XL CAPITAL LTD
Form 424B5
March 12, 2007

Filed Pursuant to Rule 424(b)(5)
Registration No. 333-130036

The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell and do not seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to completion, dated March 12, 2007

Prospectus Supplement
(To Prospectus dated December 1, 2005)

Fixed/Floating Series E Perpetual Non-Cumulative Preference Ordinary Shares

XL Capital Ltd is offering 1,000,000 of its Fixed/Floating Series E Perpetual Non-Cumulative Preference Ordinary Shares, liquidation preference $1,000 per share (the Series E Preference Shares).

Until April 15, 2017 (the Series E Fixed Rate Period), dividends on the Series E Preference Shares will be payable semiannually on a non-cumulative basis, when, as and if declared by our board of directors, on April 15 and October 15 of each year at a fixed rate equal to % per annum on the liquidation preference (the Series E Fixed Rate). From and after April 15, 2017 (the Series E Floating Rate Period), dividends on the Series E Preference Shares will be payable quarterly on a non-cumulative basis, when, as and if declared by our board of directors, on January 15, April 15, July 15 and October 15 of each year at a floating rate equal to three-month LIBOR plus % on the liquidation preference (the Series E Floating Rate). Dividends on the Series E Preference Shares, if declared, will be payable commencing on October 15, 2007.

From and after April 15, 2017, we may redeem the Series E Preference Shares, in whole or in part, at a redemption price of $1,000 per share, plus declared and unpaid dividends, if any, to the date of redemption. The Series E Preference Shares may not be redeemed before April 15, 2017, except that the Series E Preference Shares may be redeemed prior to such date, in whole but not in part, at a redemption price equal to the applicable Make Whole Amount, plus declared and unpaid dividends, if any, to the date of redemption, upon the occurrence of certain events described under Description of the Series E Preference Shares Redemption Redemption upon the Submission of Certain Shareholder Proposals and Description of the Series E Preference Shares Redemption Rating Redemption. In addition, we may redeem, in whole but not in part, the Series E Preference Shares before April 15, 2017 at a redemption price of $1,000 per share, plus declared and unpaid dividends, if any, to the date of redemption upon the occurrence of certain tax events as described herein. Our ability to redeem the Series E Shares will be limited by the terms of a replacement capital covenant that we will enter into in connection with this offering.

The Series E Preference Shares will be perpetual securities with no fixed maturity date and will not be subject to any sinking fund or mandatory redemption or convertible into any of our other securities.

There is currently no market for the Series E Preference Shares. The Series E Preference Shares will not be listed on any securities exchange.

Investing in the Series E Preference Shares involves risk. See Risk Factors beginning on page S-10 of this prospectus supplement.

Neither the U.S. Securities and Exchange Commission (SEC) nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Public Offering Price(1)	**Underwriting Discounts**	**Proceeds to Us Before Expenses**
Per Share	$	$	$
Total	$	$	$

(1) The public offering price does not include accrued dividends, if any, that may be declared. Dividends, if declared, will accrue from March , 2007.

It is expected that the delivery of the Series E Preference Shares will be made in book-entry form only through the facilities of The Depository Trust Company against payment in immediately available funds on or about March , 2007.

Joint Book-Runners

JPMorgan *Sole Structuring Advisor*	**Citigroup**	**Merrill Lynch & Co.**

Senior Co-Managers

ABN AMRO Incorporated	**Barclays Capital**	**Deutsche Bank Securities**
Goldman, Sachs & Co.	**RBS Greenwich Capital**	**Wachovia Securities**

Co-Managers

BNY Capital Markets, Inc.	**Calyon Corporate and Investment Bank**	**HSBC**
ING Wholesale Banking	**KeyBanc Capital Markets**	**Lazard Capital Markets**
	Lloyds TSB	

March , 2007

You should carefully read this prospectus supplement and the prospectus delivered with this prospectus supplement. You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are offering to sell, and seeking offers to buy, Series E Preference Shares only in jurisdictions where offers and sales are permitted. The information contained in this prospectus supplement and the accompanying prospectus is accurate only as of the date of this prospectus supplement or the date of the accompanying prospectus and the information in the documents incorporated by reference in this prospectus supplement and the accompanying prospectus is accurate only as of the date of those respective documents, regardless of the time of delivery of this prospectus supplement and the accompanying prospectus or of any sale of Series E Preference Shares.

