

XL CAPITAL LTD
Form DEF 14A
March 09, 2009

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 S

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Check the appropriate box:

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- £ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- S Definitive Proxy Statement
- £ Definitive Additional Materials
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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 24, 2009**

Hamilton, Bermuda

March 9, 2009

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 24, 2009 at 8:30 a.m. local time for the following purposes:

1. To elect three Class II Directors to hold office until 2012;
2. To approve the amendment and restatement of the Company s 1991 Performance Incentive Program;
3. To approve the amendment and restatement of the Company s Directors Stock & Option Plan;
4. 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, 2009; and
5. To transact such other business as may properly come before the meeting or any adjournments thereof.

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Only shareholders of the Company at the close of business on March 2, 2009 are entitled to notice of, and to vote at, the annual meeting. For instructions on voting, please refer to the instructions on the Notice you received in the mail or, if you requested a hard copy of the Proxy Statement, on your enclosed proxy card.

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 24, 2009**

GENERAL INFORMATION

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 24, 2009 and any adjournments thereof. Pursuant to rules recently adopted by the U.S. Securities and Exchange Commission (the "SEC"), the Company has elected to provide access to its proxy materials over the Internet. Accordingly, the Company is sending the Notice Regarding the Availability of Proxy Materials (the "Notice") to shareholders of the Company's Class A Ordinary Shares (the "Shares"). The Notice, the Proxy Statement, the Notice of Annual General Meeting and the proxy card are first being made available to shareholders on or about March 9, 2009. The Company has made available with this Proxy Statement the Company's Annual Report on Form 10-K (the "Annual Report to Shareholders"), although the Annual Report to Shareholders should not be deemed to be part of the Proxy Statement. All shareholders will have the ability to access the proxy materials on a website referred to in the Notice. Shareholders may also request to receive a printed set of the proxy materials. In addition, shareholders may specify how they would prefer to receive proxy materials in the future, including receiving proxy materials by e-mail or in hard copy format. Choosing to receive your future proxy materials by e-mail will save the Company the cost of printing and mailing documents to you and will, therefore, reduce the impact on the environment. If you choose to receive future proxy materials by e-mail, you will receive an e-mail next year with instructions containing a link to those materials and a link to the proxy voting site. Your election to receive proxy materials by e-mail will remain in effect until you terminate it. Additionally, if you choose to receive future proxy materials by mail, your election to receive proxy materials by mail will remain in effect until you terminate it.

When such proxy is properly executed, the Shares of the Company it represents will be voted at the meeting on the following proposals: (1) the election of the three nominees for Class II Directors identified herein, (2) the approval of the amendment and restatement of the Company's 1991 Performance Incentive Program, (3) the approval of the amendment and restatement of the Company's Directors Stock & Option Plan and (4) 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, 2009.

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 2, 2009 will be entitled to vote at the Annual General Meeting. As of March 2, 2009, there were 342,162,318 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").

Other than the approval of the minutes of the 2008 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 approval of the amendment and restatement of the Company's 1991 Performance Incentive Program, the approval of the amendment and restatement of the Company's Directors Stock and Option Plan and the ratification of the appointment of the Independent Auditor 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). A withhold vote for any nominee for Director is equivalent to a vote against that Director.

Shares owned by Shareholders electing to abstain from voting and broker non-votes with respect to the approval of the amendment and restatement of the Company's 1991 Performance Incentive Program, the approval of the amendment and restatement of the Company's Directors Stock & Option Plan and the ratification of the appointment of the Auditors will be counted towards the presence of a quorum but will not be considered present and voting with respect to those 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 approve the amendment and restatement of the Company's 1991 Performance Incentive Program, to approve the amendment and restatement of the Company's Directors Stock & Option Plan or to ratify the appointment of the Auditors.

**XL CAPITAL LTD
2009 PROXY STATEMENT**

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PROPOSALS UNDER VOTE

I. ELECTION OF DIRECTORS

At the Annual General Meeting, three Class II Directors are to be elected to hold office until the 2012 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 II Directors for terms to expire in 2012:

Dale R. Comey, age 67, 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 69, has been a Director of the Company since September 2006, having originally served on the Company's board from 1998 to May 2005. Mr. Glauber is presently a Lecturer at the Harvard Kennedy School of Government and a Visiting Professor at the Harvard Law School. Most recently, Mr. Glauber served as Chief Executive Officer (CEO) 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 is currently a director of Moody's Corporation and of the Federal Home Loan Mortgage Corp. (Freddie Mac) and a trustee of the International Accounting Standards Committee Foundation. He 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. He is a Senior Advisor to Peter J. Solomon Company.

G. Thompson Hutton, age 53, was appointed as a Director of the Company in January 2009. Mr. Hutton is currently a Managing Director with Thompson Hutton LLC, where he provides management and transaction consulting services to private equity investors focusing on the insurance and financial services sector. Mr. Hutton has also served on the Board of CAT, Ltd from 1993-1996, Safeco Corporation from 2004 to 2006 and Montpelier Re from 2001 to 2006, where he was Chairman of the Audit Committee. In addition, Mr. Hutton was previously President and CEO of Risk Management Solutions, Inc. (RMS) from 1990 until 2000. Mr. Hutton most recently served as CEO of White Mountains Re Group from 2006 to 2007.

Directors whose terms of office do not expire at this meeting

Class I Directors whose terms expire in 2011:

Herbert N. Haag, age 62, has been a Director of the Company since June 2006. Mr. Haag was the founding President and CEO 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.

Michael S. McGavick, age 51, was appointed as a Director of the Company in April 2008, shortly prior to his commencement as the Company's CEO on May 1, 2008. Previously, Mr. McGavick was President & CEO of the Seattle-based Safeco Corporation from January 2001 to December 2005. Prior to joining Safeco, Mr. McGavick spent six years with the Chicago-based CNA Financial Corporation, where he held various senior executive positions before becoming President and Chief Operating Officer of the company's largest commercial insurance operating unit. Mr. McGavick's insurance industry experience also includes two years as Director of the American Insurance Association's Superfund Improvement Project in Washington D.C. where he became the Association's lead strategist in working to transform U.S. Superfund environmental laws.

Ellen E. Thrower, age 62, 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 Tobin College of Business at St. John's University since 2001, and is President Emeritus of the College of Insurance, where she served as President and CEO 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 64, has been a Director of the Company since 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 Millennium Development Project and a member of the Volcker panel, which investigated the World Bank's institutional integrity.

Class III Directors whose terms expire in 2010:

Joseph Mauriello, age 64, 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 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 60, has been a Director of the Company since 2004. From February 2008 to February 2009, Mr. McQuade was Vice Chairman and President of Merrill Lynch Banks (U.S.). 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 71, has been a Director of the Company since 1992. Dr. Parker has been Dean Emeritus and the Robert S. Parker Chaired Professor in Strategy and Finance in 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 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 67, 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.

Your Board of Directors recommends that Shareholders vote FOR the nominees for Class II Directors for terms to expire in 2012.

II. APPROVAL OF THE AMENDMENT AND RESTATEMENT OF THE COMPANY'S 1991 PERFORMANCE INCENTIVE PROGRAM

The Board of Directors of the Company has amended and restated the XL Capital Ltd 1991 Performance Incentive Program (the Program), subject to shareholder approval.

Without taking into account the amendment of the Program, 3,469,264 Shares are available for grants of new awards under the Program after February 27, 2009. See page 13 for further information regarding Shares available for issuance under the Company's compensation plans at December 31, 2008. The Company believes that it will be at a competitive disadvantage in its efforts to attract and retain its employees if it does not have the flexibility to issue equity-based compensation awards to targeted individuals. Accordingly, the Program has been amended, subject to shareholder approval, to increase the number of Shares that may be issued by 13.5 million Shares. The Program provides for grants of stock options, restricted stock, restricted stock units, stock appreciation rights (SARs), performance share awards and performance unit awards. The Company recognizes that restricted stock, restricted stock unit, SAR and performance share awards generally have a greater cost to the Company than stock options. Accordingly, the number of available Shares under the Program will be reduced by two for each restricted stock, restricted stock unit, SAR or performance share award issued. Amendments to the Program in 2005 provided, in the case of awards made from the additional shares authorized at that time, for a reduction in available Shares by three for each award of restricted stock, restricted stock units, SARs or performance share awards. The Company believes that a two to one fungibility ratio (rather than the former three to one ratio) better reflects the relative cost of such awards. In addition, at the time of the 2005 amendments, there were 3.9 million Shares remaining under the Program and, of those Shares, 100,000 could be issued as restricted stock, restricted stock units or performance shares. Those amounts, to date, have been exhausted. It is currently intended that any restricted stock, restricted stock unit or performance share award granted to executive officers of the Company as a regular annual grant will vest only if performance criteria specified in the award are met. The Program has provided for a maximum number of Shares that can be granted to any individual during a calendar year in the form of performance shares, performance units, shares of restricted stock and restricted stock units intended to qualify as qualified performance-based compensation under applicable provisions of the United States Internal Revenue Code (the Code) as well as stock options and SARs. The Program has also been amended, subject to shareholder approval, to increase such maximum from 150,000 Shares before the amendment to 300,000 Shares (or in the case of performance units, an amount of cash equal to the value of 300,000 Shares), and to reduce the maximum number of shares with respect to which options and SARs may be granted to any individual participant during any calendar year from three million to one million such shares after the amendment.

The Shareholders are requested to approve the amendment and restatement of the Program. The following summary of the amended and restated Program is qualified in its entirety by express reference to the Program, which is attached as Appendix B to this proxy statement.

General

The Program is intended to provide incentives to attract, retain and motivate employees of the Company and its subsidiaries and affiliates in order to achieve the Company's long-term growth and profitability objectives. The Program will provide for the grant to eligible employees of stock options, SARs, restricted stock, restricted stock units, performance shares, and performance units (the "Awards"). After amendment of the Program, 16,969,264 shares will be available for issuance under the Program after February 27, 2009, plus shares which subsequently become available as a result of forfeitures, cancellations or expiration of Awards under the Program. However, for each restricted stock, restricted stock unit, SAR or performance share award issued, the number of shares available under the Program will be reduced by two shares. In the event that an award issued under the Program expires or is terminated unexercised as to any shares covered thereby, or shares are forfeited for any reason under the Program, such shares shall thereafter be again available for issuance under the Program. Forfeited awards that were counted as three shares under the rule described above will result in the addition to shares available for issuance under the Program of three shares per share forfeited, but any subsequent issuance of those shares in the form of restricted stock, restricted stock units, SARs or performance share awards will result in a reduction of two shares available under the Program for each share issued. In addition, the Program provides that the maximum number of shares with respect to which options and SARs may be granted to any individual participant during any calendar year will be 1,000,000, and the number of performance shares, performance units, shares of restricted stock and restricted stock units intended to qualify as "qualified performance-based compensation" under applicable provisions of the Code that can be granted to any individual during a calendar year will be 300,000 shares (or in the case of performance units, an amount of cash equal to the value of 300,000 shares). Any benefits payable under a performance unit award will be payable in cash. Each of the share limits referred to above is subject to anti-dilution adjustments in the event of certain changes in the Company's capital structure.

Eligibility and Administration

Officers and other employees of the Company and its subsidiaries and affiliates will be eligible to be granted Awards under the Program. The Program will be administered by the Compensation Committee or such other Board committee or subcommittee (or the entire Board) as may be designated by the Board (the "Committee"). The Committee will determine which eligible employees receive Awards, the types of Awards to be received and the terms and conditions thereof. The Committee will have authority to waive conditions relating to an Award or accelerate vesting of Awards. The actual number of employees who will receive awards under the Program cannot be determined because selection for participation in the Program is in the sole discretion of the Committee.

Awards

Incentive stock options ("ISOs") intended to qualify for special tax treatment in accordance with the Code, nonqualified stock options not intended to qualify for special tax treatment under the Code and SARs may be granted for such number of shares as the Committee determines. The Committee will be authorized to set the terms relating to an option or SAR, including the exercise price and the time and method of exercise. The exercise price of stock options and SARs cannot be less than the fair market value per share on the date of grant. The terms of ISOs will comply with the provisions of Section 422 of the Code. Options and SARs may not be repriced without Shareholder approval.

Awards of restricted stock and restricted stock units will be subject to such restrictions on transferability and other restrictions, if any, as the Committee may impose. Such restrictions will

lapse under circumstances as the Committee may determine. Except as otherwise determined by the Committee, eligible employees granted restricted stock will have all of the rights of a stockholder, including the right to vote restricted stock and receive dividends thereon. Restricted stock units will provide for the delivery of a number of shares equivalent to the number of restricted stock units at the time and subject to the terms and conditions set forth in the applicable award agreement.

Performance shares and performance units will provide for future issuance of shares or payment of cash, respectively, to the recipient upon the attainment of corporate performance goals established by the Committee over specified performance periods. Prior to payment of performance shares or performance units, the Committee will certify that the performance objectives were satisfied. Performance objectives may vary from employee to employee.

If the Committee determines that an award of performance shares, performance units, shares of restricted stock or restricted stock units should qualify under the performance-based compensation exception to the \$1 million cap on deductibility under Section 162(m) of the Code, the grant, vesting and/or settlement of such awards shall be contingent upon achievement of pre-established performance goals based on one or more of the following business criteria for the Company, on a consolidated basis, and/or for specified subsidiaries or business units of the Company (except with respect to the total stockholder return and earnings per share criteria): earnings per share; revenues; cash flow; cash flow return on investment; return on assets; return on investment; return on capital; return on equity; economic value added; operating margin; net income; pretax earnings; pretax earnings before interest, depreciation and amortization; pretax operating earnings after interest expense and before incentives, service fee, and extraordinary or special items; operating earnings; total stockholder return; and any of the above goals as compared to the performance of a published or special index deemed applicable by the Committee including, but not limited to, the Standard & Poor's 500 Stock Index.

