified, the Audit Committee in its discretion may direct the appointment of a different independent auditor at any time during the fiscal year if it determines that such a change would be in the best interest of the Company and its Shareholders.

The Board of Directors recommends a vote FOR the proposal to ratify the appointment of PricewaterhouseCoopers LLP as the Company s Independent Auditor to audit the Company s consolidated financial statements for the year ending December 31, 2008. The persons designated as proxies will vote FOR the ratification of the appointment of PricewaterhouseCoopers LLP as the Company s Independent Auditor, unless otherwise directed. Representatives of PricewaterhouseCoopers LLP are expected to be present at the Annual General Meeting, with the opportunity to make a statement should they choose to do so and are expected to be available to respond to questions, as appropriate.

Your Board of Directors recommends that Shareholders vote FOR the proposal to ratify the appointment of PricewaterhouseCoopers LLP, New York, New York.

III. APPROVAL OF THE AMENDMENT AND RESTATEMENT OF THE COMPANY S DIRECTORS STOCK & OPTION PLAN

The Company s Directors Stock & Option Plan as amended and restated was approved by Shareholders in 2003. Such plan, together with all amendments thereto, is referred to herein as the Directors Plan. The Directors Plan provides for grants of stock options, restricted stock and restricted stock units to non-employee directors and an opportunity for non-employee directors to defer their annual retainer fees in the form of share units or receive their annual retainer fees in the form of shares. Under the Directors Plan, 344,702 shares have been reserved for issuance solely for elective deferrals of annual retainer fees or the elective payment of annual retainer fees in the form of shares, of which 326,342 have not been utilized. Prior to the amendment described below, 300,000 shares had been reserved for issuance under the Directors Plan as stock options, restricted stock and restricted stock units, of which 133,250 have not been utilized.

Since the Directors Plan is scheduled to expire on April 28, 2008, the Board of Directors has amended and restated the Directors Plan, subject to Shareholder approval, to extend the term until June 1, 2013 and to increase the number of shares available for grants of stock options, restricted stock and restricted stock units under the Directors Plan by

150,000 to 283,250. The Directors Plan

has also been amended to define the fair market value of the shares for purposes of the plan as the closing price per share on the date in question. Prior to the amendment, the fair market value had been based on the closing price per share on the date preceding the date in question. In addition, the Directors Plan has been amended to provide that the annual stock option grants will be 2,500 shares per non-employee director (or such other number of shares as determined from time to time by the Board of Directors).

The Shareholders are now requested to approve the amendment and restatement of the Directors Plan.

The following summary of the Directors Plan is qualified in its entirety by express reference to the amended and restated Directors Plan, which is attached as Appendix B to this proxy statement.

General

The Directors Plan is intended to advance the interests of the Company and its Shareholders by providing a means to attract, retain and motivate non-employee directors of the Company upon whose judgment, initiative and effort the continued success, growth and development of the Company is dependent. The Directors Plan provides for the grant to non-employee directors of non- qualified stock options, restricted stock, and restricted stock units. The Directors Plan also provides for elective deferral of annual retainer fees and, as an alternative, an election to receive annual retainer fees in the form of Shares. The aggregate number of Shares which are available for issuance under the Directors Plan in connection with elective deferral of annual retainer fees or elections to receive annual retainer fees in the form of Shares is 344,702, and an additional 450,000 are available for grants of nonqualified stock options, restricted stock, restricted stock units, in each case subject to anti-dilution adjustments in the event of certain changes in the Company s capital structure. Shares issued pursuant to the Directors Plan will be authorized but unissued shares.

Eligibility and Administration

Only non-employee members of the Company s Board of Directors will be eligible to participate in the Directors Plan. The Directors Plan will be administered by the full Board of Directors, which will determine the types of awards to be received and the terms and conditions thereof. The number of non-employee directors who will be eligible to receive awards under the Directors Plan is currently ten.