This document is in two parts. The first is this prospectus supplement, which describes the specific terms of this offering of Series E Preference Shares. The second part, the accompanying prospectus, gives more general information, some of which does not apply to this offering.

If the description of this offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

The distribution of this prospectus supplement and the accompanying prospectus and the offering and sale of the Series E Preference Shares in certain jurisdictions may be restricted by law. XL Capital Ltd and the underwriters require persons into whose possession this prospectus supplement and the accompanying prospectus come to inform themselves about and to observe any such restrictions. This prospectus supplement and the accompanying prospectus do not constitute an offer of, or an invitation to purchase, any of the Series E Preference Shares in any jurisdiction in which such offer or invitation would be unlawful.

XL Capital Ltd is prohibited from making any invitation to the public of the Cayman Islands to purchase Series E Preference Shares. Non-resident or exempted companies or other non-resident or exempted entities established in the Cayman Islands, however, may purchase Series E Preference Shares.

In this prospectus supplement, references to Series E Preference Shares mean our Fixed/Floating Series E Perpetual Non-Cumulative Preference Ordinary Shares. In this prospectus supplement and the accompanying prospectus, references to dollar and $ are to United States currency, and the terms United States and U.S. mean the United States of America, its states, its territories, its possessions and all areas subject to its jurisdiction.

TABLE OF CONTENTS

Prospectus Supplement

	Page
PROSPECTUS SUPPLEMENT SUMMARY	S-4
RISK FACTORS	S-10
CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS	S-12
CAPITALIZATION	S-14
USE OF PROCEEDS	S-15
RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERENCE ORDINARY SHARE DIVIDENDS	S-15
DESCRIPTION OF THE SERIES E PREFERENCE SHARES	S-16
CERTAIN TERMS OF THE REPLACEMENT CAPITAL COVENANT	S-29
CERTAIN TAX CONSIDERATIONS	S-30
UNDERWRITING	S-38
LEGAL MATTERS	S-43
EXPERTS	S-43
INCORPORATION OF DOCUMENTS BY REFERENCE	S-43

Prospectus

About This Prospectus	1
Where You Can Find More Information	1
Incorporation of Certain Information by Reference	2
XL Capital Ltd	3
XL Capital Finance (Europe) plc	3
The Trusts	3
Use of Proceeds	4
Accounting Treatment Relating to Trust Securities	4
Ratio of Earnings to Fixed Charges and Ratio of Earnings to Combined Fixed Charges and Preference Dividends	4
General Description of the Offered Securities	5
Description of XL Capital Share Capital	5
Description of XL Capital Preference Ordinary Shares	6
Description of XL Capital Ordinary Shares	9
Description of XL Capital Ordinary Share Warrants	11
Description of XL Capital Ordinary Share Purchase Contracts and Ordinary Share Purchase Units	13
Description of XL Capital Debt Securities	14
Description of XL Capital Finance (Europe) plc Senior Debt Securities	27
Description of the Trust Preferred Securities	38
Description of the Trust Preferred Securities Guarantees	50
Description of the Subordinated Deferrable Interest Debentures	54
Plan of Distribution	61
Legal Matters	64
Experts	64
Enforcement of Civil Liabilities Under United States Federal Securities Laws	64

PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights information contained elsewhere, or incorporated by reference, in this prospectus supplement and the accompanying prospectus. This summary does not contain all of the information that you should consider before investing in Series E Preference Shares. You should read carefully this entire prospectus supplement, the accompanying prospectus and the information incorporated by reference herein and therein. In this prospectus supplement, XL Capital, we, our, ours and us refer to XL Capital Ltd unless the context otherwise requires.

XL Capital Ltd

We, together with our subsidiaries, are a leading provider of insurance and reinsurance coverages and financial products and services to industrial, commercial and professional service firms, insurance companies and other enterprises on a worldwide basis.

Our principal executive offices are located at XL House, One Bermudiana Road, Hamilton HM11, Bermuda. Our telephone number is (441) 292-8515. Our website address is *www.xlcapital.com*. The information contained on our website is not incorporated by reference into, or otherwise included in, this prospectus supplement or the accompanying prospectus.