Amendment and Termination

The Board of Directors of the Company may, at any time and from time to time, suspend or terminate the Program in whole or amend it from time to time in such respects as the Board of Directors of the Company may deem appropriate, but any such amendment 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, without the consent of an affected participant, no amendment, suspension, or termination of the Program may adversely affect the rights of such participant under any Award theretofore granted to him or her.

Market Value

The per share closing price of the Company's shares on March 2, 2009 was \$3.24.

Federal Income Tax Consequences

The following is a summary of the United States federal income tax consequences of the Program, 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. Many of the Company's officers and employees are not subject to United States personal income taxation and may be subject to taxation under the laws of jurisdiction other than the United States.

Stock Options

In general, the grant of an option will not be a taxable event to the recipient and it will not result in a deduction to the Company. The tax consequences associated with the exercise of an option and the subsequent disposition of shares acquired on the exercise of such option depend on whether the option is a nonqualified stock option or an ISO.

Upon the exercise of a nonqualified 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. If the participant is employed by a United States subsidiary, the subsidiary will generally be able to claim a deduction in an equivalent amount. 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.

Generally, a participant will not recognize ordinary taxable income at the time of exercise of an ISO and no deduction will be available to the participant's employer, provided the option is exercised while the participant is an employee or within three months following termination of employment (longer, in the case of disability or death). If an ISO granted under the Program is exercised after this period, the exercise will be treated for United States federal income tax purposes as the exercise of a nonqualified stock option. Also, an ISO granted under the Program will be treated as a nonqualified stock option to the extent it (together with other ISOs granted to the participant by the Company) first becomes exercisable in any calendar year for shares having a fair market value, determined as of the date of grant, in excess of \$100,000.

If shares acquired upon exercise of an ISO are sold or exchanged more than one year after the date of exercise and more than two years after the date of grant of the option, any gain or loss will be long-term capital gain or loss. If shares acquired upon exercise of an ISO are disposed of prior to the expiration of these one-year or two-year holding periods, the participant will recognize ordinary income at the time of disposition, and the participant's employer will generally be entitled to a deduction, in an amount equal to the excess of the fair market value of the shares at the date of exercise over the exercise price. Any additional gain will be treated as capital gain, long-term or short-term, depending on how long the shares have been held.

Although the exercise of an ISO as described above would not produce ordinary taxable income to the participant, it would result in an increase in the participant's alternative minimum taxable income and may result in an alternative minimum tax liability.

If an option is exercised through the use of Company shares previously owned by the participant, such exercise generally will not be considered a taxable disposition of the previously owned shares and, thus, no gain or loss will be recognized with respect to such previously owned shares upon such exercise. The amount of any built-in gain on the previously owned shares generally will not be recognized until the new shares acquired on the option exercise are disposed of in a sale or other taxable transaction.

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. This amount is generally deductible for federal income tax purposes by the participant's employer. Dividends paid with respect to shares that are not vested will be ordinary compensation income to the participant (and generally deductible by the employer). 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 restrictions lapse, 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 restrictions lapse.

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 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), and the participant's employer will generally be entitled to a corresponding deduction. 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 stock is subsequently forfeited, the participant will not be entitled to any offsetting tax deduction.

SARs and Other Awards

With respect to SARs, restricted stock units, performance shares and performance units, generally, when a participant receives payment with respect to any such Award granted under the Program, the amount of cash and the fair market value of any other property received will be ordinary income to such participant and will be allowed as a deduction for federal income tax purposes to the employer.

Deductibility Limit on Compensation in Excess of \$1 Million

Section 162(m) of the Code generally limits the deductible amount of annual compensation paid (including, unless an exception applies, compensation otherwise deductible in connection with Awards granted under the Program) by a public company to a covered employee (i.e., the CEO and three other most highly compensated executive officers of the Company other than the Chief Financial Officer) to no more than \$1 million. The Company currently intends to structure stock options granted under the Program to comply with an exception to non-deductibility under Section 162(m) of the Code in order to maximize the tax deductions available to United States based subsidiaries of the Company.

New Program Benefits

The amount of benefits that will be granted under the Program cannot be determined at this time.

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

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 last approved by Shareholders in 2008. This plan, together with all amendments thereto, is referred to herein as the Directors Plan. The Directors Plan has provided 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 301,988 have not been utilized, and 450,000 Shares have been reserved for issuance as stock options, restricted stock and restricted stock units, of which 243,250 Shares have not been utilized.

As a result of the enactment of Section 457A of the Code as part of the Emergency Economic Stabilization Act of 2008 (which generally requires nonqualified deferred compensation from non-qualified entities, including the Company, to be included in the service provider s income when it becomes vested), non-employee directors subject to United States income tax will generally no longer be permitted to electively defer their annual retainer fees. Accordingly, the Directors Plan has been amended to eliminate elective deferrals of annual retainer fees for services performed on or after January 1, 2009. In connection therewith, the Directors Plan has also been amended, subject to shareholder approval, to provide, in the case of the remaining 301,988 Shares that, prior to this amendment, could only be used for elective deferrals or the elective payment of annual retainer fees in the form of Shares, that such Shares may be utilized for any awards under the Directors Plan. Accordingly, after the amendment, the number of Shares available for future awards in any form under the Directors Plan will be 545,238 Shares. The amendment will not result in additional Shares, in the aggregate, being authorized for issuance under the Directors Plan.

The Directors Plan currently provides that annual stock option grants will be automatically made to non-employee directors at each annual meeting to purchase 2,500 Shares or such other

number of Shares as determined from time to time by the Board. The Directors Plan has been amended to eliminate the automatic grant of stock options and to provide that the number of stock options granted annually at the time of each annual meeting will be a number determined from time to time by the Board.

In addition to generally prohibiting future deferrals of compensation, Section 457A of the Code requires that nonqualified deferred compensation subject to Section 457A attributable to services rendered before 2009 must be included in income by no later than calendar year 2017. Accordingly, as permitted by the Code, the Directors Plan has also been amended to provide, with respect to any such deferrals for non-employee directors subject to United States income tax, that the deferred amounts will be distributed by no later than December 31, 2017.

The Directors Plan is currently scheduled to terminate as to future awards on June 1, 2013. It has also been amended, subject to shareholder approval, to extend the plan termination date by one year to June 1, 2014.

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 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. However, due to Section 457A of the Code as described above, non-employee Directors may no longer make elective deferrals of annual retainer fees. Taking into account the amendments described above, the aggregate number of Shares which are available for issuance under the Directors Plan is 794,702 (of which 545,238 currently remain available for future awards), 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 amended and restated Directors Plan is currently ten.

Awards and Deferral Elections

The Directors Plan provides for 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 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 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.

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 2, 2009 was \$3.24.

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 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, 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.

New Program Benefits

The amount of benefits that will be granted under the Directors Plan cannot be determined at this time.

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

IV. 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, 2009. 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, 2009. 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.

EQUITY COMPENSATION PLAN INFORMATION

As required by Item 10 of Schedule 14A, the following table summarizes the Company's equity compensation plan information as of December 31, 2008:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column a)
Plan Category	(a)	(b)	(c)
Equity compensation plans approved by security holders (1)	13,458,311	\$ 58.13	4,327,435 (2)
Equity compensation plans not approved by security holders (3)	134,557	\$ 50.00	33,350
Total	13,592,868	\$ 57.62	4,360,785

- (1) Pertains to the Company's 1991 Performance Incentive Program and the Company's Directors Stock & Option Plan. Includes for the Company's 1991 Performance Incentive

Program,
13,305,811
securities to
be issued
upon exercise
of outstanding
options,
warrants and
rights, a
\$58.04
weighted
average
exercise price
of outstanding
options,
warrants and
rights, and
4,079,185
securities
remaining
available for
future
issuance
under equity
compensation
plans
(excluding
securities
reflected in
column a).
Includes for
the Company's
Directors
Stock &
Option Plan,
152,500
securities to
be issued
upon exercise
of outstanding
options,
warrants and
rights, a
\$65.30
weighted
average
exercise price
of outstanding
options,
warrants and
rights, and

248,250 securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column a).

- (2) In relation to the 1991 Performance Incentive Program, of such maximum number of ordinary shares at December 31, 2008, 3.7 million can be issued as any form of Award, except that, in the case of Awards granted out of such 3.7 million ordinary shares allotment for each Restricted Stock, Restricted Stock Unit, Stock Appreciation Right, or Performance Share Award issued, the number of

ordinary shares available under the Program will be reduced by three ordinary shares.

However, included the amendment and restatement of the Company's 1991 Performance Incentive Program being proposed in 2009, as noted above, the number of ordinary shares under the Program is to be reduced by two ordinary shares.

- (3) The Company's 1999 Performance Incentive Program for Employees (the 1999 Program) provided for grants of non-statutory stock options, restricted stock, performance shares and performance units to employees of

the Company and its subsidiaries who were not subject to the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934. The Company does not intend to make any further grants pursuant to this 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 currently fixed at thirteen and following the retirement of Mr. Brian O'Hara and Mr. John T. Thornton from the Company's Board of Directors immediately prior to the Company's Annual General Meeting on April 24, 2009, the Board of Directors will be fixed at eleven. 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 II expires at the 2009 Annual General Meeting; the term of office for each Director in Class I expires at the 2011 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 2008, there were six regularly scheduled meetings and two other than regularly scheduled meetings (the additional meetings) of the Board. 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. Regularly scheduled meetings of the Board and Board committees are supplemented periodically by the additional meetings and/or informational meetings. In 2008, twelve informational meetings of the Board were held. The Company expects Directors to attend the Annual General Meeting and all eleven of the Company's then Directors attended the 2008 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 2010 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 2009, that each of Messrs. Comey, Glauber, Haag, Hutton, Mauriello, McQuade, 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 the information contained in this proxy statement as well as that (i) a Director (Mr.

Mauriello) receives a pension from a company that does business with the Company, (ii) a Director (Dr. Thrower) is an executive director of a charitable organization to which the Company and certain directors and executive officers made contributions, (iii) 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) and (iv) a Director (Mr. McQuade) has a family member who in 2008 was employed by an investment bank which participated in certain of the Company's credit agreements, but the family member was not involved with such credit agreements.

Committees

The Board has established an Audit Committee, a Compensation Committee, a Nominating and Governance Committee, a Finance and Risk Oversight Committee and a Public Affairs Committee. In addition, special committees of the Board may be created from time to time to oversee special projects, financings and other initiatives.

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 and 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. Mauriello (Chairman), Comey, Haag, Hutton, McQuade, Senter, Thornton and Dr. Thrower comprise the Audit Committee. Mr. Hutton joined the Audit Committee in January 2009. The Audit Committee met five times during 2008 and held four informational meetings in 2008. 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 407(d)(5)(ii) of Regulation S-K).

Compensation Committee

The Compensation Committee reviews and approves the goals and objectives as well as the performance of the CEO. In addition, the Compensation Committee is responsible for approving the overall compensation structure of the Company including compensation and benefit plans. The CEO's compensation is reviewed and approved by the independent Directors of the Company. While the Compensation Committee reviews the compensation for other senior executives (including NEOs), approval of such compensation resides with the Company's Board of Directors. Messrs. Thornton (Chairman), Glauber, McQuade and Dr. Parker and Sir John Vereker comprise the Compensation Committee. The Compensation Committee met seven times during 2008 and held one informational meeting in 2008.

Nominating and Governance Committee

The Nominating and 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 and Governance Committee also reviews the performance of the Board and the Company's succession planning. Messrs. Comey (Chairman), Glauber, Hutton and Mauriello and Drs. Parker and Thrower comprise the Nominating and Governance Committee. The Nominating and Governance Committee met six times during 2008 and held one informational meeting in 2008.

Mr. Hutton joined the Company's Board of Directors in January 2009 following a recommendation made by the Company's CEO and a subsequent nomination by the Nominating and Governance Committee. Shortly after joining the Company's Board of Directors, Mr. Hutton was appointed to the Nominating and Governance Committee.

i) Identifying and evaluating nominees

The Nominating and 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 and Governance Committee utilizes third-party search firms and considers recommendations from Board members, management and others, including Shareholders. In general, the Nominating and 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 and Governance Committee will consider, for Director nominees, persons recommended by Shareholders, who may submit recommendations to the Nominating and 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 and 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 and 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 2010 Annual General Meeting.

Finance and Risk Oversight Committee

The Finance and Risk Oversight Committee reviews and oversees, among other matters, the Company's capital structure, issuances of securities, dividend policy, mergers, acquisitions and divestitures, significant strategic investments, overall investment policy and performance and all major risk management exposures. Messrs. McQuade (Chairman), Comey, Glauber, Haag, Hutton, Mauriello, O'Hara, Senter and Thornton and Dr. Parker and Sir John Vereker comprise the Finance and Risk Oversight Committee. Mr. Hutton joined the Finance and Risk Oversight Committee in January 2009. The Finance and Risk Oversight Committee met six times during 2008 and held two informational meetings in 2008.

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. Drs. Thrower (Chairman) and Parker, Mr. Haag and Sir John Vereker comprise the Public Affairs Committee. The Public Affairs Committee met twice during 2008.

Compensation Committee Interlocks and Insider Participation

For the period from April 25, 2008 (the date of the Company's 2008 Annual General Meeting) through December 31, 2008, Messrs. Thornton (Chairman), Glauber, McQuade and Dr. Parker and Sir John Vereker comprised the Compensation Committee. For the period from January 1, 2008

through to April 24, 2008, Messrs. Comey (Chairman), Glauber and McQuade comprised the Compensation Committee.