Awards and Deferral Elections

The Directors Plan provides for automatic annual grants of non-qualified stock options to each non-employee director on the following terms. The date of grant will be the date of each annual meeting of Shareholders, and options will be granted to the non-employee directors in office immediately following the annual general meeting. The exercise price per Share will be equal to the fair market value per Share on the date of grant, and the number of Shares subject to each option will be 2,500 (or such other amount as determined from time to time by the Board of Directors). The term of each option will be ten years, each option will be fully exercisable on the date of grant, and continued exercisability will not be dependent on continued service on the Board of Directors.

In addition, when a non-employee director is first elected to the Board of Directors an option to purchase 5,000 Shares (or such other amount as determined from time to time by the Board of Directors) is granted to the non-employee director on the date of such first election. The other terms of the option will be as described above in the case of the automatic annual option grants.

The Directors Plan also provides for discretionary grants of non-qualified stock options, restricted stock and restricted stock units. The specific terms of such grants will be as determined by the Board of Directors, but the exercise price of an option may not be less than the fair market value per Share on the date of grant. In addition, options may not be repriced without Shareholder approval.

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Non-employee directors may elect to defer all or a portion of their annual retainer fees. Amounts deferred will be credited to the non-employee directors accounts under the Directors Plan in the form of share units. The number of share units credited will be equal to the number of Shares having an aggregate fair market value on the date the fees would otherwise have been paid equal to the amount deferred. If any dividends are payable on the Shares during the deferral period, additional share units will be credited to the non-employee directors accounts, based on the amount of the dividends and the fair market value of the Shares at the time the dividend is paid. Amounts deferred will be distributed (in the form of one Share for each share unit) either in a lump sum at the time of the non-employee director s separation from service on the Board of Directors or in five annual installments commencing at such time, as elected by the non-employee director in accordance with the election provisions of the Directors Plan.

Alternatively, non-employee directors may elect to receive their annual retainer fees currently in the form of Shares instead of cash, based on the fair market value of the Shares on the date the fees would otherwise have been paid.

Amendments and Termination

The Board of Directors may amend or terminate the Directors Plan, but any such amendment or termination will be subject to the approval of Shareholders if required by applicable law or the rules of any stock exchange on which the Shares may then be listed. In addition, no amendment or termination may adversely affect the rights of a participant under outstanding awards or previously deferred fees without the consent of the affected participant.

Market Value

The per Share closing price of the Company s Shares on March 7, 2008 was $32.58.

Federal Income Tax Consequences

The following is a summary of the United States federal income tax consequences of the Directors Plan, based upon current provisions of the Code, the Treasury regulations promulgated thereunder and administrative and judicial interpretations thereof, and does not address the consequences under any state, local or foreign tax laws.

Stock Options

In general, the grant of a nonqualified stock option will not be a taxable event to the recipient. Upon the exercise of a non-qualified stock option, the participant will recognize ordinary taxable income equal to the excess of the fair market value of the Shares received upon exercise over the exercise price. Any gain or loss upon a subsequent sale or exchange of the shares will be capital gain or loss, long-term or short-term, depending on the holding period for the Shares.

Restricted Stock

A participant who receives shares of restricted stock will generally recognize ordinary income at the time that they vest , i.e., when they are not subject to a substantial risk of forfeiture. The amount of ordinary income so recognized will be the fair market value of the Shares at the time the income is recognized (determined without regard to any restrictions other than restrictions which by their terms will never lapse), less the amount, if any, paid for the Shares. Dividends paid with respect to Shares that are not vested will be ordinary compensation income to the participant. Any gain or loss upon a subsequent sale or exchange of the Shares, measured by the difference between the sale price and the fair market value on the date of vesting, will be capital gain or loss, long- term or short-term, depending on the holding period for the Shares. The holding period for this purpose will begin on the date following the date of vesting.

In lieu of the treatment described above, a participant may elect immediate recognition of income under Section 83(b) of the Code. In such event, the participant will recognize as income the

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fair market value of the restricted stock at the time of grant (determined without regard to any restrictions other than restrictions that by their terms will never lapse). Dividends paid with respect to Shares as to which a proper Section 83(b) election has been made will not be deductible. If a Section 83(b) election is made and the restricted shares are subsequently forfeited, the participant will not be entitled to any offsetting tax deduction.