You can also obtain additional information about us in the reports and other documents incorporated by reference in this prospectus supplement and the accompanying prospectus. See Incorporation of Documents by Reference in this prospectus supplement and Where You Can Find More Information and Incorporation of Certain Information by Reference in the accompanying prospectus.

THE OFFERING

The description of the terms of the Series E Preference Shares in this section is a summary of the terms of the Series E Preference Shares. Because the following summary is not complete, you should refer to the XL Capital Board Resolutions designating the rights, preferences and other terms of the Series E Preference Shares for a complete description of the terms of the Series E Preference Shares. You should also refer to the sections entitled Description of the Series E Preference Shares in this prospectus supplement and Description of XL Capital Share Capital and Description of the XL Capital Preferred Ordinary Shares in the accompanying prospectus.

Issuer	XL Capital Ltd.
Securities Offered	1,000,000 Fixed/Floating Series E Perpetual Non-Cumulative Preference Ordinary Shares, liquidation preference $1,000 per share, which we refer to herein as the Series E Preference Shares.
Dividends	During the Series E Fixed Rate Period, holders of Series E Preference Shares will be entitled to receive, when, as and if declared by the Board of Directors of XL Capital, cash dividends at a fixed annual rate equal to the Series E Fixed Rate. During the Series E Floating Rate Period, holders of Series E Preference Shares will be entitled to receive, when, as and if declared by the Board of Directors of XL Capital, cash dividends at the Series E Floating Rate. Dividends on the Series E Preference Shares will begin to accrue from the date of original issuance or the most recent Dividend Payment Date, as applicable, and will be payable semi-annually during the Series E Fixed Rate Period, and quarterly during the Series E Floating Rate Period, in each case when, as and if declared by the Board of Directors of XL Capital, in arrears, on April 15 and October 15, during the Series E Fixed Rate Period, and on January 15, April 15, July 15 and October 15, during the Series E Floating Rate Period, of each year. Dividends on the Series E Preference Shares, if declared, will be payable commencing on October 15, 2007. In this prospectus supplement, the date on which a dividend is scheduled to be paid on the Series E Preference Shares is referred to as a Dividend Payment Date, and the period from and including a Dividend Payment Date (or the date of the original issuance if there has not been a Dividend Payment Date) for the Series E Preference Shares to but excluding the immediately succeeding Dividend Payment Date is referred to as a Dividend Period. In the event that a Dividend Payment Date during the Series E Fixed Rate Period is not a Business Day (as defined under Description of the Series E Preference Shares Dividends), any dividend then due and payable on the Series E Preference Shares will instead be paid on the immediately following Business Day and no further sum will be payable in respect of such delay. In the event that a Dividend Payment Date for the Series E Preference Shares during the Series E Floating Rate Period would otherwise fall on a day that is not a Business Day, such Dividend Payment Date will be postponed to the immediately following Business Day and the Dividend Period will end on, but exclude, such immediately following Business Day.

	The rights of Series E Preference Shares to receive dividends are non-cumulative. Accordingly, to the extent dividends are neither declared nor paid in respect of any Dividend Period in respect of the Series E Preference Shares, holders of the Series E Preference Shares will have no right to receive some or all of the dividends in respect of that Dividend Period and XL Capital will have no obligation to pay some or all of the dividends in respect of that Dividend Period in respect of the Series E Preference Shares, whether or not dividends are payable in respect of any future Dividend Period. See Description of the Series E Preference Shares Dividends in this prospectus supplement and Description of XL Capital Preference Ordinary Shares Dividends in the accompanying prospectus.
Dividend Blocker	With certain limited exceptions, XL Capital may not pay dividends on, or repurchase, redeem or make a liquidation payment with respect to, Parity Shares or Junior Shares (as each such term is defined under Description of the Series E Preference Shares Dividends) unless full dividends on the Series E Preference Shares and any Parity Shares have been or contemporaneously are declared and paid, or are declared and a sum sufficient for the payment thereof is set apart for payment for the then-current Dividend Period for the Series E Preference Shares.
Payment of Additional Amounts	Subject to certain limitations, we will pay additional amounts to holders of the Series E Preference Shares, as additional dividends, to make up for any deduction or withholding for any taxes or other charges imposed on amounts we must pay with respect to the Series E Preference Shares, so that the net amounts paid will be equal to the amounts we would otherwise be required to pay had no such withholding or deduction been required. See Description of the Series E Preference Shares Payment of Additional Amounts in this prospectus supplement.
Liquidation Rights	Upon any voluntary or involuntary liquidation, dissolution or winding up of the affairs of XL Capital, holders of outstanding Series E Preference Shares will be entitled to receive from its assets legally available for distribution to shareholders, as a liquidation preference, $1,000 per share plus any declared but unpaid dividends with respect to the then-current Dividend Period to the date fixed for distribution before any distribution is made to holders of any Junior Shares, without interest on such declared but unpaid dividends and without accumulation of dividends for any prior Dividend Period to the extent not declared and payable in respect of such Dividend Period. See Description of the Series E Preference Shares Liquidation Preference in this prospectus supplement and Description of XL Capital Preference Ordinary Shares Liquidation Rights in the accompanying prospectus.
Conversion	The Series E Preference Shares will not be convertible into, exchangeable for, or carry rights or options to purchase, any ordinary shares or any other class or series of securities of XL Capital or any other entity.