From February, 2008 to February, 2009, Mr. McQuade served as Vice Chairman and President of Merrill Lynch Banks (U.S.). At the time of his appointment to this position, affiliates of Merrill Lynch & Co. were, and still are, lenders and letter of credit issuers under certain of the Company's credit agreements. As of December 31, 2008, under such credit agreements, these affiliates had commitments of \$190 million, of which no amounts were outstanding, and had issued \$69.1 million of outstanding but undrawn letters of credit on behalf of the Company. These affiliates were paid approximately \$325,000 in commitment and letter of credit fees during 2008. In addition, at the time of his appointment, affiliates of Merrill Lynch & Co. provided, and continue to provide, certain equity plan, retirement plan and trustee services to the Company or its subsidiaries for which the Company paid fees of approximately \$27,000 in 2008. The Company believes all of these transactions were entered into in the ordinary course of business on customary terms.

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 and Governance Committee, Finance and Risk Oversight Committee and Public Affairs 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

The Company's Board of Directors has 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 and 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 and Governance Committee meeting, update the Committee as to any material change to those transactions that have been approved by the Nominating and 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 2008 are discussed under the heading Related Person Transactions.

COMPENSATION DISCUSSION AND ANALYSIS

Introduction

As a global property and casualty insurance and reinsurance company, the Company's compensation programs have historically emphasized underwriting skill, profitability of its core businesses and prudent risk management. In addition, such compensation programs are designed to take into account the cyclical nature of the industry as well as the impact in certain years of non-recurring material events, including the impact of catastrophe and other events, such as the global financial and credit crises that persisted and worsened in 2008.

The goals of the Company's executive compensation programs are as follows:

Attract and retain high quality executives that will develop and implement the Company's business strategy effectively. The Company's aim is to reward those executives that prove consistently successful in their roles;

Motivate executives to maximize the long-term creation of shareholder value; and

Align an executive's business actions with the Company's core values of ethics,

teamwork,
excellence,
development
and respect.

As described in further detail below, the Company's results of operations and the price of the Company's Shares were significantly impacted by the financial and credit crises that persisted and worsened throughout 2008. Such negative impacts were largely a result of strategies pursued by the Company's management in prior years, including, among other things, diversifying into the financial guarantee business. While the goals of the Company's compensation programs, as noted above, remain the same, the consideration of the loss of a significant amount of shareholder value during 2008 was taken into consideration in the determination of compensation awarded to the Company's executive officers, including NEOs, by the Company's CEO and the Compensation Committee. In addition, in considering the performance of the NEOs during 2008 and in applying their discretion, the CEO and the Compensation Committee focused on the performance of each NEO in their handling of the significant challenges and extraordinary events that impacted the Company in 2008, many of which were integral to maintaining the Company's franchise.

Executive Compensation Program Review and Oversight

The goals of the Company's executive compensation programs were established by the Compensation Committee of the Board of Directors. This committee consists of five independent directors: Messrs. Thornton (Chairman), Glauber and McQuade and Dr. Parker and Sir John Vereker. 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 Compensation Committee reviews all components of the CEO's compensation.

Commencing with his employment with the Company on May 1, 2008, the Company's new CEO, Michael S. McGavick, was 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. For 2008, Mr. McGavick provided to the Compensation Committee requisite detail relating to the Company's operating results, how senior executives performance contributed to the achievement of such results, the context for those results relative to market conditions and the performance of the Company's peers (listed below) in the global commercial insurance/reinsurance market, the performance of the Company's executive officers against their established goals discussed below and in dealing with the many challenges faced by the Company in 2008, and how his compensation recommendations related to such performance assessments. The Compensation Committee also considered Mr. McGavick's annual and long-term incentive awards and submitted the recommendations to the independent members of the Board of Directors for approval.

Pursuant to the Compensation Committee Charter, the Committee has the sole authority to retain and terminate any compensation consultant to be used to assist in the evaluation of the Chief Executive Officer or senior executive compensation. In 2008, at the direction of the Compensation Committee, the Company retained Mercer Human Resources Consulting (Mercer) to advise management regarding external issues impacting compensation actions, general market practice and the reasonableness of certain compensation design issues requiring the consulting firm's expertise. In particular, in connection with 2008 compensation decisions, Mercer provided research with respect to design elements of the off-cycle option grant described below and other considerations regarding the use of equity compensation following the material decline in the Company's Share price.

Executive Compensation Philosophy and Core Principles

Target salary compensation levels for executive officers of the Company are set at approximately the 50th percentile of the Company's identified peer group (listed below) and the annual incentive target compensation levels are set between the 50th and the 75th percentile of this peer group. The Company attempts to drive 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. By employing an appropriate mix of different compensation vehicles, including annual base salary, annual cash incentive and the remainder in a mix of long-term incentives, the Company seeks to motivate as well as retain its executives. In general, the Company's goal for its NEOs is to have 10- 30% of total compensation in annual base salary, 20-40% in annual cash incentive and the remainder in a mix of long-term incentives.

The total compensation package for an executive is positioned competitively relative to the market for the executive's skill-sets; in particular, the market for most of the Company's executives consists of those companies as identified in the peer group below. While not all of the executives can be expressly tied to such a market, the aim is to reward executives relative to their contributions to the overall performance of the Company in any given year. This does not necessitate having every executive at or above market levels. Due to the Company's focus on providing variable compensation, actual pay may be well above or below an executive's market median based on actual business and individual performance. Individual considerations such as performance, previous experience, additional skill-sets and/or responsibilities are considered when determining compensation for an executive. In addition, consideration is given to events or transactions that had a material impact on the Company's results of operations and how executives performed in handling such events and/or transactions and other significant challenges faced by the Company. This was particularly relevant in 2008. For further information regarding the assessment of the performance of the Company's executive officers in 2008, see Variable Components Annual Incentives below.

Executive Compensation Program Components

The components of the Company's compensation programs for its executive officers, including the NEOs, are comprised of two fixed components (base salaries and perquisites/supplemental benefits) and two variable components (annual incentives and long-term incentives). 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 peer group previously defined for reviewing compensation levels consists of 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 Company's peer group and it undertakes a review and, if appropriate, an adjustment of executive base salaries each year in the first quarter, or at other times when appropriate. Generally salaries are only 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. The Compensation Committee approved recommendations made by Mr. McGavick to increase the annual base salaries of Mr. Veghte to \$600,000 from \$500,000 and of Mr. Duclos to \$650,000 from \$550,000, effective August 1, 2008, reflecting a change in

management structure and an increase in the scope of their responsibilities. No additional salary changes were recommended for NEOs during 2008 or in early 2009.

Perquisites and Supplemental Benefits. For compensation received for years including 2008 and prior years, the Company provided a non-qualified supplemental deferred compensation plan which allowed 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 were notionally invested in a series of mutual funds that are managed by the Company's retirement plan vendor. This type of benefit was provided to executives by a

majority of the Company's peer companies. However, as a result of the passage of The Emergency Economic Stabilization Act of 2008, which was enacted on October 3, 2008, Section 457A was added to the Internal Revenue Code of 1986 (the Code) which requires compensation under a nonqualified deferred compensation plan of a nonqualified entity to be included in the service provider's (i.e., the employee's) income when the compensation is no longer subject to a substantial risk of forfeiture. As such, the Company's Bermuda-based U.S. tax-paying executives will no longer participate in the non-qualified supplemental deferred compensation plan in relation to services performed subsequent to December 31,

2008. For further information, see Non-Qualified Deferred Compensation below.

Since perquisites and benefits supplement the overall total compensation package and due to the fixed nature of the costs incurred in providing such benefits, local markets in which the Company operates are periodically reviewed to determine the appropriate vehicles and cost-sharing levels relative to peer companies (as described above) in such local markets. For instance, NEOs employed at the Company's headquarters in Hamilton, Bermuda receive certain benefits and perquisites commensurate with the local market which include housing allowances, travel allowances in relation to home leave, the use of company automobiles and for some NEOs, club memberships. In addition, certain executives who have been employed with the Company prior to December 31, 2006 receive tax reimbursements in connection with their housing allowance as well as a foreign earned income exclusion gross-up. However, executives who commenced employment subsequent to this date are not entitled to such tax reimbursements.

The Company does not have any defined benefit (pension) plans for its NEOs. Health and retirement benefits are provided to all employees, including executive officers, based on market norms in the local markets in which the Company operates and at local market levels.

Variable Components

Annual Incentives.

Executive officers have target annual incentive levels (as a percentage of annual base salary) that vary based on the executive's role which generally have no stipulation of a maximum or minimum payout level.

Annual incentives for executive officers are determined based on an assessment of the executive's performance by the

Company's
CEO and are
reviewed and
approved by
the Company's
Compensation
Committee.

Executives are evaluated based on four primary criteria: 1) the overall financial performance of the Company on both an absolute and relative (to the peer group) basis, and their contribution to that performance, including their role in handling events or transactions that were material to the Company's results of operations, 2) the performance of the business unit or function that the executive leads against approved business plans, 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.

Targets related to financial metrics are established at the beginning of each year in the context of approved business plans, in order to evaluate the Company's overall financial performance for the purpose of annual bonus decisions. Metrics previously established for 2008 included:

operating
return on
equity
(meaning,
operating
income⁽¹⁾
divided by
the average
ordinary
Shareholders
equity for the
period)
(Operating
ROE),
reviewed on
an absolute
basis;

Operating
ROE, relative
to peers; and

book value
growth,
relative to
peers.

In its review of the Company's performance, the Company's new CEO and the Compensation Committee noted the strong performance and operating income from the Company's insurance and reinsurance operations, despite soft market conditions that persisted throughout most of 2008. In addition, while combined incurred losses from Hurricanes Gustav and Ike had a material impact on the Company's insurance and reinsurance operations, the Company's total incurred losses in comparison to the total market losses incurred by the industry as a whole from such events highlighted the Company's strong underwriting risk management. Overshadowing these positive operating results were certain developments arising from the global financial and credit crisis which increasingly worsened in 2008. In particular, the Company recorded a loss of approximately \$1.4 billion in August 2008 associated with the execution of the Master Agreement with Syncora and its subsidiaries and certain credit default swap counterparties, which terminated exposure under certain reinsurance and other agreements. Following the closing of the transactions contemplated by the Master Agreement, the Company significantly reduced its legacy financial guarantee-related exposures to Syncora which had created significant uncertainty for the Company during 2008 (especially as economic conditions continued to increasingly worsen during the course of 2008). For further details regarding the Master Agreement, see Note 4 to the consolidated financial statements, Syncora Holdings Ltd. (Syncora), in the Company's Annual Report on Form 10-K for the year ended December 31, 2008. In order to fund the consideration of approximately \$1.8 billion under the Master Agreement, the Company raised approximately \$2.8 billion of additional capital through the issuance of Shares and equity security units. In addition to the \$2.8 billion, the Company

simultaneously exercised the put option under its Mangrove Bay contingent capital facility entered into in July 2003 resulting in net proceeds to the Company of approximately \$500 million. During 2008, the Company also recorded significant increases in realized and unrealized losses within its investment portfolio as a result of the impact on the Company's assets from the market disruption. In conjunction with the above noted events that had a material negative impact on the Company's results of operations and financial condition, during 2008 several rating agencies downgraded the financial strength ratings of the Company's insurance and reinsurance subsidiaries and the price of the Company's Shares declined by 92.6% during 2008.

While such events as noted above created significant uncertainty for the Company, the resulting impacts of such events had the effect of rendering the targets associated with the above noted financial metrics either unattainable or less relevant for measuring performance. Specifically, average shareholders' equity was significantly impacted by the loss associated with the execution of the Master Agreement and the subsequent capital raise, material increases in

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- (1) Operating income is a non-GAAP financial measure under Regulation G promulgated by the Securities and Exchange Commission. Operating income represents net income excluding net realized gains and losses on investments and net realized and unrealized gains and losses on derivatives. Additionally, in 2008, operating income excluded the impact of certain transactions with Syncora, including the net loss recorded in 2008 associated with the execution of the Master Agreement and the Company's goodwill impairment charges recorded in 2008.

unrealized losses within the Company's investment portfolio and foreign currency translation adjustments. Thus, in their review of the performance of the Company as well as its executives and in the consideration of annual bonus recommendations, the Company's new CEO and the Compensation Committee considered the challenges presented by the events noted above and management's success at handling those challenges and events while still aligning the Company's executives with the long-term interests of the Company and its shareholders. Finally, consideration was given to the critical importance to the organization and to shareholders of retaining its key executives, especially during a period of change and uncertainty. The Committee approved the following recommendations made by Mr. McGavick based on the above factors:

Mr. Nocco received a cash bonus of \$675,000 or 90.0% of target. While this award reflected, in part, the disappointing overall financial performance of the Company, the award also recognized the critical role of Mr. Nocco and the Finance function during 2008 in assisting Mr. McGavick with the execution of the Master Agreement with Syncora and the related capital raise. Mr. Nocco also played an important role in assisting business leaders with communications to customers regarding the financial stability of the Company, during periods of heightened uncertainty.

Mr. Veghte received a cash bonus of \$1,000,000 or 133.3% of target. Notwithstanding the Company's disappointing overall financial performance, the Reinsurance segment, under Mr. Veghte's leadership, produced strong business results relative to their annual business plan. Specifically, the Reinsurance segment achieved a combined ratio of 90.4% despite soft market conditions and during one of the costliest years on record for the reinsurance industry in regards to natural catastrophe losses. This was achieved notwithstanding soft market conditions experienced across most lines of business combined with a challenging environment in which to do business that resulted from actions by ratings agencies during the year

and from the material drop in the Company's Share price. Mr. Veghte's bonus reflects both that strong business performance and his success at maintaining the stability of the reinsurance franchise during a very difficult period for the Company. This stability was also evidenced by the staff retention ratio in the reinsurance segment under Mr. Veghte's leadership where only three employees with underwriting authority in this segment left the Company during 2008. This was also a consideration in determining Mr. Veghte's bonus.