Other Awards and Deferrals

With respect to restricted stock units and amounts deferred, generally, a participant will be subject to income tax at ordinary income rates at the time of receipt of payment with respect to any such restricted stock units or deferrals, and the amount of such income will be the fair market value of the Shares received, determined at the time they are received.

Your Board of Directors recommends a vote FOR the proposal to amend and restate the Directors Plan.

CORPORATE GOVERNANCE

The Company s Board of Directors (sometimes referred to herein as the Board) and management have a strong commitment to effective corporate governance. The Company has in place a comprehensive corporate governance framework for its operations which, among other things, takes into account the requirements of the Sarbanes-Oxley Act of 2002, the U.S. Securities and Exchange Commission (the SEC) and the New York Stock Exchange (NYSE). The key components of this framework are as follows:

Board of Directors

The size of the Board of Directors is fixed at eleven effective upon Mr. Cyril Rance s retirement from the Board immediately prior to the Annual General Meeting as a result of Mr. Rance having reached the mandatory retirement age for members of the Board of Directors. The Company s Articles of Association provide that the Board of Directors shall be divided into three classes, designated Class I , Class II and Class III , with each class consisting as nearly as possible of one-third of the total number of Directors constituting the entire Board of Directors.

The term of office for each Director in Class I expires at the 2008 Annual General Meeting; the term of office for each Director in Class II expires at the 2009 Annual General Meeting; and the term of office for each Director in Class III expires at the 2010 Annual General Meeting of the Company. At each Annual General Meeting, the successors of the class of Directors whose term expires at that meeting shall be elected to hold office for a term expiring at the Annual General Meeting to be held in the third year following the year of their election.

In 2007, there were seven formal meetings of the Board and all incumbent Directors attended at least 75% of such meetings and of the meetings held by all committees of the Board of which they were a member. Formal meetings of the Board and Board committees are supplemented periodically by informational meetings. In 2007, eight such informational meetings of the Board were held. The Company expects Directors to attend the Annual General Meeting and all twelve of the Company s then Directors attended the 2007 Annual General Meeting.

Executive Sessions of Non-Management and Independent Directors

The Company s non-management Directors meet at regularly scheduled executive sessions of the Board without any member of management in attendance. In addition, the independent Directors meet as a group at least annually. Mr. Glauber and, in his absence, Mr. Comey were selected by the independent Directors to act as presiding Director (the Lead Director) at such executive sessions of the Board. Mr. Glauber will serve as lead Director until the Board meeting that immediately precedes the 2008 Annual General Meeting.

Independence Standards

The Board has adopted categorical standards to assist it in making determinations as to whether Directors have any material relationships with the Company for purposes of determining independence under the listing standards of the NYSE and Rule 10A-3 promulgated under the Securities Exchange Act of 1934, as amended (the Exchange Act). The categorical standards are attached as Appendix A to this Proxy Statement. In accordance with these standards, the Board of Directors determined (i) in February 2008, that each of Messrs. Comey, Glauber, Haag, Mauriello, McQuade, Rance, Senter, and Thornton, Drs. Parker and Thrower and Sir John Vereker is independent in accordance with such categorical standards and (ii) that no transactions or relationships existed that were inconsistent with a determination that each such Director is independent.

In reaching its conclusion with respect to each of the independent directors, the Board considered that (i) two Directors (Messrs. O Hara and Mauriello) are directors on a board of an entity on which a Director is an executive director (Dr. Thrower), (ii) in 2007, a Director (Mr. Glauber) was a director on a board of an entity on which a Director was an executive officer (Mr. McQuade), (iii) a Director (Mr. Mauriello) receives a pension from a company that does business with the Company, (iv) a Director (Mr. McQuade) has a family member who in 2007 was employed by an investment bank that did work for the Company from time to time, but the family member was not involved in the work for the Company, (v) during 2007, a Director (Mr. Senter) served as a director and Chairman of the Audit Committee of a public affiliate of the Company, (vi) a Director (Dr. Thrower) is an executive director of a charitable organization to which the Company and certain directors and executive officers make contributions and (vii) a Director (Mr. Rance) has two family members who are employees of the Company.