Redemption	The Series E Preference Shares will be issued as perpetual securities with no fixed maturity date and holders of the Series E Preference Shares will not have any rights to require XL Capital to redeem their Series E Preference Shares at any time. From and after April 15, 2017, XL Capital, at its option, upon not less than 30 nor more than 60 days prior written notice, may redeem the Series E Preference Shares in whole at any time or from time to time in part, for cash at a redemption price of $1,000 per share plus any declared but unpaid dividends with respect to the then- current Dividend Period to the date of redemption, without interest on such declared but unpaid dividends and without accumulation of dividends for any prior Dividend Period to the extent not declared and payable in respect of such Dividend Period.

The Series E Preference Shares may not be redeemed at the option of XL Capital prior to April 15, 2017, except:

- upon the occurrence of certain tax events as described under Description of the Series E Preference Shares Redemption Tax Redemption, in whole but not in part, at a redemption price of $1,000 per share plus any declared but unpaid dividends with respect to the then-current Dividend Period to the date of redemption, without interest on such declared but unpaid dividends and without accumulation of dividends for any prior Dividend Period to the extent not declared and payable in respect of such Dividend Period;

- if XL Capital (i) shall have submitted to holders of its ordinary shares a proposal concerning an amalgamation, consolidation, merger, arrangement, reconstruction, reincorporation, deregistration or any other similar transaction involving XL Capital that requires, or (ii) shall have submitted any proposal for any other matter that, as a result of any change in Cayman Islands law after the date of this prospectus supplement (whether by enactment or official interpretation), requires, in each case, a vote of holders of the Series E Preference Shares at the time outstanding, voting separately as a single class (alone or with one or more other classes or series of preference ordinary shares) as described under Description of the Series E Preference Shares Redemption Redemption upon the Submission of Certain Shareholder Proposals, in whole but not in part, at a redemption price equal to the Make Whole Amount (as defined under Description of the Series E Preference Shares Redemption Make Whole Amount) for the Series E Preference Shares, plus any declared but unpaid dividends with respect to the then-current Dividend Period to the date of redemption, without interest on such declared but unpaid dividends and without accumulation of dividends for any prior Dividend Period to the extent not declared and payable in respect of such Dividend Period; and

- upon the occurrence of certain rating agency events as described under Description of the Series E Preference Shares Redemption Rating Redemption, in whole but not in part,