Mr. Duclos received a cash bonus of \$950,000 or 116.9% of target. Mr. Duclos transitioned to the leadership of the Insurance segment in early 2008 and in his new role led the segment to the achievement of very solid results

relative to their annual business plan. Specifically, the Insurance segment's gross premiums written decreased by less than 3% in a year in which soft market conditions persisted. In addition, the Insurance segment reported a combined ratio of 98.4%, which was achieved despite such challenging market conditions, including significant increases in both catastrophe and attritional losses experienced throughout the marketplace. As with Reinsurance, this was achieved notwithstanding a challenging business environment that resulted from actions by ratings agencies during 2008 and from the material drop in the Company's Share price. The scope and degree of difficulty of Mr. Duclos' role, and his success at

maintaining the stability of the insurance franchise while new in his role were also important considerations in determining Mr. Duclos bonus. Mr. Duclos also was successful in retaining employees in this segment during this challenging period (voluntary turnover rates were comparable to previous years) which was also a consideration in determining his bonus.

Ms. Street received a cash bonus of \$950,000 or 70.4% of target. The Company's investment results for 2008 were extremely disappointing. Additionally there were considerable losses in the Company's alternative investment portfolio, compared to positive contributions in prior years. While many aspects of the investment

portfolio results
were attributable
to investment
strategies
required to
support certain
financial lines of
business a
strategy that
pre-dated Ms.
Street s
appointment to
the Chief

Investment Officer role her bonus was materially reduced because of the investment losses. Conversely, Ms. Street was recognized for the critical ongoing initiative of de-risking certain components of the investment portfolio, broad contributions to the Company's enterprise risk management initiatives, and for her leadership and efforts with other important Company initiatives.

Long-Term Incentives.

To motivate sustained performance and to provide retention mechanisms to key executives,

both stock-based vehicles (restricted stock, options, stock appreciation rights) and long-term cash vehicles may be utilized. The vehicle chosen to award to executives, depends upon such variables as desired performance focus, career cycle management, vehicle availability and usage within the Company's peer group, and equity ownership levels.

Stock Options and Stock Appreciation Rights

When awarded pursuant to annual compensation awards, stock options or stock appreciations rights (SARs) are granted with a strike price equal to the closing market price on the date of grant. To enhance the retention aspect associated with stock options and SARs, both vest ratably over three or four year periods. Stock options and SARs are exercisable for up to 10 years from the date of grant to allow executives to focus on the creation of long-term shareholder value. In determining the size of the awards, the Committee considers the scope of the executive's role, the share leverage that each executive currently has, the importance of retaining and motivating the Company's executives and any potential dilutive impact on existing shareholders. For financial reporting purposes, the Company uses a Black-Scholes model to determine the grant date fair value of options granted.

In addition to being granted in conjunction with annual compensation awards, off-cycle stock options or stock appreciation rights may be granted from time to time. In August 2008, in conjunction with the execution of the Master Agreement and the associated capital raise, the Compensation Committee approved a recommendation by Mr. McGavick to grant an off-cycle award of stock options (the August Options) to executives and certain other senior officers of the Company as a means to motivate and retain such executives and senior officers. The grant date, August 11, 2008, was ten days following the date of pricing of the offering noted above. The exercise price of \$19.62 was the closing sale price per Share on the NYSE on such date. The August Options granted to executives vest in full on the later of (i) three years from the grant date or (ii) the date that the closing price of the Company's common shares on the

NYSE equals or exceeds 130% of the option exercise price (approximately \$25.51 per Share) for a period of at least 10 consecutive trading days. As part of the grant of August Options, Mr. Nocco received options to purchase 50,000 Shares, Mr. Veghte received options to purchase 100,000 Shares, Mr. Duclos received options to purchase 100,000 Shares and Ms. Street received options to purchase 75,000 Shares.

In connection with the regular award of long-term incentives, in February 2009 the Compensation Committee approved a grant of option awards with a strike price of \$3.31, which was the closing Share price on February 27, 2009. In determining the number of options to award to each NEO, the Compensation Committee considered the executive's role and responsibility, the appropriate mix of long-term incentives as a proportion of total compensation and any potential dilutive impact on existing shareholders. Options granted to NEOs were as follows: Mr. Nocco received options to purchase 31,500 Shares, Mr. Veghte received options to purchase 125,000 Shares, Mr. Duclos received options to purchase 150,000 Shares and Ms. Street received options to purchase 56,500 Shares.

Restricted Stock

Any restricted stock award made to an executive as part of the annual program is normally granted in early March, following approval by the Compensation Committee. All of the restricted shares granted to NEOs pursuant to annual compensation awards vest ratably over 4 years if the operating ROE threshold of 10% is attained for that year. Otherwise the shares are held until they meet a multi-year average operating ROE threshold. All shares that

were scheduled to vest in 2009 as a result of 2008 operating ROE performance will vest because the annual operating ROE required threshold of 10% was achieved.

In light of the significant decline in the Company's stock price during 2008 and the resulting number of Shares of restricted stock required to deliver intended aggregate value, and the related potential impact on Shares available for grant pursuant to the 1991 Performance Incentive Program, no restricted stock was granted in 2009 to executives for services in 2008, including to the NEOs. Reference is made to the 2009 Long-Term Cash Incentive Plan as described below.

Long-Term Incentive Plans

In 2005 the Company established the Long-Term Incentive Plan, or LTIP, a cash program that was utilized as a long-term incentive vehicle in 2005, 2006 and 2007. LTIP awards were granted using a 3-year cliff-vest that pays out in cash based on performance against a performance metric determined by the Compensation Committee. The metric chosen by the Compensation Committee is one that was or is expected to create long-term shareholder value when achieved.

The LTIP awards made under this program that were granted in 2005, for performance years 2005 through 2007, paid out in February 2008 based on a 3-year accumulated net income metric. The face value of each 2005 award was \$100,000 and these awards represented the first grant of LTIP awards. The payout for each participant in 2008 was the minimum, \$50,000 (or 50.0% of face value), since the 3-year accumulated net income for the three year period was \$636.5 million. Had the 3-year accumulated net income equaled \$3.45 billion, the payout would have been at 100% of the face value of the award.

The LTIP awards made in 2006, for performance years 2006 through 2008, paid out in February 2009 at 164.6% of the face value of each award as a result of achieving a three-year Operating ROE of 16.6% (excluding in 2008 as permitted in the LTIP, the impact of the Company's goodwill impairment charge of approximately \$990.0 million from both the numerator and denominator of the Operating ROE calculation), largely impacted by performance years 2006 and 2007 which achieved operating ROEs of approximately 20.1% and 18.6%, respectively. The minimum payout for these awards was set at 50% of face value conditioned on the achievement of a three-year operating ROE of 10% while the maximum payout was set at 300% conditioned on achievement of a three-year Operating ROE of 20% or greater. The face value of awards made in 2006 varied by executive based on the executive's role and the other long-term incentive awards made to the executive.

The LTIP awards made in 2007, for performance years 2007 through 2009, will pay out in February 2010 if performance again exceeds a threshold level of 3-year Operating ROE. All conditions for the awards are similar to the awards made in 2006 except that the Compensation Committee has the discretion to adjust payments for all awards based on the performance of the operating ROE metric relative to the Company's compensation peer group. Given the operating results of 2007 and 2008, 100% of face value will be paid out in 2010 if an Operating ROE of 15.2% is achieved in 2009.

The Compensation Committee did not make any LTIP awards in 2008.

2009 Long-Term Cash Incentive Plan

In 2009, the Compensation Committee approved a transitional long-term compensation vehicle (the 2009 LTP) that was utilized for executives and senior officers in lieu of a grant of restricted stock and other long-term cash programs. The purpose of the 2009 LTP is to align the compensation of the recipients with the achievement of strong underwriting results and to provide retention features, particularly important to the Company at this time. The face value of the 2009 LTP varied by executive based on, among other things, the executive's role and any other long-term incentive awards made to the executive. The 2009 LTP Awards vest and pay-out in annual installments over a

three-year period. Payments will be subject to increase or decrease based on the attainment of combined ratio performance criteria, subject to certain adjustments and limitations. There will be a maximum payout of 175% of the face

value and, except with respect to an award made to Mr. McGavick, a minimum payment of 75% of the face value. The final payment in 2012 will be subject to adjustment to reflect subsequent reserve seasoning. The face value of 2009 LTP awards granted to NEOs in February 2009 were as follows: Mr. Nocco, \$250,000; Mr. Veghte, \$1,000,000; Mr. Duclos, \$1,000,000 and Ms. Street, \$450,000.

Executive Share Ownership Guidelines

To align the executives' interests with those of shareholders, the Compensation Committee previously established executive Share ownership guidelines that executives hold an amount of shares, share units and stock options with value relative to their base salaries, as set forth below.

CEO 5x base salary

NEOs 3x base salary

In early 2009, the executive Share ownership guidelines were revised by the Compensation Committee to give Executives five years to obtain the required holdings. Shortfalls in meeting the requirements will be taken into consideration when determining future awards. Although no current Executives have reached the time required for compliance with the guidelines, the Committee reviewed and was satisfied with progress of Executives toward ownership expectations.

CEO's Compensation

For the period from January 1, 2008 through to April 30, 2008, Mr. O'Hara served as President and CEO of the Company and also served as Acting Chairman of the Company's Board of Directors. Mr. O'Hara retired as President and CEO of the Company on April 30, 2008 and effective May 1, 2008, Mr. O'Hara became Chairman of the Company's Board of Directors. Immediately prior to the Company's Annual General Meeting on April 24, 2009, Mr. O'Hara will retire as a Director of the Company. In addition to receiving his salary and other perquisites and benefits for services performed as President and CEO of the Company and Acting Chairman of the Company's Board of Directors from January 1, 2008 through to April 30, 2008, Mr. O'Hara was awarded a bonus of \$600,000 in connection with the performance of such services. This bonus recognized Mr. O'Hara's contributions toward the successful execution of the Master Agreement as well as his valued efforts to ensure the successful transition of a new CEO for the Company. In 2008, Mr. O'Hara was paid a \$50,000 retainer for services as a non-executive Director from May 1, 2008 through to April 24, 2009 and also received meeting fees for attendance at various Board of Director and Board Committee meetings. For further information, see the Summary Compensation Table, below.

Upon commencing employment with the Company on May 1, 2008, Mr. McGavick entered in to an employment agreement with the Company whereby an annual salary of \$1,000,000 was established for 2008. In addition, upon commencing employment with the Company, Mr. McGavick received 125,000 stock options, 32,000 restricted Shares and a cash bonus of \$1,500,000, subject to certain repayment provisions.

Pursuant to his employment agreement, for performance year 2008, Mr. McGavick was entitled to a minimum annual bonus of \$333,333, representing 50% of his salary earned in 2008. The actual bonus awarded to Mr. McGavick in 2008 was \$2,000,000 or 100% of target. In approving the recommendation of the Compensation Committee regarding Mr. McGavick's bonus, the Board evaluated his performance against the priorities of the Company and viewed his performance to be outstanding. Upon his arrival at the Company in May 2008, Mr. McGavick's highest priority was the resolution of the Company's outstanding issues with Syncora. Under Mr. McGavick's leadership, the matter was successfully concluded with the execution of the Master Agreement and the related capital raise in August 2008. Further, Mr. McGavick was responsible for leading the Company through the very challenging months that followed, particularly as the Company's financial performance was impacted by realized and unrealized investment losses and as business results were

under increasing pressure due to rating agency actions during 2008 as well as various market rumors during the latter part of the year.

Mr. McGavick presided over a full review of the Company's business strategy during 2008. This resulted in an increased emphasis on Property and Casualty (P&C) businesses, ceasing certain operations (including the closure of the XL Financial Solutions business unit), and a strategic review of the Company's Life reinsurance business. It also resulted in the initiation of a repositioning of the Company's investment portfolio to one that supports the Company's focus on P&C business and that reduces volatility and risk. In addition, progress was made in efforts to streamline the Company's infrastructure in line with a simplified business strategy in order to position the Company for 2009 and beyond. Mr. McGavick's expense management initiatives announced in July 2008 are expected to result in a decrease in the Company's annual operating expenses of approximately \$70 million for 2009 and onwards, as compared to 2008 levels, and the most recent expense reductions are expected to result in a reduction of approximately \$100 to \$120 million in annual operating expenses starting in 2010.

Mr. McGavick also made significant progress on the enhancement of the Company's enterprise risk management capabilities, which included the hiring by Mr. McGavick of Jacob R. Rosengarten as Chief Enterprise Risk Officer.

Additionally, under Mr. McGavick's leadership, the Company was able to successfully retain key leaders and critical staff, and to hold the firm-wide voluntary turnover rate to historic levels during a very challenging and unsettling period. Mr. McGavick was also responsible for a smooth transition with his executive management team especially after the departures referred to below.

In addition to his cash bonus for 2008, Mr. McGavick received 2009 long-term incentive compensation that included the grant of 437,500 stock options with an exercise price of \$3.31 and a 2009 LTP Award with a face value of \$2,000,000, which will not be subject to the minimum payment provided to other recipients. The awards were made following an evaluation of competitive market practices. Further, the award of stock options reflected the desire by the Board to align Mr. McGavick's compensation directly with the objective of an improvement in the Company's share price. The 2009 LTP Award was also intended to align Mr. McGavick's compensation with the delivery of strong underwriting results by its insurance and reinsurance operations.

NEO Separations in 2008

Throughout 2008, several executive management changes took place including the separation from the Company of certain NEOs, including Mr. Henry C.V. Keeling, the Company's former Executive Vice President and Chief Operating Officer, in August 2008, and Mr. Michael C. Lobdell, the Company's former Executive Vice President and Chief Executive Global Business Services, in September 2008.