Committees

The Board has established an Audit Committee, a Compensation Committee, a Nominating & Governance Committee, a Finance Committee and a Public Affairs Committee. In addition, special committees of the Board may be created from time to time to manage various risk management and other initiatives. In October 2007, a Succession Committee was created following the announcement by the Company that Mr. Brian O Hara, President and CEO of the Company (and since late 2007, Acting Chairman), had informed the Company s Board of Directors of his decision to retire as President and CEO in mid-2008.

Each member of the Audit Committee is independent as independence for Audit Committee members is defined in the NYSE listing standards and Rule 10A-3 promulgated under the Exchange Act. Each member of the Compensation Committee, the Nominating & Governance Committee and the Public Affairs Committee is independent (as defined in the NYSE listing standards).

Audit Committee

The Audit Committee s primary purpose is to assist in the Board s oversight of the integrity of the Company s financial statements, including its system of internal controls, the Independent Auditor s qualifications, independence and performance, the performance of the Company s internal audit function and the Company s compliance with legal and regulatory requirements. The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the work of the Independent Auditor in preparing or issuing an audit report or performing other audit, review or attestation services for the Company. Messrs. Thornton (Chairman), Comey, Mauriello, McQuade, Rance, Senter and Dr. Thrower comprise the Audit Committee. The Audit Committee met six times during 2007 and held five informational meetings in 2007. The Board has determined that each of Messrs. Mauriello, McQuade, Senter and Thornton is an audit committee financial expert (as that term is defined in Item 401(h) of Regulation S-K).

Compensation Committee

The Compensation Committee reviews the performance and compensation of the Chairman, the Chief Executive Officer and other senior executives and has overall responsibility for approving and evaluating compensation and benefit plans of the Company. Messrs. Comey (Chairman), Glauber and McQuade comprise the Compensation Committee. The Compensation Committee met six times during 2007 and held two informational meetings in 2007.

Nominating & Governance Committee

The Nominating & Governance Committee makes recommendations to the Board as to nominations to the Board and Board committee memberships and compensation for Board and Board committee members, as well as structural, governance and procedural matters. The Nominating & Governance Committee also reviews the performance of the Board and the Company s succession planning. Drs. Parker (Chairman) and Thrower and Messrs. Glauber and Mauriello comprise the Nominating & Governance Committee. The Nominating & Governance Committee met seven times during 2007 and held two informational meetings in 2007.

i) Identifying and evaluating nominees

The Nominating & Governance Committee is responsible for reviewing with the Board, on an annual basis, the requisite skills and characteristics of new Board members as well as the composition of the Board as a whole. When the Board determines to seek a new member, whether to fill a vacancy or otherwise, the Nominating & Governance Committee utilizes third-party search firms and considers recommendations from Board members, management and others, including Shareholders. In general, the Nominating & Governance Committee looks for new members possessing superior business judgment and integrity who have distinguished themselves in their chosen fields of endeavor and who have knowledge or experience in the areas of insurance, reinsurance, financial services or other aspects of the Company s business, operations or activities.

ii) Nominees recommended by Shareholders

The Nominating & Governance Committee will consider, for Director nominees, persons recommended by Shareholders, who may submit recommendations to the Nominating & Governance Committee in care of the Company s Secretary at XL House, One Bermudiana Road, Hamilton HM 11, Bermuda. To be considered by the Nominating & Governance Committee, such recommendations must be accompanied by a description of the qualifications of the proposed candidate and a written statement from the proposed candidate that he or she is willing to be nominated and desires to serve if elected. Nominees for Director who are recommended by Shareholders to the Nominating & Governance Committee will be evaluated in the same manner as any other nominee for Director. Nominations by Shareholders may also be made at an Annual General Meeting in the manner set forth under Shareholder Proposals for 2009 Annual General Meeting.

