

Equity Research

**FINANCIAL**  
Insurance

November 21, 2007  
**Research Note**

Ticker: XL  
Market: NYSE  
Price: \$51.72  
52-week: (\$54-\$86)

Stock Rating:  
**Outperform**

Company Profile:  
**Core Growth**

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# XL Capital Ltd.

## Summary of XL Capital's Financial Exposure to Security Capital Assurance

### FINANCIAL SUMMARY

Fiscal Year Ends:	December	Dividend/Yield:	\$1.52/2.9%
Long-term EPS Growth Rate:	16%	Market Value (mil.):	\$10,002

FISCAL YEAR	2006A	2007E	2008E
<b>ESTIMATES *</b>			
	\$9.83	NA	NA
<b>VALUATION</b>			
	5.3x	NA	NA

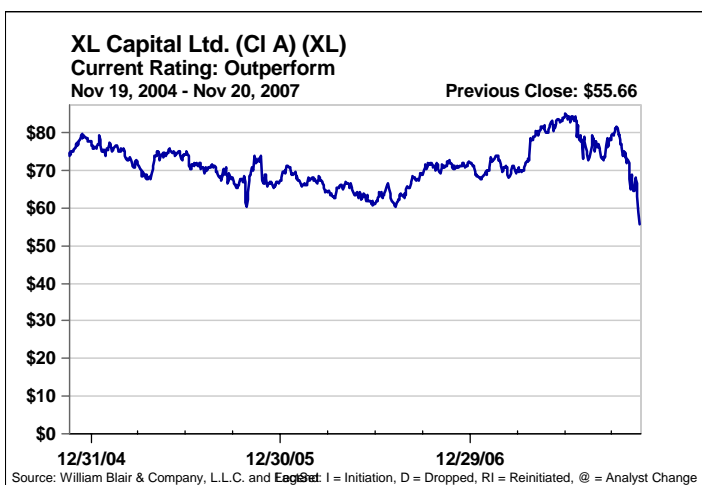
\* Estimates reflect the adoption of FAS 123R.

- > \$669.8 million carrying value of investment as of September 30, 2007, with stock at \$22.84
- > Reinsurance guarantee for pre-IPO exposure of \$78.4 billion, but only for the **non-payment** by Security Capital (SCA \$4.40)—it is not a traditional reinsurance contract. As of September 30, 2007, Security Capital had \$2.6 billion of investments and cash, \$289 million of debt/preferred, and \$650 million in the present value of installment premiums
- > \$6.6 billion of net par exposure through a facultative reinsurance agreement, including \$651 million of ABS CDO exposure and about \$200 million of any type of direct, RMBS exposure
- > \$500 million excess of loss agreement for any type of loss, including an individual and the aggregation of individual claims

If Security Capital were put into run-off, but still paid its obligations, then XL would lose its investment (or close to it), lose \$500 million from the excess of loss agreement, and at the worse case lose the entire \$651 million ABS CDO exposure (assuming this is the exposure that takes Security Capital down). The total worse case scenario with Security Capital in run-off is \$1.8 billion (17.4% of shareholders' equity excluding OCI on a pretax basis).

If Security Capital's losses were to exceed \$3 billion, the financial obligation could be significantly higher and the interim capital requirements at the very least could be significant, even if no losses occur (the latter probably a bigger risk in this draconian scenario). The vast majority of Security Capital's multisector CDO exposure, the assumed area of concern, was written after the company's IPO in August 2006; however, there is not enough disclosure to quantify the pre-IPO exposure, which also applies to Security Capital's \$3.5 billion home equity loan exposure.

Additional information is available upon request.



**Current Rating Distribution (as of 10/31/07)**

Coverage Universe	Percent	Inv. Banking Relationships*	Percent
Outperform (Buy)	59	Outperform (Buy)	12
Market Perform (Hold)	40	Market Perform (Hold)	5
Underperform (Sell)	1	Underperform (Sell)	1

\*Percentage of companies in each rating category that are investment banking clients, defined as companies for which William Blair has received compensation for investment banking services within the past 12 months.

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