In regards to Mr. Keeling, severance payments totaling \$2,953,125, as calculated under his separation agreement, were paid to him upon his separation from the Company in August 2008. In addition, upon his departure from the Company, Mr. Keeling was awarded an additional \$1,000,000 bonus for his services performed in regards to the successful execution of the Master Agreement. In addition, pursuant to the Company's LTIP plan, Mr. Keeling received or was entitled to certain payments relating to awards under the Company's LTIP plan as well as additional benefits. For further information, see page 39.

In regards to Mr. Lobdell, severance payments totaling \$2,025,000, as calculated under his employment agreement, were paid to him in early March 2009, following his separation from the Company in September 2008. In addition, pursuant to the Company's LTIP plan, Mr. Lobdell received or was entitled to applicable payments relating to awards under the Company's LTIP plan as well as additional benefits. For further information, see page 40.

NEO Employment Agreements

The Company has entered into employment agreements with its Chief Executive Officer and each of its other named executive officers (the NEO Employment Agreements). The terms and

conditions of the NEO Employment Agreements are described beginning on page 37. The NEO Employment Agreements provide for severance benefits following an involuntary or constructive termination of employment. The severance benefits provided for under the agreements following a change in control of the Company are structured to be double trigger, requiring an involuntary or constructive termination of the executive's employment in order for severance payments to be made. The terms of the employment agreements, including the severance benefit provisions, were structured to attract and retain persons believed to be key to the Company's success, to be competitive with compensation practices for executives in similar positions at companies of similar size and complexity, and so that the Company receives certain restrictive covenants, including non-competition and non-solicitation covenants.

Each NEO Employment Agreement provides for indemnification of the executive by the Company to the maximum extent permitted by applicable law and the Company's charter documents and requires the Company to maintain directors' and officers' liability coverage in an amount equal to at least \$75,000,000.

Tax Deductibility

Section 162(m) of the United States Internal Revenue Code generally limits deductibility of annual compensation in excess of \$1 million paid to the Chief Executive Officer and three other most highly compensated executive officers (other than the principal financial officer) of public corporations. However, compensation is exempt from this limit if it meets the requirements of qualified performance-based compensation. This limit on deductibility will only apply to compensation paid to executive officers who are employed by subsidiaries of the Company that are subject to United States income tax. In such situations, the Compensation Committee will consider tax deductibility as a factor in determining appropriate levels or methods of compensation. However, to maintain flexibility in compensating the executive officers in furtherance of its overall corporate goals, the Compensation Committee does not require all compensation to be awarded in a tax deductible manner.

Compensation Committee Report

The Compensation Committee has reviewed and discussed with management of the Company, the Compensation Discussion and Analysis. Based on this review and these discussions with management, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and incorporate by reference in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

Compensation Committee

John T. Thornton, Chairman

Robert R. Glauber

Eugene M. McQuade

Robert S. Parker

John Vereker

SUMMARY COMPENSATION TABLE

The following table sets forth the compensation of persons serving as the Company's CEO and Chief Financial Officer (CFO) during 2008, the next three most highly compensated executive officers of the Company in 2008 and two additional executive officers whose employment terminated with the Company during 2008 and who were no longer executive officers of the Company at December 31, 2008 (collectively, the NEOs). For each NEO, the following table highlights compensation for services paid for or rendered with respect to the Company and its subsidiaries in all capacities, as applicable, for fiscal years ended December 31, 2008, 2007 and 2006:

Name and Principal Position	Year	Salary(\$)	Bonus(\$) (6)	Stock Awards(\$) (7) (8)	Option Awards(\$) (7) (8)	Non-Equity Incentive Plan Compensation (9)
Michael S. McGavick (1) Chief Executive Officer of the Company and Director	2008	\$ 666,667	\$ 3,500,000	\$ 195,467	\$ 270,897	\$
Brian M. O'Hara (1) Chairman of the Board of Directors; former Chief Executive Officer of the Company	2008	\$ 333,333	\$ 600,000	\$ 4,714,003	\$ 1,269,683	\$ 2,141,482
	2007	\$ 1,000,000	\$ 1,500,000	\$ 856,396	\$ 1,768,737	\$ 2,023,281
	2006	\$ 1,000,000	\$ 4,750,000	\$ 591,838	\$ 2,198,413	\$
Brian W. Nocco (2) Executive Vice President,	2008	\$ 587,500	\$ 675,000	\$ 307,266	\$ 179,847	\$
	2007	\$ 242,472	\$ 750,000	\$ 49,781	\$	\$

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Chief
Financial
Officer of
the
Company

James H. Veghte	2008	\$	541,667	\$	1,000,000	\$	374,158	\$	418,627	\$	428,296
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Executive Vice	2007	\$	500,000	\$	1,075,000	\$	2,219,398	\$	375,904	\$	444,656
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President,	2006	\$	500,000	\$	1,400,000	\$	593,033	\$	452,575	\$	
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Chief
Executive
of
Reinsurance
Operations
of the
Company

David B. Duclos (3)	2008	\$	591,667	\$	1,050,000	\$	419,438	\$	525,250	\$	321,222
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Executive
Vice
President,
Chief
Executive
of Insurance
Operations
of the
Company

Sarah E. Street	2008	\$	450,000	\$	950,000	\$	557,972	\$	423,529	\$	428,296
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Executive Vice	2007	\$	450,000	\$	1,400,000	\$	398,373	\$	264,436	\$	444,656
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President,	2006	\$	375,000	\$	2,500,000	\$	258,080	\$	317,644	\$	
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Chief
Investment
Officer of
the
Company

Henry C. V. Keeling (4)	2008	\$	393,750	\$	1,000,000	\$	1,704,946	\$	2,037,517	\$	313,998
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Former Executive Vice President, Chief Operating Officer of the Company	2007	\$ 675,000	\$ 1,075,000	\$ 603,040	\$ 920,193	\$ 444,656
Michael C. Lobdell (5)	2008	\$ 412,500	\$	\$ 1,412,423	\$ 753,632	\$ 327,566
Former Executive Vice President, Chief Executive Global Business Services	2007	\$ 600,000	\$ 825,000	\$ 277,785	\$ 73,754	\$ 394,656
	2006	\$ 200,000	\$ 400,000	\$ 42,938	\$	\$

- (1) Following the retirement of Mr. O Hara as President and CEO of the Company, Mr. McGavick replaced Mr. O Hara as the Company's CEO effective May 1, 2008. The annual salary in 2008 for both Mr. O Hara and Mr.

McGavick was \$1,000,000. Mr. O Hara, who has been a Director of the Company since 1986, is serving as Chairman of the Company s Board of Directors during the final year of his current term on the Board and will retire from the Board immediately prior to the Company s Annual General Meeting on April 24, 2009. A three-year consulting arrangement with Mr. O Hara has been approved by the Board of Directors to commence following his retirement from the Board. Mr. O Hara

will receive a fee of \$800,000 per year for advisory services and will be subject to certain restrictive covenants including non-competition and non-solicitation covenants.

- (2) Mr. Nocco commenced employment with the Company on July 23, 2007 and effective August 10, 2007 assumed the role of Executive Vice President and Chief Financial Officer of the Company.
- (3) Effective April 1, 2008, Mr. Duclos became Executive Vice President, Chief Executive of the Company's Insurance Operations.
- (4) On August 1, 2008, Mr. Keeling retired from the Company.
- (5) Mr. Lobdell commenced employment with the Company on August 15, 2006. Following various management changes made in 2008, Mr. Lobdell's employment with the Company was terminated effective September 8, 2008.

- (6) Represents the annual bonus awarded to each NEO in respect of the relevant performance year. Includes for Mr. McGavick a one-time bonus of \$1,500,000 granted to him upon his commencement of employment as the Company's CEO on May 1, 2008. Includes for Mr. Duclos in 2008, a bonus of \$100,000 granted in March 2006 and earned in March 2008 following a two-year cliff vesting requirement being met. Includes for Mr. Keeling, a bonus of \$1,000,000 paid to him upon his retirement from the Company on August 1, 2008 in regards to the successful completion of the Master Agreement.
- (7) Represents the dollar amount recognized by the Company for financial statement reporting purposes with respect to the fiscal years presented, for the fair-value of stock awards and option awards granted in each of those

respective years as well as prior fiscal years, calculated using the provisions of Statement of Financial Accounting Standards (SFAS) No.123R (FAS 123R), Share Based Payments . See Note 21(d and e) of the consolidated financial statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2008. These amounts reflect the Company s accounting expense for these awards in each of 2008, 2007 and 2006, excluding the accounting effect of any estimate of future forfeitures, and do not correspond to the actual value that might be realized by each NEO. For further information regarding the compensation earned by NEOs in 2008 as compared to the actual grant date fair value of stock and option awards, see Narrative Disclosure to the Summary Compensation Table and Grants of Plan-Based Awards

Table , below.

- (8) Under the terms of the 1991 Performance Incentive Program, stock award grants made in 2006 were expensed in full in 2006 or accelerated in 2007 or 2008, as applicable, for those NEOs deemed to be retirement-eligible in each of those respective years. In 2006, Messrs. O Hara and Keeling were deemed to be retirement-eligible, while in 2007, Mr. Veghte was deemed to be retirement eligible resulting in expense acceleration of each of their 2006 stock award grants. See below for further details relating to the Company's accounting and vesting policies surrounding equity awards to retirement-eligible employees. As noted above, Mr. O Hara, Mr. Keeling and Mr. Lobdell's employment with the Company terminated in 2008. As a result, all unvested stock and option awards for each of these NEOs vested on the date of the termination

of their employment with the Company, except for Mr. O Hara's February 2008 grant of 250,000 stock options, resulting in expense acceleration under FAS123R of the remaining unvested stock and option awards of Mr. O Hara, Mr. Keeling and Mr. Lobdell of \$4,199,119 and \$791,322, \$1,365,750 and \$1,462,684, and \$1,123,565 and \$614,368, respectively. For further information, see Narrative Disclosure to the Summary Compensation Table and Grants of Plan-Based Awards Table , below.

- (9) Represents the amounts earned during the applicable year under the Company's previously granted three-year cash LTIP awards based on the satisfaction of performance measures a given year, even though award amounts are payable in later years. Amounts reported as earned for an award in one

year are not again reported in later years. For 2008, represents amounts relating to the 2006-2008 LTIP awards as follows: Mr. O Hara, \$2,141,482; Mr. Veghte, \$428,296; Mr. Duclos, \$321,222; Ms. Street, \$428,296; Mr. Keeling, \$313,998 and Mr. Lobdell, \$49,788, respectively. In addition, for 2008, represents for Mr. Lobdell, \$277,778 relating to the 2007-2009 LTIP awards. Represents for 2007, amounts relating to the 2005-2007 and 2006-2008 LTIP awards as follows: Mr. O Hara, \$50,000 and \$1,973,281; Mr. Veghte, \$50,000 and \$394,656; Ms. Street, \$50,000 and \$394,656; Mr. Keeling, \$50,000 and \$394,656; and Mr. Lobdell, nil and \$394,656, respectively. In 2008 and 2007, no specified performance criteria had been met and no amounts are shown for any NEO, other than Mr. Lobdell, with respect to the 2007-2009 LTIP awards. During

2006, no specified performance criteria had been met and no amounts are shown for any NEO under the Company's outstanding 2006-2008 LTIP awards. Payments relating to the 2005-2007 LTIP awards were made in the first quarter of 2008, while payments relating to the 2006-2008 LTIP awards were made in the first quarter of 2009. Any payments relating to the 2007-2009 LTIP awards will be made in the first quarter of 2010, except for Mr. Lobdell, who was paid a lump-sum cash payment equal to the pro-rata face value of the 2006-2008 and 2007-2009 LTIP awards on March 1, 2009. For additional information see Compensation Discussion and Analysis above.

- (10) The Company does not pay above-market rates for amounts deferred under the Non-Qualified Deferred Compensation Plan.

- (11) Represents the items of compensation and benefits separately identified in the Other Annual Compensation from the Summary Compensation Table below.

Other Annual Compensation from the Summary Compensation Table

Name	Year	Housing Allowance (i)	Tax Reimbursements (ii)	Travel Allowance (iii)	Financial Counseling/ Tax Preparation	Relocation Assistance (iv)	Severance Pay (v)
Michael S. McGavick	2008	\$ 92,000	\$ 181,731	\$ 7,650	\$ 10,810	\$ 480,115	\$
Brian M. O Hara	2008	\$ 32,000	\$ 16,970	\$ 116,989	\$	\$	\$
	2007	\$ 96,000	\$ 50,903	\$ 91,604	\$	\$	\$
	2006	\$ 96,000	\$ 43,513	\$ 155,968	\$ 8,750	\$	\$
Brian W. Nocco	2008	\$ 144,000	\$	\$ 25,551	\$ 17,427	\$	\$
	2007	\$ 60,000	\$	\$ 10,168	\$ 7,758	\$ 32,172	\$
James H. Veghte	2008	\$ 108,000	\$	\$	\$ 14,087	\$	\$
	2007	\$ 108,000	\$	\$	\$ 13,475	\$	\$
	2006	\$ 108,000	\$	\$	\$	\$	\$
David B. Duclos	2008	\$	\$	\$	\$ 13,858	\$	\$
Sarah E. Street	2008	\$	\$	\$	\$ 15,002	\$	\$
	2007	\$	\$	\$	\$	\$	\$
	2006	\$	\$	\$	\$	\$	\$
Henry C. V. Keeling	2008	\$ 180,000	\$	\$ 46,446	\$	\$	\$ 2,9
	2007	\$ 180,000	\$	\$ 50,239	\$	\$	\$
	2006	\$ 168,000	\$	\$ 40,485	\$	\$	\$
Michael C. Lobdell	2008	\$	\$	\$	\$ 12,266	\$	\$ 2,0
	2007	\$	\$	\$	\$ 15,245	\$	\$
	2006	\$	\$	\$	\$	\$	\$

- (i) Represents for Mr. McGavick, a housing allowance of \$23,000 per month from September 1, 2008 through to December 31, 2008. Represents for Mr. O Hara, a housing allowance of \$8,000 per month from January 1, 2008 through to his retirement as CEO on April 30, 2008. In accordance with Mr. Keeling's termination agreement, the Company continued to pay his monthly housing allowance of \$15,000 per month from his date of retirement from the Company on August 1, 2008 through to December 31, 2008. Mr. Veghte owns a 21.8% ownership interest in a home in which a subsidiary of the Company owns the remaining 78.2% ownership interest. Mr. Veghte pays a fair market value rent to such subsidiary for the

right to occupy these premises. Through December 31, 2008 Mr. Veghte received a housing allowance equal to such rent in connection with his relocation. For further information, see Related Person Transactions.