Finance Committee

The Finance Committee establishes and recommends the financial policies of the Company and reviews the Company s capital structure, issuances of securities, dividend policy, mergers, acquisitions and divestitures, significant strategic investments, overall investment policy and performance, all major risk management exposures and annual business plan and budget. Messrs. Glauber, Haag, O Hara, McQuade (Acting Chairman), Senter and Thornton, Dr. Parker and Sir John Vereker comprise the Finance Committee. During 2007, Michael P. Esposito, Jr. served as Chairman of the Finance Committee until he resigned from the Board of Directors on December 27, 2007. The Finance Committee met seven times during 2007 and held one informational meeting in 2007.

Public Affairs Committee

The Public Affairs Committee reviews the Company s policies and programs that relate to public issues of significance to the Company and the public at large, the Company s relationship with external constituencies and the non-financial issues that impact the Company s reputation. The Public Affairs Committee also oversees the Company s program of charitable giving. Mr. Rance (Chairman), Drs. Parker and Thrower and Sir John Vereker comprise the Public Affairs Committee. The Public Affairs Committee met twice during 2007.

Succession Committee

The purpose and responsibility of the Succession Committee has been to establish and implement a program to identify, evaluate and recommend to the Board of Directors potential candidates to succeed the current CEO upon his retirement from such position, and to discuss, negotiate and agree upon, subject to the approval of the Board, the terms and conditions upon which candidates recommended to the Board will serve in such capacity.

The Committee has the sole authority to retain and terminate any search firm it elects to engage to assist in identifying CEO candidates, including the sole authority to approve the fees to be paid to such firm as well as other retention terms. Messrs. Comey, Glauber (Chairman), Haag and McQuade and Dr. Parker comprise the Succession Committee. The Succession Committee held six informational meetings in 2007.

Communications with Members of the Board of Directors and its Committees

Shareholders and other interested persons may communicate directly with one or more Directors (including the Lead Director or all non-management Directors as a group) by writing to them in care of the Company s Secretary at XL House, One Bermudiana Road, Hamilton HM 11, Bermuda and specifying the intended recipient(s). All such communications will be forwarded to the appropriate Director(s) for review, other than communications that are advertisements or other commercial solicitations or communications.

Code of Conduct

The Company has adopted a Code of Business Conduct and Ethics, which applies to all of the Company s Directors, officers (including the CEO) and employees. The Company has also adopted a Code of Ethics for XL Senior Financial Officers applicable to the Company s chief financial officer, controller and other persons performing similar functions. The Company will post on its website at *www.xlcapital.com* any amendment to or waiver under the Code of Business Conduct and Ethics or the Code of Ethics for XL Senior Financial Officers granted to any of its Directors or executive officers that relates to any element of the code of ethics definition set forth in Item 406 of Regulation S-K of the Securities Act of 1933, as amended.

Website Access to Governance Documents

The Company s Director Independence Standards, Corporate Governance Guidelines, Code of Business Conduct and Ethics and Code of Ethics for XL Senior Financial Officers, the charters for the Audit Committee, Compensation Committee, Nominating & Governance Committee, Finance Committee, Public Affairs Committee and Succession Committee and other Company ethics and governance materials are available free of charge on the Company s website located at *www.xlcapital.com* or by writing to Investor Relations, XL Capital Ltd, XL House, One Bermudiana Road, Hamilton HM 11, Bermuda.

Procedures for Approval of Related Person Transactions

In February 2007, the Company s Board of Directors adopted written policies and procedures relating to the approval or ratification of transactions with Related Parties . Under these policies and procedures, management shall present to the Nominating & Governance Committee any Related Person Transactions proposed to be entered into by the Company and any Ordinary Course Related Person Transactions known to management, including the aggregate value of such transactions, if applicable. In reviewing proposed Related Person Transactions, the Committee shall consider, among other things, if such transactions are on terms comparable to those that could be obtained in arm s length dealings with an unrelated third person and shall review such transactions to ensure that the terms are arm s-length or otherwise fair to the Company. In instances where an Ordinary Course Related Person Transaction is reviewed, the Committee shall determine whether such proposed transaction is in the ordinary course of business and on terms no more favorable than are made to other unrelated persons. After review, the Committee shall approve or disapprove such transactions. Management shall, at each subsequent Nominating & Governance Committee meeting, update the Committee as to any material change to those transactions that have been approved by the Nominating & Governance Committee. No Director may participate in any discussion or approval of a Related Person Transaction or Ordinary Course Related Person Transaction in which he or she is a Related Person.