	at a redemption price equal to the Make Whole Amount for the Series E Preference Shares, plus any declared but unpaid dividends with respect to the then-current Dividend Period to the date of redemption, without interest on such declared but unpaid dividends and without accumulation of dividends for any prior Dividend Period to the extent not declared and payable in respect of such Dividend Period.
Replacement Capital Covenant	Prior to or concurrent with the original issuance of the Series E Preference Shares, XL Capital will enter into a replacement capital covenant for the benefit of persons that hold specified series of our long-term indebtedness providing that we will not redeem or repurchase the Series E Preference Shares on or before April 15, 2047 (which date may be extended at our option), unless during the six months prior to the date of that redemption or repurchase, we receive a specified amount of proceeds from the sale of ordinary shares and certain other securities that have characteristics that are the same as, or more equity-like than, the characteristics of the Series E Preference Shares being redeemed or repurchased at that time. The replacement capital covenant is not intended for the benefit of holders of the Series E Preference Shares and is not enforceable by them, and the replacement capital covenant is not a term of the Series E Preference Shares. See Certain Terms of the Replacement Capital Covenant in this prospectus supplement.
Voting Rights	Holders of the Series E Preference Shares will have no voting rights, except with respect to certain fundamental changes in the terms of the Series E Preference Shares and certain other matters. In addition, if dividends on the Series E Preference Shares are not paid in an aggregate amount equivalent to dividends for six full quarterly periods (which, during the Series E Fixed Rate Period, shall mean three Dividend Periods and, during the Series E Floating Rate Period, shall mean six Dividend Periods), whether or not declared and whether or not consecutive, holders of the Series E Preference Shares voting as a single class with all other series of the preference ordinary shares then having such right, will have the right to elect two persons who will then be appointed as additional directors to the Board of Directors of XL Capital. The right of holders of the Series E Preference Shares will cease (subject always to the same provision for the vesting of such rights if dividends on the Series E Preference Shares are not paid in future periods) upon the earlier to occur of (i) the first date as of which full dividends on the Series E Preference Shares have been paid for at least four consecutive quarterly periods (which, during the Series E Fixed Rate Period, shall mean two Dividend Periods and, during the Series E Floating Rate Period, shall mean four Dividend Periods) and (ii) the redemption of all Series E Preference Shares. See Description of the Series E Preference Shares Voting Rights in this prospectus supplement.
Ranking	The Series E Preference Shares will rank senior to our ordinary shares with respect to payment of dividends and receipt of amounts distributable upon any voluntary or involuntary return of assets on

	liquidation, dissolution or winding up of XL Capital. See Description of the Series E Preference Shares Ranking in this prospectus supplement and Description of XL Capital Preference Ordinary Shares Ranking in the accompanying prospectus. The Series E Preference Shares will rank pari passu with the Series A Cumulative Preference Ordinary Shares, the Series B Cumulative Preference Ordinary Shares and, if issued, the Series C Cumulative Preference Ordinary Shares and the Series D Non-Cumulative Perpetual Preferred Shares of XL Capital, being in each case Parity Shares, including as to the payment of dividends and as to distribution of assets upon any voluntary or involuntary return of assets on liquidation, dissolution or winding up of XL Capital.
Ratings	We have been advised that the Series E Preference Shares have been assigned ratings of Baa2 by Moody s Investors Service, Inc. (Moody s), BBB by Standard & Poor s Rating Services (Standard & Poor s), A- by Fitch, Inc. (Fitch) and bbb by A.M. Best Company (A.M. Best). These ratings have been obtained with the understanding that Moody s, Standard & Poor s, Fitch and A.M. Best will continue to monitor our credit rating and will make future adjustment to the extent warranted. A rating reflects only the view of Moody s, Standard & Poor s, Fitch and A.M. Best, as the case may be, and is not a recommendation to buy, sell or hold the Series E Preference Shares. There is no assurance that any such rating will be retained for any given period of time or that it will not be revised downward or withdrawn entirely by Moody s, Standard & Poor s, Fitch or A.M. Best, as the case may be, if, in their respective judgments, circumstances so warrant.
Use of Proceeds	We estimate our aggregate net proceeds from this offering of Series E Preference Shares will be approximately $987 million, after deducting underwriting discounts and estimated offering expenses. We intend to use the net proceeds from the sale of the Series E Preference Shares for the purchase of approximately $830 million of our Class A ordinary shares from time to time and for general corporate purposes, in particular, to refinance our indebtedness and other components of our capital structure. Please see the section entitled Capitalization for a description of the interest rates and maturities of our indebtedness.
Form of the Series E Preference Shares	The Series E Preference Shares will be represented by one or more global securities that will be deposited with and registered in the name of The Depository Trust Company or its nominee. This means you will not receive a certificate for your Series E Preference Shares except under limited circumstances described herein. See Description of the Series E Preference Shares Book-Entry Issuance in this prospectus supplement.
Securities Identification Codes:	CUSIP: ISIN:
Transfer Agent, Paying Agent and Registrar	Mellon Investor Services LLC.