- (ii) Represents for Mr. O Hara, tax reimbursements in connection with his housing allowance as well as a foreign earned income exclusion gross up. Such tax reimbursements were paid to the Company's executives pursuant to changes made under The Tax Reconciliation Act of 2006 to section 911 of the U.S. Internal Revenue Code. Represents for Mr. McGavick, tax reimbursement in connection with the reimbursement to Mr. McGavick of \$337,500 in 2008 on the loss on sale of his U.S. personal residence upon

relocating to
Bermuda. See
relocation
expenses below
for further
information.

- (iii) Represents home
leave travel
allowances
utilized by the
Company's
Bermuda-based
NEOs. In
addition, pursuant
to the Company's
prior policy
regarding the use
of aircraft in
which fractional
ownerships are
held by the
Company, the
Company's CEO
was permitted to
use such aircraft
for personal
travel up to a
limit of \$150,000
per year, based on
the aggregate
incremental cost
to the Company.
In 2008, Mr.
O'Hara utilized
\$109,857 of the
allowed travel
allowance
relating to use of
the
above-mentioned
aircraft as the
Company's former
CEO. The
aggregate
incremental cost
to the Company
of personal usage
of such aircraft
was determined
on a per flight

basis and included the following costs: hourly charge; international positioning charge; fuel variable charge; domestic segment fee; international passenger fee; catering charge and federal excise tax. Subsequent to May 1, 2008, under the Company's new policy regarding the use of aircraft in which fractional ownerships are held by the Company, no personal travel is allowed.

- (iv) Represents payments made to applicable NEOs to assist with relocation expenses in the year of transfer and/or departure from the Company. Includes for Mr. McGavick in 2008, reimbursement of \$142,615 in relation to moving and other relocation expenses as well as \$337,500, representing a reimbursement of 50% of the calculated loss on

sale of his U.S. personal residence upon relocating to Bermuda. For further information regarding this transaction, see Related Person Transactions.

(v) Represents severance payments made to Mr. Keeling and Mr. Lobdell following the termination of their employment with the Company in 2008.

(vi) Represents employer contributions to both qualified and non-qualified defined contribution plans. For additional information relating to contributions to non-qualified defined contribution plans, see Non-Qualified Deferred Compensation below.

(vii) Represents for all NEOs payments made for, among other things, personal car benefits, club

memberships and annual officers medical examination. Includes in 2008, for Mr. McGavick, a car allowance of \$38,250. Includes for Mr. O Hara in 2008, compensation as a non-employee Director of the Company as follows: \$50,000 received in relation to the Director's Annual Retainer Fee and \$35,500 received for fees in relation to meetings of the Board of Directors and various committees of the Board of Directors. Prior to his retirement as the Company's CEO on April 30, 2008, Mr. O Hara did not receive compensation as an executive Director of the Company.

GRANTS OF PLAN-BASED AWARDS TABLE

The following table complements the Summary Compensation Table disclosure of stock awards and option awards and shows each grant of an award made to the NEOs in the last completed fiscal year under any plan:

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Future Payouts Under Equity Incentive Plan Awards(2)			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Stock Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (\$)	Target (\$)	Maximum (\$)				
Michael S. McGavick	05/02/2008								125,000	\$ 37.78	\$
	05/02/2008							32,000		\$	\$
Brian M. O Hara	02/21/2008								250,000	\$ 36.90	\$
	02/28/2008							62,500		\$	\$
Brian W. Nocco	02/21/2008								60,000	\$ 36.90	\$
	02/28/2008							15,000		\$	\$
	08/11/2008								50,000	\$ 19.62	\$
James H. Veghte	02/21/2008								77,500	\$ 36.90	\$
	02/28/2008							12,500		\$	\$
	08/11/2008								100,000	\$ 19.62	\$
David B. Duclos	01/01/2008								50,000	\$ 50.31	\$
	02/21/2008								50,000	\$ 36.90	\$
	02/28/2008							12,500		\$	\$
	08/11/2008								100,000	\$ 19.62	\$
Sarah S. Street	02/21/2008								85,000	\$ 36.90	\$
	02/28/2008							21,250		\$	\$
	08/11/2008								75,000	\$ 19.62	\$
	02/21/2008								130,000	\$ 36.90	\$

Henry C.
V. Keeling

02/28/2008

18,750

\$

\$

Michael C.
Lobdell

02/21/2008

77,500

\$

36.90

\$

02/28/2008

12,500

\$

\$

- (1) The Company did not grant any Non-Equity Incentive Plan Awards in 2008.
- (2) The Company has not previously granted any Equity Incentive Plan Awards.
- (3) Represents the grant date fair value of each equity award calculated in accordance with FAS 123R. See Note 21(d) of the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2008. In addition, see

the Narrative
Disclosure to
Summary
Compensation
Table and
Grants of
Plan-Based
Awards Table
below for
further
information.

Narrative Disclosure to the Summary Compensation Table and Grants of Plan-Based Awards Table

Philosophy and Core Principles of Executive Compensation

Refer to the Compensation Discussion and Analysis , above, for further information relating to the Company s philosophy and core principles of executive compensation.

Stock and Stock Option Award Vesting Details

Generally, stock awards granted to executive officers of the Company in 2008 and prior years vest ratably over four years (at a rate of 25% per year) from the date of grant if an operating ROE threshold of 10% is attained for the respective year. For such stock award grants, shares are held until they meet a multi-year average operating ROE threshold of 10%, otherwise they vest after 10 years even if the ROE threshold is not met, subject to continued employment. In certain instances, stock awards may be granted to executive officers which time vest over four years without performance criteria attached to the awards. Operating ROE in 2008 was 11.2% (excluding, among other things, in 2008, the impact of the Company s goodwill impairment charge of approximately \$989.9 million from both the numerator and denominator of the Operating ROE calculation). The Company has assumed that it is probable that the performance vesting criteria of such stock awards will be met over the four year vesting period and as such those awards are expensed evenly over this period. However, for certain executives whose employment is terminated with the Company, previously granted stock awards may fully vest on the date of termination. See below for further information. Recipients of stock awards generally have the rights and privileges of a shareholder as

to the stock award, whether vested or unvested, including the right to receive dividends at the same rate as Shares of the Company and the right to vote.

Options awarded to executive officers of the Company in 2008 and prior years have a ten year term and vest according to the defined vesting schedule of the award (generally over three or four years) without performance criteria attached to the awards. Options granted to NEOs in February 2008 and May 2008 vest ratably over three years while options granted to NEOs in August 2008, vest in full on the later of (i) three years from the grant date or (ii) the date that the closing price of the Company's common shares on the New York Stock Exchange equals or exceeds 130% of the option exercise price (approximately \$25.51 per share) for a period of at least 10 consecutive trading days. For certain executives whose employment with the Company is terminated, previously granted option awards may fully vest on the date of termination, however, such option awards or portions thereof may expire earlier than the original ten year term.

In addition, under the terms of the 1991 Performance Incentive Program and the applicable award agreements, employees of the Company whose combined age and years of service aggregated to 65 or higher were considered to be retirement-eligible, meaning that they were entitled to retain the rights to any of their unvested stock based awards upon departure from the Company and in relation to stock option awards, for the remainder of the option awards respective applicable terms (i.e., ten years from the date of grant). Therefore, under FAS 123R, stock and option award grants made in 2006 are expensed in full in the year that NEOs are deemed to be retirement-eligible, notwithstanding the fact that the employee would not receive those awards until the normal vesting date had they remained employed by the Company. Effective January 1, 2007, stock or option awards also require that the employee be a minimum of 55 years old at the time of leaving the Company and require the prior approval of the Compensation Committee before any such awards vest. Accordingly, grants of stock or option awards made subsequent to 2006 to retirement-eligible employees are no longer expensed in full at the time of grant. They will be expensed in the same manner as grants to non-retirement-eligible employees.

In 2006, Messrs. O Hara and Keeling were deemed to be retirement-eligible while in 2007, Mr. Veghte was deemed to be retirement eligible resulting in expense acceleration of each of their 2006 stock award grants in each of those respective years. In 2008, Mr. O Hara, Mr. Keeling and Mr. Lobdell's employment with the Company terminated. In connection therewith, all unvested stock and option awards for each of these NEOs vested on the date of the termination of their employment with the Company, except for Mr. O Hara's February 2008 grant of 250,000 stock options, resulting in expense acceleration under FAS 123R of such unvested stock and option awards.

Compensation Earned by NEOs in 2008 as compared to the Full Grant Date Fair Value of Stock and Option Awards

It should be noted that the fair value of stock and option award grants as detailed in the Grants of Plan-Based Awards Table do not correspond to the actual economic value that may be realized by NEOs. This is especially important to note in 2008 given the significant decrease in the market price of the Company's Shares that has taken place throughout 2008. In fact, all vested and unvested exercisable options previously granted to NEOs are out-of-the money (meaning the current Share price is below the option strike price) at December 31, 2008 and the fair market value of the Company's Shares at December 31, 2008 are significantly below the grant date fair value of stock awards granted in 2008 and prior years. At December 31, 2008, the closing price of the Company's Shares on the NYSE was \$3.70 per Share.

In regards to the Summary Compensation Table, the amounts reflected under the Stock and Option Awards columns in each of 2008, 2007 and 2006, represents the accounting expense, under FAS123R for awards previously granted as applicable, excluding the effect of any estimate of future forfeitures and do not correspond to the actual economic value that might be realized by NEOs. As noted above, at December 31, 2008, the closing price of the Company's Shares on the NYSE was \$3.70 per Share, while the grant date fair values of Shares underlying previously granted stock or option awards, used to calculate the 2008 accounting expense under FAS123R as depicted in the Summary Compensation Table, ranged from \$19.62 to \$79.75 per Share.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table shows unexercised options, stock that has not vested and equity incentive plan awards for the NEOs outstanding as of the end of the last fiscal year:

Name	Option Awards (1)				Stock Awards (2)			Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	
Michael S. McGavick	0	125,000		\$ 37.78	05/02/2018	32,000	\$ 118,400	
Brian M. O Hara	150,000			\$ 50.00	12/09/2009		\$	
	75,000			80.00	03/09/2011			
	140,000			93.00	03/08/2012			
	140,000			68.62	03/07/2013			
	185,000			88.00	03/05/2014			
	200,000			75.48	03/04/2015			
Brian W. Nocco	0	60,000		\$ 36.90	02/21/2018	22,500	\$ 83,250	
	0	50,000		19.62	08/11/2018			
James H. Veghte	23,387			\$ 80.00	03/09/2011	36,500	\$ 135,050	
	24,500			93.00	03/08/2012			
	25,000			68.62	03/07/2013			

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	20,000		78.02	01/12/2014		
	25,000		77.10	03/05/2014		
	22,500	7,500	75.48	03/04/2015		
	0	77,500	36.90	02/21/2018		
	0	100,000	19.62	08/11/2018		
David B.						
Duclos	5,000		\$ 77.10	03/05/2014	21,750	\$ 80,475
	15,000	5,000	75.48	03/04/2015		
	15,000	15,000	67.93	02/24/2016		
	0	50,000	50.31	01/01/2018		
	0	50,000	36.90	02/21/2018		
	0	100,000	19.62	08/11/2018		
Sarah E.						
Street	15,000		\$ 76.00	04/02/2011	33,875	\$ 125,338
	20,000		93.00	03/08/2012		
	25,000		68.62	03/07/2013		
	20,000		77.10	03/05/2014		
	13,125	4,375	75.48	03/04/2015		
	7,500	7,500	68.70	10/01/2016		
	0	85,000	36.90	02/21/2018		
	0	75,000	19.62	08/11/2018		
Henry C.						
V. Keeling	28,333		\$ 50.00	12/09/2009		\$
	50,000		80.00	03/09/2011		
	55,000		93.00	03/08/2012		
	40,000		68.62	03/07/2013		
	45,000		77.10	03/05/2014		
	75,000		75.95	01/05/2015		
	80,000		75.48	03/04/2015		
	30,000		67.93	02/24/2016		
	43,400		36.90	02/21/2018		
Michael C.						
Lobdell	77,500		\$ 36.90	09/08/2013		\$

All options were granted under the Company's 1991 Performance Incentive Program have a ten year term and vest according to the defined vesting schedule and/or performance criteria of the award. For further details, see Stock and Option Award Vesting Details in the Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table, described above.

- (2) All Shares were granted under the Company's 1991 Performance Incentive Program. Shares awarded to NEOs of the Company vest ratably over 4 years (at a rate of 25% per year) from the date of grant if

an operating ROE threshold of 10% is attained for the respective year. The shares are held until they meet a multi-year average operating ROE threshold of 10%, otherwise they vest after 10 years even if the ROE threshold is not met, subject to continued employment. For further details, see Stock and Option Award Vesting Details in the Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table , described above.