Under these policies and procedures, a Related Person Transaction is any transaction, including proposed charitable contributions or pledges of charitable contributions, in which the Company was or is a participant, and the amount involved exceeds $120,000 and in which a Related Person had or will have a direct or indirect material interest. A Related Person Transaction does not include the Company s providing insurance and/or reinsurance to Shareholders or their affiliates, or to employers or entities associated with a Related Person in the ordinary course of business, on terms no more favorable to the (re)insureds than are made available to other customers (collectively, Ordinary Course Related Person Transaction(s)). A Related Person is a senior officer, director or nominee for director of the Company, a greater than 5% beneficial owner of the Company s outstanding Shares, any immediate family member (as that term is defined by Item 404 of Regulation S-K) of any of the foregoing or an entity in which a person listed in the foregoing has a substantial interest in, or control of, such entity or which employs a person listed in the foregoing.

Related person transactions during 2007 are discussed under the heading Related Person Transactions.

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COMPENSATION DISCUSSION AND ANALYSIS

Introduction

As a global property and casualty insurance and reinsurance company, the Company s compensation programs are designed to reflect the cyclical nature of the industry. What this means is that the programs recognize that during a program cycle, there will be periods when premium rates (and negotiating policy terms) are more favorable than the cycle average while other periods during the cycle will be less favorable. The Company s goal in managing the cycle is to build long-term shareholder value by capitalizing on current opportunities and managing any potential downward cycles by reducing the property and casualty book of business and exposures if and when rates deteriorate to unprofitable levels.

The Company s executive compensation programs are established so that executives are rewarded for creating long-term shareholder value by strengthening its competitiveness within the insurance/reinsurance industry, resulting in an increase in the value of the Company s share price. Accordingly, performance measurements for the programs described below are set with the idea that attainment of both internal and external (relative to peers) goals will increase long-term shareholder value.

The goals of the Company s executive compensation programs are to:

Attract and retain high quality executives that will implement the Company s business strategy effectively. Due to the highly competitive nature of attracting key executives within the commercial insurance/reinsurance industry, the Company s aim is to provide substantial rewards to those executives that prove consistently successful in their roles.

Motivate executives to maximize the long-term creation of shareholder value. With attainment of an operating return on equity (meaning, operating income divided by the average ordinary

Shareholders equity for the period) (Operating ROE) performance metric required for the vesting of restricted shares and to determine the level of payout for outstanding cash long-term incentive plan (LTIP) measurement periods, consistent annual returns are rewarded. If the Company should have a sub-standard performance year, restricted shares do not vest and any LTIP payout that includes that performance year will be reduced. Operating income is a non-GAAP financial measure under Regulation G and represents net income excluding net realized gains and losses on investments, net realized and unrealized gains and losses on credit, structured financial and investment derivatives, net of tax for the Company and its share of these items for Security Capital Assurance (SCA), a financial guarantor bond insurer, and the Company s other insurance company operating affiliates.

Align an executive s business actions with the Company s core values and pay-for-performance philosophy. While it is important that the Company attains its stated business goals, it will not do so at the expense of its core values. These core values underscore and define who the Company is to its customers and other stakeholders. The Company s principles are predicated on the understanding that executive contributions to its success demonstrate the base core values that underpin its culture:

Ethics We insist on the highest standards of personal and professional conduct to secure the absolute trust and confidence of our clients, our shareholders and our colleagues.

Teamwork We achieve a greater contribution when we work together. We recognize and reward team effort.

Excellence We require continuous improvement in the quality of all that we do. We reward those who continually seek to improve the quality of their work.