RISK FACTORS

You should carefully consider the information set forth or incorporated by reference in this prospectus supplement, including the risks related to XL Capital as set forth in its Form 10-K for the period ended December 31, 2006. In addition, you should evaluate the following risks in connection with an investment in the Series E Preference Shares.

Dividends on the Series E Preference Shares are not cumulative.

Dividends on the Series E Preference Shares do not accumulate. Accordingly, to the extent that XL Capital neither declares nor pays dividends with respect to a particular Dividend Period, holders of the Series E Preference Shares will have no right to receive the unpaid dividends in respect of that period and XL Capital will have no obligation to pay some or all of the dividends in respect of that period, whether or not dividends are payable in respect of any future period. The Board of Directors of XL Capital will decide, in its sole discretion, whether to declare and pay dividends on the Series E Preference Shares. However, no dividends on the Series E Preference Shares will be declared by XL Capital s Board of Directors, or paid or set apart for payment, at any time during which the terms and provisions of any of XL Capital s agreements, including any agreement relating to its indebtedness, would prohibit such a declaration, payment or setting apart for payment or if such a declaration, payment or setting apart for payment would constitute a breach or a default or would not be permitted under such agreements, laws or regulations.

Rating agencies may change rating methodologies, including their views on notching practices.

The rating methodologies for securities with features similar to the Series E Preference Shares are still developing and the rating agencies may change their methodologies in the future. Possible changes may include, for example, assessing the relationship between ratings assigned to an issuer s senior securities and ratings assigned to securities with features similar to the Series E Preference Shares, sometimes called notching. In connection with the rating of non-cumulative securities, rating agencies may begin to take into consideration the fact that scheduled payments on non-cumulative securities may be omitted without triggering a default, which exposes holders to additional risks not presented to holders of senior securities. If the rating agencies were to change their practices for rating non-cumulative securities in the future and the ratings of the Series E Preference Shares were to be lowered, the trading price of the Series E Preference Shares could be negatively affected.

XL Capital will make a covenant in favor of a class or classes of indebtedness restricting its right to optionally redeem the Series E Preference Shares.

From and after April 15, 2017, and in certain other circumstances prior to such date, XL Capital may redeem the Series E Preference Shares as described under Description of the Series E Preference Shares Redemption. During the past year, a number of issuers have entered into replacement capital covenants in connection with their issuance of preferred shares or other junior securities pursuant to which such issuers have agreed in favor of specified classes of covered debt not to redeem, or in some cases repurchase, securities other than out of the proceeds from the issuance of other specified capital securities that have equity-like characteristics that are the same as or more equity-like than the subject securities at the time of redemption. XL Capital will enter into a replacement capital covenant initially for the benefit of persons that hold its 6.375% Senior Notes due November 15, 2024 and thereby make such a covenant limiting its rights to optionally redeem or repurchase the Series E Preference Shares on or before April 15, 2047 (which date may be extended at our option), which will limit the ability of investors to receive a return of their capital (other than through a sale of their shares). See Certain Terms of the Replacement Capital Covenant in this prospectus supplement.

The Series E Preference Shares are perpetual securities, and holders of the Series E Preference Shares can have no assurance of receiving their initial investment back.

The Series E Preference Shares are perpetual and have no fixed maturity date and may not be redeemed at the option of the holder. As a result, investors generally will not have a right to cause XL Capital to return their initial investment. There can be no guarantee that an investor will be able to sell its shares in the secondary market or that if such a sale occurs, the sale price will be at or above the initial price paid for the shares.

An active trading market for the Series E Preference Shares may not develop.

There is currently no established trading market for the Series E Preference Shares and the Series E Preference Shares will not be listed on any securities exchange or otherwise quoted in any automated inter-dealer quotation system. The underwriters are under no obligation to make a market in the Series E Preference Shares and, to the extent that such market making is commenced, it may be discontinued at any time. There can be no assurance that a secondary market will develop or, if it does develop, that it will provide holders of the Series E Preference Shares with any significant liquidity with respect to their investment or that the market will continue. Prospective investors should proceed on the assumption that they may have to bear the economic risk of an investment in the Series E Preference Shares for an extended period, if not indefinitely.