OPTION EXERCISES AND STOCK VESTED

The following table sets forth the options exercised and each vesting of stock during the last fiscal year for the NEOs on an aggregate basis:

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise(#)	Value Realized on Exercise\$(1)	Number of Shares Acquired on Vesting(#)(2)	Value Realized on Vesting(\$)
Michael S. McGavick		\$		\$
Brian M. O Hara (3)		\$	104,500	\$ 3,614,535
Brian W. Nocco		\$	2,500	\$ 43,175
James H. Veghte		\$	13,250	\$ 339,803
David B. Duclos		\$	5,125	\$ 165,900
Sarah E. Street		\$	6,125	\$ 196,143
Henry C.V. Keeling (3)		\$	44,750	\$ 977,948
Michael C. Lobdell (3)		\$	28,000	\$ 586,100

(1) Represents the difference between the exercise price and the fair market value of the Shares on the date of exercise. Throughout 2008, the fair market value of vested NEO

option awards was below the exercise price of such options.

- (2) All Shares were granted under the Company's 1991 Performance Incentive Program. Shares awarded to NEOs of the Company vest ratably over 4 years (at a rate of 25% per year) from the date of grant if an operating ROE threshold of 10% is attained for the respective year. The shares are held until they meet a multi-year average operating ROE threshold of 10%, otherwise they vest after 10 years even if the ROE threshold is not met, subject to continued employment. All shares that were scheduled to vest in 2009 as a result of the Company's

performance in 2008, vested because the annual operating ROE required threshold of 10% was met. Within the Summary Compensation Table, the dollar amount recognized by the Company for financial statement reporting purposes with respect to the fiscal years presented, for the fair-value of stock awards granted in each of those respective years as well as prior fiscal years as applicable, is calculated using the provisions of FAS 123R and assumes that it is probable that the performance vesting criteria of such stock awards will be met over the 4-year vesting period and as such those awards are expensed evenly over this period.

See Note 21(e)
of the
consolidated
financial
statements in
the Company's
Annual Report
on Form 10-K
for the year
ended
December 31,
2008.

- (3) Includes for
Mr. O Hara,
Mr. Keeling
and Mr.
Lobdell, the
vesting of their
unvested
restricted stock
awards on the
date of the
termination of
their
employment
with the
Company
during 2008.

PENSION BENEFITS

None of the NEOs participates or has any accrued benefit under any of the Company's defined benefit pension plans.

NON-QUALIFIED DEFERRED COMPENSATION

The following table shows amounts contributed to the Company's only defined contribution plan for the NEOs that provides for the deferral of compensation on a basis that is not tax-qualified in the last fiscal year:

Name(1)	Executive Contributions in Last Fiscal Year(\$)	Registrant Contributions in Last Fiscal Year(\$)	Aggregate Earnings (Losses) in Last Fiscal Year(\$)	Aggregate Withdrawals/ Distribution(\$)	Aggregate Balance at Last Fiscal Year End(\$)
Michael S. McGavick	\$ 21,833	\$ 30,567	\$ 247	\$	\$ 52,647
Brian M. O Hara	\$ 80,167	\$ 277,983	\$ (283,807)	\$ (72,869)	\$ 4,518,962

Brian W. Nocco	\$	55,375	\$	78,094	\$	(34,740)	\$		\$	101,006
James H. Veghte	\$	69,125	\$	147,025	\$	(21,354)	\$	(602,417)	\$	75,113
David B. Duclos	\$	50,271	\$	99,892	\$	(97,302)	\$		\$	331,876
Sarah E. Street	\$	81,000	\$	195,150	\$	(437,807)	\$		\$	1,464,405
Michael C. Lobdell	\$	51,692	\$	95,619	\$	(22,453)	\$		\$	217,481

- (1) Mr. Keeling did not participate in any Non-Qualified Deferred Compensation arrangements with the Company.

Perquisites and benefits for the Company's executive officers include 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%) 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. However, as a result of the passage of The

Emergency Economic Stabilization Act of 2008, which was enacted on October 3, 2008, Section 457A was added to the Code which requires compensation under a nonqualified deferred compensation plan of a nonqualified entity to be included in the service provider's (i.e. the employee's) income when the compensation is no longer subject to a substantial risk of forfeiture, the Company's Bermuda based U.S. tax-paying executives will no longer participate in the non-qualified supplemental deferred compensation plan in relation to services performed subsequent to December 31, 2008. In addition, deferrals made before this date that are deferred until 2018 or later are to be included in the income of the service provider (i.e. the executive officer) on the earlier of the last taxable year beginning before 2017 and the year in which there is no substantial risk of forfeiture.

The Non-Qualified Deferred Compensation Plan is based on Company prescribed contribution rates that are established for all participating employees. Aggregate earnings are based on the performance of the underlying mutual funds chosen by the executive from a prescribed list of choices sponsored by the Company through a third-party vendor. As no preferential performance or interest rates are accorded any of the notional investments that executives have in the Company's Non-Qualified Deferred Compensation Plan, no monies relating to earnings associated with Non-Qualified Deferred Compensation Plans are reported in the Summary Compensation Table.

Participants are (except for the Bermuda-based U.S. taxpayers described above) and have been allowed to defer both salary and bonus into the Non-Qualified Deferred Compensation Plan. For the first 5% of salary deferred by a participant above \$230,000 of annual compensation, the Company makes a non-discretionary matching contribution of 7% and a discretionary contribution of up to an additional 3%, into the Non-Qualified Deferred Compensation Plan. All participants in the Non-Qualified Deferred Compensation Plan are required to have on file with the Company a payout election form indicating the terms chosen by the participant for payout at the time of termination or retirement. The Non-Qualified Deferred Compensation Plan was amended effective January 1, 2007 to permit in-service withdrawals to commence in 2008. No executive is allowed to take a loan from the Company against their outstanding plan balance.

Employment Contracts with NEOs

The Company has entered into employment agreements (the NEO Employment Agreements) with the following NEOs: Michael S. McGavick, to serve as the Company's Chief Executive Officer, Brian W. Nocco, to serve as the Company's Executive Vice President and Chief Financial Officer; James H. Veghte, to serve as the Company's Executive Vice President and Chief Executive of Reinsurance Operations; David B. Duclos, to serve as the Company's Executive Vice President and Chief Executive of Insurance Operations and Ms. Sarah E. Street, to serve as the Company's Executive Vice President and Chief Investment Officer.

Each NEO Employment Agreement provides for (i) a specified base salary, which is initially as set forth in the Summary Compensation Table and is subject to annual review and may be increased by the Compensation Committee, (ii) an annual bonus pursuant to the Company's incentive compensation plan, the actual amount earned to be determined by the Compensation Committee, (iii) reimbursement for or payment of certain travel and other expenses and (iv) the right to participate in such other employee benefit programs as are in effect for senior executives from time to time. The terms and conditions of the agreements are described beginning on page 37. Employment is for an original term of one year and will continue to be automatically extended for successive one year periods unless the Company or the executive provides written notice that the term is not to be extended at least six months prior to the then scheduled expiration date. Each of these executives has agreed to certain confidentiality, non-competition and non-solicitation provisions.

Each NEO Employment Agreement provides for indemnification of the executive by the Company to the maximum extent permitted by applicable law and the Company's charter documents and requires the Company to maintain directors' and officers' liability coverage in an amount equal to at least \$75,000,000.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

NEO Employment Agreements of Michael S. McGavick, Brian W. Nocco, James H. Veghte, David B. Duclos and Sarah S. Street

The potential payments upon termination or a change in control of the Company pursuant to Michael S. McGavick's employment agreement to serve as the Company's Chief Executive Officer, Brian W. Nocco's employment agreement to serve as the Company's Executive Vice President and Chief Financial Officer, James H. Veghte's employment agreement to serve as the Company's Executive Vice President and Chief Executive of Reinsurance Operations, David B. Duclos' employment agreement to serve as the Company's Executive Vice President and Chief Executive of Insurance Operations and Sarah E. Street's employment agreement to serve as the Company's Executive Vice President and Chief Investment Officer are as follows:

Termination Due to Death or Disability

Each NEO Employment Agreement provides that, in the event of the termination of the executive's employment prior to the expiration date of the employment agreement (after giving effect to any extensions thereof) by reason of death or disability the executive (or in the case of death, the executive's spouse or estate) shall be entitled to:

- (i) receive the executive's then current base salary through the end of the six month period after the month in which the executive's employment is terminated;
- (ii) any annual bonus awarded but not yet paid and a pro rata bonus for the year of termination in an amount determined by the Compensation Committee (but not less than a pro rata portion of the executive's average annual bonus for the

immediately
preceding
three years);
and

- (iii) the executive's
vested accrued
benefits under
any employee
benefit
programs,
continued
rights with
regard to any
stock options
or other rights
with respect to
equity
securities of
the Company
held by the
executive in
accordance
with the terms
of the plans
under which
such options or
other rights
were issued,
and continued
medical
benefit plan
coverage for
the executive
and/or the
executive's
dependents for
a period of six
months;

In addition, as specified under the Company's LTIP plan, the executive shall be entitled to:

- (i) payment of
applicable
LTIP
awards as
approved by
the
Committee.

In the event the employment of any of Messrs. McGavick, Nocco, Veghte, Duclos or Ms. Street were to have been terminated on December 31, 2008, the last business day of the Company's fiscal year, by reason of death or disability,

the value of the estimated potential payments to be received by Messrs. McGavick, Nocco, Veghte, Duclos or Ms. Street as described above are highlighted in the Potential Payments Upon a Termination or Change in Control table below.

Termination Without Cause

In the event of termination of the executive's employment by the Company without Cause (as defined in the employment agreement) or by the executive following assignment to the executive of duties materially inconsistent with his/her position or a material breach by the Company of certain provisions of the employment agreement, the executive shall be entitled to the executive's then current base salary through the date on which termination occurs and:

- (i) a cash lump-sum payment equal to the sum of two times the executive's then current base salary;
- (ii) a cash lump-sum payment equal to one times the higher of the targeted annual bonus for the year of such termination or the average of the executive's annual bonus for the three years immediately preceding the year of termination;
- (iii) any annual bonus awarded but not yet paid; and

- (iv) the executive's vested accrued benefits under any employee benefit programs, continued rights with regard to any stock options or other rights with respect to equity securities of the Company held by the executive in accordance with the terms of the plans under which such options or other rights were issued and continued medical benefit plan coverage for the executive and the executive's dependents for a period of up to 24 months.

In addition, as specified under the Company's LTIP plan, the executive shall be entitled to:

- (i) a pro-rata allocation of

the face value of applicable LTIP awards where the proportion of the amount shall be calculated by using the number of full months, rounded to include any partial months, of participation in the plan period as the numerator and the total number of months in the plan period in the denominator.

In the event the employment of either of Messrs. McGavick, Nocco, Veghte, Duclos or Ms. Street were to have been terminated on December 31, 2008, the last business day of the Company's fiscal year, without cause, the value of the estimated potential payments to be received by Messrs. McGavick, Nocco, Veghte, Duclos or Ms. Street as described above are highlighted in the Potential Payments Upon a Termination or Change in Control table below.

Termination Without Cause Following A Change in Control; For Good Reason; By the Company Within One Year Prior to Change in Control

Notwithstanding the foregoing, in the event of termination of the executive's employment (a) by the Company without Cause within the 24-month period following a Change in Control (as defined in the employment agreement) (the Post-Change Period), (b) by the executive for Good Reason (as defined in the employment agreement) during the Post-Change Period or (c) by the Company without cause within one year prior to a Change in Control and it is reasonably demonstrated that such termination arose in connection with or anticipation of the Change in Control, then the executive shall be entitled to the executive's then current base salary through the date on which termination occurs and:

- (i) a cash lump-sum payment equal to the sum of two times the executive's then current base salary;

- (ii) a cash lump-sum equal to the sum of two times the average of the executive s annual bonus for the three years immediately preceding the year in which the Change in Control occurs, provided such average bonus shall be at least equal to the targeted annual bonus for the year of such termination; and
- (iii) an amount equal to the higher of the executive s annual bonus actually awarded for the year immediately preceding the year in which the Change in Control occurs or the targeted annual bonus that would have been awarded to

the executive
for the year
of such
termination,
pro rated by
a fraction
based on the
number of
months or
fraction
thereof in
which the
executive
was
employed by
the
Company in
the year of
termination.

In addition, as specified under the Company's LTIP plan, the executive shall be entitled to:

- (i) for all plan periods that are outstanding at the effective time of the Change in Control, a face value LTIP payout for the plan period, unless the performance for the pro-rata plan period (through the date of termination) warrants a calculated payout that is greater than the face value payout, in which case the

calculated
payout shall
be paid.

All grants of restricted Shares and share options under the Company's incentive compensation plans automatically vest upon a Change in Control (as defined in such plans).

The executive shall also be entitled to continued medical benefit plan coverage for the executive and the executive's dependents for a period of up to 24 months and to accelerated vesting of the executive's rights (i) under any retirement plans; and (ii) under any stock options or other rights with respect to equity securities of the Company held by the executive, which options or other rights shall be exercisable for the shorter of three years or the remaining term of the security. In addition, the executive shall be entitled to gross-up payments in the event excise taxes on the executive's payments or benefits are imposed under Section 280G of the United States Internal Revenue Code.

In the event the employment of either of Messrs. McGavick, Nocco, Veghte, Duclos or Ms. Street were to have been terminated on December 31, 2008, the last business day of the Company's fiscal year, by reason of (a), (b) or (c) above, the value of the estimated potential payments to be received by each of Messrs. McGavick, Nocco, Veghte, Duclos or Ms. Street as described above are highlighted in the Potential Payments Upon a Termination or Change in Control table below.

Termination With Cause or Other Voluntary Termination

In the event of termination of the executive's employment by the Company with Cause or other voluntary termination by the executive, the executive shall be entitled to:

- (i) the executive's then current base salary through the date on which termination occurs;
- (ii) continued rights with regard to any stock options or other rights with respect to equity securities of the Company held by the executive in accordance with the terms of the plans under which such options or equity securities were issued; and
- (iii) the executive's vested accrued benefits

under any
employee
benefit
programs in
the case of
voluntary
termination
and, if such
programs
expressly
provide for
such
benefits, in
the case of
termination
by the
Company
with Cause.