Development Ensuring that all our staff realize their full potential is the only way for us to reach our business objectives. We expect everyone to take the initiative for their own professional development and to actively seek opportunities to assist in the development of colleagues and subordinates.

Respect We must all value and respect the differences and diversity within our organization. Lack of personal and professional respect in dealing with our colleagues is not tolerated.

Executive Compensation Program Review and Oversight

The goals of the Company s executive compensation programs have been established by the Compensation Committee of the Board of Directors. This committee consists of three independent directors: Dale R. Comey (Chairman), Robert R. Glauber and Eugene M. McQuade. All Compensation Committee members are outside directors as defined under Section 162(m) of the Internal Revenue Code and qualify as independent Directors under the NYSE listing standards. The Compensation Committee evaluates and approves all senior executive compensation actions, as well as compensation and benefits policies, plans and programs.

The President and CEO, Brian M. O Hara, is responsible for providing recommendations to the Compensation Committee with respect to all compensation actions for the executive officers other than himself, as well as the cash incentive pools and the long-term incentive pools for all non-executive employees. The Compensation Committee expects that Mr. O Hara will justify his recommendations based on actual performance against agreed upon metrics, relative performance versus the Company s peers and, at the business unit level, relative contributions to overall Company results. Mr. O Hara is required by the Compensation Committee to detail the Company s operating results each year, how these results compare to the Company s peer group of 11 companies in the global commercial insurance/reinsurance market, individual performance of senior executives and how his compensation recommendations relate to such performance comparisons. The Compensation Committee reviews the recommendations made by each business/functional unit as well as each of the recommendations made for the Executive Management Group (EMG). The Compensation Committee also considers Mr. O Hara s annual and long-term incentive awards and submits the recommendations to the Board of Directors for approval.

The Compensation Committee retains Mercer Human Resources Consulting (Mercer) to assist in calculations for the annual incentive pool and to advise the Compensation Committee of any issues requiring the consulting firm s expertise. In 2007, the Compensation Committee retained Mercer to size the annual incentive pool using the annual program metrics (described below) and to provide the Committee a current market perspective with respect to compensation plan metrics used in the Insurance/Reinsurance industry and in general market practice.

Executive Compensation Philosophy and Core Principles

The Company s compensation strategy is punctuated by differentiation it is a pay for performance strategy. Accordingly, target salary compensation levels are set at approximately the 50th percentile of the local market in which each executive operates and the annual incentive target compensation levels are set between the 50th and the 75th percentile of the market relative to the peer group. The Company drives superior performance by paying above these market levels to executives that make superior contributions to the Company s success as measured by the performance of their business unit relative to annual internal and external goals and their contributions to the Company s overall success. To effectuate the pay for performance philosophy, the fixed elements (salary and benefits) of compensation that do not relate to performance of the Company, business line or executive are minimized while the variable elements (annual and long-term incentives) that relate to, and are paid out based on, performance are enhanced.

Using all instruments that are practically available, the total compensation package for an executive is positioned competitively relative to the market for their skill-sets; in particular, the market for most of the Company s executives consists of those companies that operate in the global commercial insurance/reinsurance industry. While not all of the executives can be expressly tied to such a market (e.g., certain finance, information technology or investments executives), the aim is to reward executives relative to their contributions to the success of the Company in any given year. This does not necessitate having every executive at or above market levels. Individual considerations such as performance, previous experience and additional skill-sets are considered when determining compensation for an executive. Due to the Company s focus on providing variable compensation, actual pay can be well above or below an executive s market median based on actual business and individual performance.

Since much of the Company s business requires multiple years to determine whether risk assessments have been successful, the Company chooses to put a significant portion of its senior executives compensation package in long-term vehicles that provide wealth to the executive when value is created for shareholders. This combination of retaining and motivating executives is carried out by using different vehicles that have different objectives. In general, the Company s goal for its Named Executive Officers (NEOs) is to have 10%-20% of total annual compensation in annual salary, 20%-40% in annual cash incentive and the remainder in a mix of long-term incentives.

