

February 10, 2009

Dear Valued Client/Broker,

After the most turbulent year in our history, I am pleased to report that not only has XL's franchise value emerged intact, I believe XL is also better positioned to meet the challenges and market opportunities of 2009.

Some of this is evident from the fourth quarter and full year 2008 underlying business results that we announced this evening.

Let me provide some context for those results then update you on where XL stands today and where we are heading.

First of all, despite the global economic turmoil, difficult industry conditions, and our own challenges, XL has delivered good underlying business results by industry and our own standards. A few examples include:

- Overall P&C combined ratio for the fourth quarter was 89.4% -- four points better than the same period in 2007;
- Total P&C income in the fourth was \$160 million compared to \$106 million in the fourth quarter of 2007;
- Both our Insurance and Reinsurance segments experienced overall favorable retention of business during the January 1 renewals;
- For the full year of 2008, more than \$900 million of the Insurance segment's Gross Written Premiums represented new business; and
- The Reinsurance segment achieved an underwriting profit of close to \$400 million.

In addition, XL is one of the few companies in the industry that has not had to revise its initial loss estimates for Hurricanes Ike and Gustav.

Also, in 2008 XL continued to retain and attract key employees and expanded its products and services in important markets in North America and Europe.

By the way, we achieved all of this without the need for any government bailout or additional capital raising (since last August which was in connection with SCA). In fact, the rating agencies have seen our 2008 results and 2009 business plans and we believe they recognize the quality of XL's core insurance and reinsurance business.

This is very encouraging and while we are proud of what we have achieved under extremely difficult conditions in 2008, we do not take this or our position in the market for granted. For example, while our product lines are intact, there are a few long-tail lines where we have experienced pressures from a change in our S&P rating. We appreciate your efforts and cooperation in working with us through these challenges.

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We have taken a number of actions to simplify and further strengthen our balance sheet. You will see from our results that we made a \$990 million non-cash charge against goodwill principally on our Mid-Ocean acquisition that was completed in 1998. The Mid-Ocean business is a great business, but Generally Accepted Accounting Principles (GAAP) requires that we recognize current market valuations in how we carry the goodwill that came with Mid-Ocean. As you know, valuations across industries and markets were pummeled last year. This sensible non-cash charge should remove any goodwill questions about our balance sheet and reflect its true strength.

We chose to take a \$400 million investment portfolio restructuring charge to allow for opportunistic asset sales worth several times that amount in 2009. This action provides more stability even if the market remains volatile. Both actions have already been reviewed by the rating agencies without negative effect. They have no impact on our rating agency, regulatory or tangible capital. These and other actions that we are taking will simplify our investment portfolio to bring it in line with our P&C business focus. We have no need to raise additional capital.

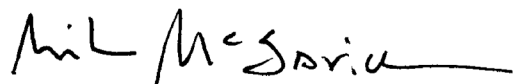
Our focus is also on reducing risk and volatility in our investment portfolio. We will enhance risk management at all levels. We are streamlining operations to better protect us in the current global economic downturn and to strengthen the franchise for the long term. These efficiencies will not have an impact on our underwriting operations, and we will continue to provide high quality customer service.

While these efforts and our highly-skilled and dedicated people should allow XL to remain a strong and competitive insurance and reinsurance provider now and in the future, we realize that we would not be able to sustain this position without loyal clients and supportive brokers like you. For this we are grateful.

I have attached some material for your reference, plus we have posted to the XL Insurance and XL Reinsurance websites a presentation detailing our 4Q and full year 2008 results. I urge you to visit the site for further information.

With 2008 behind us, rest assured that we stand ready with our solid A.M. Best and Standard & Poor's financial strength ratings to continue to put our strong capital to work for our existing and future clients.

Regards,

A handwritten signature in black ink that reads 'Mike McGavick'.

Mike McGavick  
CEO  
XL Capital Ltd

attachments