Payments Made in 2008 or Payable in 2009 upon Termination of Employment of Certain NEOs

As noted above, the employment of certain NEOs with the Company was terminated in 2008 as follows:

Mr. O Hara
retired
from the
Company
effective
April 30,
2008. As
such, as
part of his
retirement,
Mr. O Hara
received or
will
receive:

- (i) his then
current base
salary
through to
the date of
termination
on April 30,
2008;
- (ii) vesting of
outstanding
stock
options

granted prior to 2008 and vesting of outstanding restricted stock in accordance with the terms of the plan under which such equity securities were issued (all outstanding vested options remained exercisable until the expiration dates contained in the Outstanding Equity Awards at Fiscal Year-End Table on page 34);

- (iii) his vested accrued benefits under any employee benefit programs; and
- (iv) payment of outstanding LTIP awards upon completion of the plan period, contingent on continued

Board of
Director
services
through his
term.

Mr.
Keeling
retired
from the
Company
effective
August 1,
2008. As
such, as
part of his
retirement,
Mr.
Keeling
received or
was
entitled to:

- (i) his then current
base salary
through to the
date of
termination on
August 1,
2008;
- (ii) cash lump-sum
severance
payments
totaling
\$2,953,125,
paid in August
2008;
- (iii) a pro-rata
allocation
(calculated by
using the
number of full
months,
rounded to
include any
partial months,
of the
Executive's
participation

through the Termination Date in the applicable plan period as the numerator and the total number of months in the applicable plan period as the denominator) of applicable LTIP awards upon completion of the applicable plan period;

- (iv) continued medical benefit plan coverage for him and his dependents for a period of up to 24 months from the termination date;
- (v) the Company's payment of or reimbursement for (in either case, on an after tax basis) reasonable moving expenses in relocating from Bermuda to the United Kingdom;
- (vi) continuation of his monthly housing allowance from the date of termination of his

employment
through the
earlier of the
end of the
calendar year
2008 or the
date of
termination of
the applicable
housing lease;

(vii) continuation of his automobile benefits from the date of termination of Mr. Keeling's employment through the end of calendar year 2008; and

(viii) reimbursement for the cost of household improvements incurred on or prior to April 30, 2008.

In addition, upon his departure from the Company, Mr. Keeling was awarded an additional \$1,000,000 bonus for his services performed in regards to the successful execution of the Master Agreement.

Mr. Keeling's benefits under the retirement plans of the Company have been paid or will be paid in accordance with the terms of the plans and his elections made thereunder. Mr. Keeling's separation agreement (the Separation Agreement) contains a release of claims against the Company as well as confidentiality, non-solicitation and non-disparagement provisions.

The Separation Agreement provided that all stock options and restricted stock granted to Mr. Keeling under the Company's equity-based incentive compensation plans would, to the extent unvested, become vested on the date of termination of Mr. Keeling's employment with the Company. Options that remained exercisable beyond ninety (90) days from the date of Mr. Keeling's termination remained exercisable until the expiration dates contained in the Outstanding Equity Awards at Fiscal Year-End Table on page 34.

Mr. Lobdell's employment with the Company was terminated effective September 8, 2008. In connection with the termination of his employment with the

Company,
Mr. Lobdell
received or
will receive:

- (i) his then
current base
salary
through to the
date of
termination
on September
8, 2008;
- (ii) cash
lump-sum
severance
payments
totaling
\$2,025,000,
paid on
March 1,
2009;
- (iii) a cash
lump-sum
payment of
\$722,222 paid
on March 1,
2009,
representing
the
proportional
share
(calculated by
using the
number of
full months,
rounded to
include any
partial
months, of
the
Executive's
participation
through the
Termination
Date in the
applicable
plan period as
the numerator

and the total number of months in the applicable plan period as the denominator) of the face value of his LTIP awards;

- (iv) vesting of outstanding stock option and vesting of outstanding restricted stock in accordance with the terms of the plan under which such equity securities were issued (all outstanding vested options remained exercisable until the expiration dates contained in the Outstanding Equity Awards at Fiscal Year-End Table on page 34);
- (v) his vested accrued benefits under any employee benefit programs, and

- (vi) continued medical benefit plan coverage for him and his dependents for a period of up to 24 months from the termination date.

Potential Payments upon Termination or Change in Control Table

Name		Termination Due to Death or Disability (1) (2)	Termination Without Cause (1) (2)	Termination Without Cause Following a Change in Control; For Good Reason; By the Company Within One Year Prior to Change in Control (1) (2) (3)
Michael S. McGavick	Cash Lump Sum Payment: Six Months Annual Salary or 2 x Annual Salary	\$ 500,000	\$ 2,000,000	\$ 2,000,000
	Cash Lump Sum Payment of Bonus	N/A	2,000,000	4,000,000
	Annual Bonus Awarded Not Yet Paid or Pro-Rata bonus	2,000,000	2,000,000	2,000,000
	Accelerated Vesting of Awards (4)	118,400	118,400	118,400
	LTIP Payments			
	Total	\$ 2,618,400	\$ 6,118,400	\$ 8,118,400
Brian W. Nocco	Cash Lump Sum Payment: Six Months Annual Salary or 2 x Annual Salary	\$ 300,000	\$ 1,200,000	\$ 1,200,000
	Cash Lump Sum Payment of Bonus	N/A	750,000	1,500,000
	Annual Bonus Awarded Not Yet Paid or Pro-Rata bonus	750,000	675,000	750,000
	Accelerated Vesting of Awards (5)	83,250	83,250	83,250
	LTIP Payments	500,000	333,333	500,000
	Total	\$ 1,633,250	\$ 3,041,583	\$ 4,033,250
James H. Veghte	Cash Lump Sum Payment: Six Months Annual Salary or 2 x Annual Salary	\$ 300,000	\$ 1,200,000	\$ 1,200,000
	Cash Lump Sum Payment of Bonus	N/A	883,333	1,766,667
	Annual Bonus Awarded Not Yet Paid or Pro-Rata bonus	1,000,000	1,000,000	1,075,000

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	Accelerated Vesting of Awards (6)	135,050	135,050	135,050
	LTIP Payments	1,000,000	833,333	1,322,953
	Total	\$ 2,435,050	\$ 4,051,716	\$ 5,499,670
David B. Duclos	Cash Lump Sum Payment: Six Months Annual Salary or 2 x Annual Salary	\$ 325,000	\$ 1,300,000	\$ 1,300,000
	Cash Lump Sum Payment of Bonus	N/A	812,500	1,625,000
	Annual Bonus Awarded Not Yet Paid or Pro-Rata bonus	950,000	950,000	812,500
	Accelerated Vesting of Awards (7)	80,475	80,475	80,475
	LTIP Payments	825,000	675,000	1,067,214
	Total	\$ 2,180,475	\$ 3,817,975	\$ 4,885,189
Sarah E. Street	Cash Lump Sum Payment: Six Months Annual Salary or 2 x Annual Salary	\$ 225,000	\$ 900,000	\$ 900,000
	Cash Lump Sum Payment of Bonus	N/A	1,700,000	3,400,000
	Annual Bonus Awarded Not Yet Paid or Pro-Rata bonus	1,700,000	950,000	1,400,000
	Accelerated Vesting of Awards (8)	125,338	125,338	125,338
	LTIP Payments	1,000,000	833,333	1,322,953
	Total	\$ 3,050,338	\$ 4,508,671	\$ 7,148,291

- (1) The value of potential acceleration of vesting of option Shares is nil as no unvested options were in-the-money at December 31, 2008, while the value of potential acceleration of vesting of

restricted
Share awards
is calculated
based upon the
closing price
of the Shares
on December
31, 2008.

- (2) The value of continued medical coverage for each NEO and their dependants, not included in the table above under each triggering event, has been calculated to be approximately \$16,000 per year.
- (3) Potential payments under a change in control are calculated with the assumption that a change in control occurred during 2008.
- (4) For Mr. McGavick, accelerated vesting of awards represents 125,000 option Shares and 32,000 restricted Shares with values of nil

and \$118,400,
respectively.

- (5) For Mr.
Nocco,
accelerated
vesting of
awards
represents
110,000 option
Shares and
22,500
restricted
Shares with
values of nil
and \$83,250,
respectively.

- (6) For Mr. Veghte, accelerated vesting of awards represents 185,000 option Shares and 36,500 restricted Shares with values of nil and \$135,050, respectively.
- (7) For Mr. Duclos, accelerated vesting of awards represents 220,000 option Shares and 21,750 restricted Shares with values of nil and \$80,475, respectively.
- (8) For Ms. Street, accelerated vesting of awards represents 171,875 option Shares and 33,875 restricted Shares with values of nil and \$125,338, respectively.

DIRECTOR COMPENSATION TABLE

The Company compensates each of its Non-Employee Directors through a mixture of cash and equity-based compensation.

The following table sets forth the compensation paid by the Company to Non-Employee Directors for services rendered in the fiscal year ended December 31, 2008:

Name(1)	Fees Earned or Paid in Cash(\$) (4)	Stock Awards (\$)(5)(6)	Option Awards (7)(8)(9)	Change in Pension Value Non-Equity and Incentive Plan Compensation (\$) (10)	Nonqualified Deferred Compensation Earnings (\$) (11)	All Other Compensation (\$)	Total(\$)
Dale R. Comey	\$ 109,500	\$ 82,280	\$ 21,250			\$	\$ 213,030
Robert Glauber	\$ 194,500	\$ 82,280	\$ 21,250			\$	\$ 298,030
Herbert Haag	\$ 71,000	\$ 82,280	\$ 21,250			\$	\$ 174,530
Joseph Mauriello	\$ 109,000	\$ 82,280	\$ 21,250			\$	\$ 212,530
Eugene McQuade	\$ 140,333	\$ 82,280	\$ 21,250			\$	\$ 243,863
Robert Parker	\$ 82,000	\$ 82,280	\$ 21,250			\$	\$ 185,530
Cyril Rance (2)	\$ 22,000	\$	\$			\$	\$ 22,000
Alan Z. Senter	\$ 78,500	\$ 82,280	\$ 21,250			\$	\$ 182,030
John T. Thornton (3)	\$ 117,000	\$ 82,280	\$ 21,250			\$	\$ 220,530

Ellen E. Thrower	\$	88,500	\$	82,280	\$	21,250	\$	\$	192,030
Sir John Vereker	\$	109,500	\$	82,280	\$	21,250	\$	\$	213,030

- (1) Mr. O Hara, the Company's former President and Chief Executive Officer and current Chairman of the Board of Directors, was considered an NEO during 2008 and as such his compensation as an NEO from January 1, 2008 to April 30, 2008 as well as his compensation as Chairman of the Board of Directors of the Company from May 1, 2008 through to December 31, 2008, is included in the Summary Compensation Table above. Mr. O Hara will retire from the Company's Board of

Directors immediately prior to the Company's Annual General Meeting on April 24, 2009. In addition, Michael S. McGavick, the Company's CEO is not included in the Director Compensation Table above, as he is an employee of the Company and therefore receives no compensation for his service as an executive Director of the Company. The compensation received by Mr. McGavick as an executive of the Company is shown in the Summary Compensation Table.

- (2) Having reached the mandatory retirement age, Mr. Rance retired from the Company's Board of Directors immediately prior to the 2008 Annual General Meeting on April 25, 2008.

(3) Mr. Thornton will retire from the Company's Board of Directors immediately prior to the Company's Annual General Meeting on April 24, 2009.

(4) See Cash Compensation to Non-Employee Directors below. Includes the annual retainer fee of \$50,000 (the Annual Fee) paid in 2008 to Mr. Vereker who joined the Company's Board of Directors in November 2007. All other Non-Employee Directors, who served as Non-Employee Directors throughout 2007, waived the receipt of their 2008 annual retainer fee in recognition of the Company's overall performance in 2007.

(5) See Equity Based Compensation Paid to

Non-Employee
Directors
below.

Represents the
dollar amount
recognized by
the Company
for financial
statement
reporting
purposes with
respect to the
2008 fiscal
year, for the
fair value of
stock awards
granted in
2008,
calculated
utilizing the
provisions of
FAS 123R..

The fair market
value of such
stock awards on
the date of
grant, April 25,
2008, was
\$32.28 per
Share. See Note
21(e) of the
consolidated
financial
statements in
the Company's
Annual Report
on Form 10-K
for the year
ended
December 31,
2008.

- (6) The aggregate
number of
stock awards
outstanding
(i.e. not vested)
as at December
31, 2008 for
each
Non-Employee

Director was
nil.

- (7) See Equity Based Compensation Paid to Non-Employee Directors below. Represents the dollar amount recognized by the Company for financial statement reporting purposes with respect to the 2008 fiscal year for the fair value of options granted to each Director in 2008 calculated utilizing the provisions of FAS 123R. The fair market value of Shares underlying such option awards and the associated exercise price of such options on the date of grant, April 25, 2008, was \$32.28 per Share. The grant date fair value of each option award on April 25, 2008 was \$8.50 per option award. See Note 21(d) of the consolidated

financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2008. These amounts reflect the Company's accounting expense for these awards and do not correspond to the actual value that might be realized by each Director.

(8) See Equity Based Compensation Paid to Non-Employee Directors below.

(9) The aggregate number of option awards outstanding as at December 31, 2008 for each Non-Employee Director was as follows: Mr. Comey, 27,500; Mr. Glauber, 35,000; Mr. Haag, 12,500; Mr. Mauriello, 12,500; Mr. McQuade, 15,000; Dr. Parker, 32,500; Mr. Senter, 31,442; Mr. Thornton,

31,292; Dr.
Thrower,
32,500 and Sir
Joh