The Company works to maintain equity and fairness in the distribution of total compensation for executives in similar jobs, with similar performance and in similar local markets. The Company does not attempt to equalize total compensation across geographical markets, varying business markets or different performance levels.

Executive Compensation Program Components

The Company aims to reward performance based on annual performance goals, long-term performance goals and adherence to the Company s corporate core values by using two fixed components (base salaries and perquisites/supplemental benefits) and two variable components (annual incentives and long-term incentives) in its executive compensation program. For the Company s NEOs, an annual review of peer data that is disclosed in public filings is completed to ensure that compensation levels are competitive with those companies viewed as direct competitors and to better understand trends in the use of compensation vehicles. The competitor group that has been defined for reviewing compensation levels includes ACE Limited, American International Group, Inc., Arch Capital Group, Ltd., Axis Capital Holdings Limited, Chubb Corporation, Endurance Specialty Holdings Ltd., Everest Re Group, Ltd., The Hartford Financial Services Group, Inc., PartnerRe Ltd., RenaissanceRe Holdings Ltd., and The Travelers Companies, Inc.

Fixed Components

Base Salaries. Base salaries are established based on the responsibilities of the executive, the relative base salary level paid by the Company s peer group to executives with similar levels of responsibility and the geographic location of the executive. Base salaries are intended to compensate an executive for executing the basic responsibilities of their job. Due to the relatively fixed nature of base salaries, the Company aims to pay at the median of the respective market and it undertakes a review and adjustment of executive base salaries each year in the first quarter. The Compensation Committee reviews the recommendations made by Mr. O Hara each year with respect to all executive officers and the Committee reviews the base salary of Mr. O Hara in the same manner. Since base salaries are paid for executing the basic responsibilities of the job, base salaries are adjusted when there has been a change to the market level being paid for the responsibilities of that job or when the role of the executive has changed. Mr. O Hara last received a salary increase in 2001; since that time, the Compensation Committee has reviewed the salary level for Mr. O Hara and believes that his salary approximates the median of the competitive peer group. No NEO received a salary increase in calendar year 2007 and only one NEO received a salary increase as part of the 2008 compensation review in the first quarter of 2008.

Perquisites and Supplemental Benefits. Pursuant to the Company s pay-for-performance philosophy, executives receive minimal perquisites and minimal supplemental benefits, most notably a non-qualified supplemental deferred compensation plan which allows U.S. tax-paying executives to defer receipt of up to 50% (prior to January 1, 2007 executives could defer up to 95%) percent of their base salary and 100% of their annual incentive award, which are notionally invested in a series of mutual funds that are managed by the Company s retirement plan vendor. This type of benefit is provided to executives by a majority of the Company s peer companies. The Company does not have any defined benefit (pension) plans for its NEOs. Health and retirement benefits

are provided to all
employees based on
market

norms in the local markets in which the Company operates and at local market levels. Since benefits supplement the overall total rewards package and due to the fixed nature of the costs incurred in providing such benefits, local markets are periodically reviewed to determine the appropriate vehicles and cost-sharing levels relative to peer companies (as described above) in the local markets in which the Company operates.

Variable Components

Annual Incentives. Annual incentives are awarded by the Compensation

Committee, payable based on the attainment of financial and operational goals of the Company, business unit and individual goals and are paid in cash within the first quarter of the following year. Determination of payout levels includes both absolute and relative performance. Individuals have target annual incentive levels that vary based on the executive s role with no stipulation of a maximum or minimum payout level. Executives are evaluated based on four primary criteria: 1) the overall performance of the Company and their contribution to that performance, 2) the performance of the business unit or function that the executive leads, 3) the executive s attainment of annual performance goals and 4) the executive s personal and business unit/function s adherence to the Company s core values.

Performance measures that determine the annual incentive pool are reviewed annually and in recent years have included the following:

Metric	**Metric Type**	**Weight**
Operating ROE	Absolute (internal measure)	25%
Operating Earnings per Share	Absolute (internal measure)	25%
Book Value per share growth	Relative (to peer group)	