General market conditions and unpredictable factors could adversely affect market prices for the Series E Preference Shares.

There can be no assurance about the market prices for the Series E Preference Shares. Several factors, many of which are beyond XL Capital s control, will influence the market prices of the Series E Preference Shares. Factors that might influence the market prices of the Series E Preference Shares include, but are not limited to, whether dividends have been declared and are likely to be declared and paid on the Series E Preference Shares from time to time; the perceived creditworthiness of XL Capital; and economic, financial, geopolitical, regulatory or judicial events or developments that affect XL Capital or financial markets generally.

Accordingly, if you purchase the Series E Preference Shares, the Series E Preference Shares may trade at a discount to the price that you paid for them.

Dividends paid to U.S. holders who are individuals on the Series E Preference Shares will not be eligible for reduced tax rates as qualified dividend income.

U.S. holders who are individuals will not be eligible for reduced tax rates on dividends paid by XL Capital on the Series E Preference Shares because the shares will not be listed on any securities exchange. Dividends paid by us on the Series E Preference Shares will be subject to tax at ordinary income rates. See Certain Tax Considerations Taxation of Shareholders United States Dividends in this prospectus supplement.

The Series E Preference Shares are equity and are subordinate to our existing and future indebtedness.

The Series E Preference Shares are equity interests and do not constitute indebtedness. Consequently, the Series E Preference Shares will rank junior to all of XL Capital s indebtedness and other non-equity claims against XL Capital with respect to assets available to satisfy claims, including in the event of XL Capital s liquidation, dissolution or winding up. XL Capital s existing and future indebtedness may restrict payments of dividends on the Series E Preference Shares. Additionally, unlike indebtedness, where principal and interest would customarily be payable on specified due dates, in the case of the Series E Preference Shares (1) dividends are payable only if and when declared by XL Capital s board of directors and (2) as a corporation, we are subject to restrictions on payments of dividends and redemption price out of lawfully available funds.

There is no limitation on XL Capital s issuance of securities that rank on parity with or senior to the Series E Preference Shares.

XL Capital may issue securities that rank on parity with or senior to the Series E Preference Shares without limitation; provided, however, that the issuance by XL Capital of securities ranking senior to the Series E Preference

Shares would require separate consents passed by two thirds of the holders who vote at separate class meetings (or unanimously in writing), of each of XL Capital s Series A Cumulative Preference Ordinary Shares, Series B Cumulative Preference Ordinary Shares, Series C Cumulative Preference Ordinary Shares and Series D Non-Cumulative Preference Ordinary Shares, as well as the Series E Preference Ordinary Shares offered hereby with the quorum at each such meeting being 50% of the total number of shares of each class. See Description of the Series E Preference Shares General and Description of the Series E Preference Shares Voting Rights. The issuance of securities ranking on parity with or senior to the Series E Preference Shares may reduce the amount recoverable by holders of the Series E Preference Shares in the event of XL Capital s liquidation, dissolution or winding up.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 (PSLRA) provides a safe harbor for forward-looking statements. This prospectus supplement and the accompanying prospectus, our annual report to shareholders, any proxy statement, any other Form 10-Q, Form 10-K or Form 8-K of ours or any other written or oral statements made by or on behalf of us may include forward-looking statements that reflect our current views with respect to future events and financial performance. Such statements include forward-looking statements both with respect to us in general, and the insurance, reinsurance and financial products and services sectors in particular (both as to underwriting and investment matters). Statements which include the words expect, intend, plan, believe, project, anticipate, will, may and similar statements of a forward-looking nature identify forward-looking statements for purposes of the PSLRA or otherwise.

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in such statements. We believe that these factors include, but are not limited to, the following:

- the adequacy of rates and terms and conditions may not be as sustainable as XL Capital is currently projecting;
- changes to the size of XL Capital s claims relating to Hurricanes Katrina, Rita and Wilma and other natural catastrophes;
- XL Capital s ability to realize the expected benefits of the collateralized quota share reinsurance treaty that it entered into in the fourth quarter of 2005 with respect to specified portions of its property catastrophe and retrocessional lines of business;
- the timely and full recoverability of reinsurance placed by XL Capital with third parties, or other amounts due to XL Capital;
- changes in the projected amount of ceded reinsurance recoverables and the ratings and creditworthiness of reinsurers;
- the size of XL Capital s claims relating to the hurricane and tsunami losses described in XL Capital s Form 10-K for the fiscal year ended December 31, 2006 may change due to the preliminary nature of some of the reports and estimates of loss and damage to date;
- the timing of claims payments being faster or the receipt of reinsurance recoverables being slower than anticipated by XL Capital;
- ineffectiveness or obsolescence of XL Capital s business strategy due to changes in current or future market conditions;
- increased competition on the basis of pricing, capacity, coverage terms or other factors;

