

June 6, 2008

Research Update:

**XL Capital Assurance Inc., XL
Financial Assurance Ltd. Lowered
To 'BBB-'; On CreditWatch Neg**

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Research Update:

XL Capital Assurance Inc., XL Financial Assurance Ltd. Lowered To 'BBB-'; On CreditWatch Neg

Rationale

On June 6, 2008, Standard & Poor's Ratings Services lowered its financial strength ratings on XL Capital Assurance Inc. (XLCA) and XL Financial Assurance Ltd. (XLFA) to 'BBB-' from 'A-'. The ratings remain on CreditWatch with negative implications.

The downgrade reflects our current assessment of potential losses on the companies' 2005-2007 vintage RMBS exposure, direct and indirect, which is higher than previous estimates. In our view, XLCA and XLFA's combined capital cushion is inadequate at the previous rating level to absorb those losses, resulting in a shortfall of approximately \$500 million. The companies have presented various strategies to address the capital shortfall, but in our opinion, management has been unsuccessful in its efforts.

The companies' franchise, in our view, is impaired due to their scaled-back underwriting activity and concerns about the companies' ability to address prospective capital needs. Management, however, is in the early stages of working toward restructuring the companies with a near-term business strategy of participating in the financial guarantee reinsurance market and selected areas of the primary insurance market. In our view, the success of the reinsurance strategy is dependent upon the ability of the companies to attract willing cession partners in a crowded financial guarantee reinsurance market.

The CreditWatch reflects our view that there is execution risk in the companies' restructuring plan and strategy for increasing claims-paying resources. Should the companies prove unsuccessful in their restructuring and increasing claims-paying resources, we believe that XLCA and XLFA would effectively be in runoff, in which case the ratings could go lower.

Lists of the ratings that have changed as a result of these actions will be posted at www.spviews.com. Go to the left-hand navigation bar and click on "Deals Affected" to view or download the lists. Our analysis of the impact of the ratings actions announced today is ongoing; we may publish additional ratings changes.

Ratings List

Downgraded

	To	From
XL Capital Assurance Inc.		
XL Capital Assurance (U.K.) Ltd.		
XL Financial Assurance Ltd.		
Issuer Credit Rating		
Local Currency	BBB-/Watch Neg/--	A-/Watch Neg/--
Financial Strength Rating		
Local Currency	BBB-/Watch Neg/--	A-/Watch Neg/--
Financial Enhancement Rating		
Local Currency	BBB-/Watch Neg/--	A-/Watch Neg/--

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Credit Ratings Search.

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