- greater frequency or severity of claims and loss activity, including as a result of natural or man-made catastrophic events, than XL Capital s underwriting, reserving or investment practices anticipate based on historical experience or industry data;
- developments in the world s financial and capital markets that adversely affect the performance of XL Capital s investments and XL Capital s access to such markets;
- the potential impact on XL Capital from government-mandated insurance coverage for acts of terrorism;
- the potential impact of variable interest entities or other off-balance sheet arrangements on XL Capital;
- developments in bankruptcy proceedings or other developments related to bankruptcies of companies insofar as they affect property and casualty insurance and reinsurance coverages or claims that XL Capital may have as a counterparty;
- availability of borrowings and letters of credit under XL Capital s credit facilities;
- changes in regulation or tax laws applicable to XL Capital or its subsidiaries, brokers or customers;
- acceptance of XL Capital s products and services, including new products and services;
- changes in the availability, cost or quality of reinsurance;
- changes in the distribution or placement of risks due to increased consolidation of insurance and reinsurance brokers;
- loss of key personnel;
- the effects of mergers, acquisitions and divestitures;
- changes in ratings, rating agency policies or practices;
- changes in accounting policies or practices or the application thereof;
- legislative or regulatory developments;
- changes in general economic conditions, including inflation, foreign currency exchange rates and other factors;
- the effects of business disruption or economic contraction due to war, terrorism or other hostilities; and
- the other factors set forth in XL Capital s other documents on file with the SEC as well as management s response to any of the aforementioned factors.

The foregoing review of important factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included or incorporated herein or elsewhere. XL Capital undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

CAPITALIZATION

The following table sets forth the consolidated capitalization of XL Capital as of December 31, 2006, on an actual basis and as adjusted to give effect to the issuance of the Series E Preference Shares in this offering and the use of proceeds thereof.

You should read the following information in conjunction with our consolidated financial statements and the notes to those financial statements and the information under the heading Management s Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K for the year ended December 31, 2006, which is incorporated by reference in this prospectus supplement and the accompanying prospectus.

	As of December 31, 2006	
	Actual	As Adjusted[1]
	(Audited) ($ in thousands, except share and per share amounts)	
Debt:		
364-day Revolver	$	$
5 and 3-year Revolvers		
5-year Revolver		
5-year Revolver[2]		
6.58% Guaranteed Senior Notes due 2011	255,000	255,000
6.50% Guaranteed Senior Notes due 2012	598,396	598,396
2.53% Senior Notes due 2009	825,000	825,000
5.25% Senior Notes due 2014	594,980	594,980
6.375% Senior Notes due 2024	350,000	350,000
5.25% Senior Notes due 2011	745,000	745,000
Total debt	$ 3,368,376	$ 3,368,376
Shareholders Equity:		
Series A Preference Ordinary Shares; $0.01 par value per share, 9,200,000 shares issued and outstanding (actual and as adjusted for this offering	$ 92	$ 92
Series B Preference Ordinary Shares; $0.01 par value per share, 11,500,000 shares issued and outstanding (actual and as adjusted)	115	115
Series C Preference Ordinary Shares; $0.01 par value per share, no shares issued and outstanding (actual and as adjusted)		
Series D Preference Ordinary Shares; $0.01 par value per share, no shares issued and outstanding (actual and as adjusted)		
Fixed/Floating Series E Preference Shares; $0.01 par value per share, no shares issued and outstanding (actual); 1,000,000 shares issued and outstanding (as adjusted)		10
Class A Ordinary Shares; $0.01 par value per share, 180,983,611 shares issued and outstanding (actual); 169,253,820 shares issued and outstanding (as adjusted, based on a closing share price of $70.76 on March 7, 2007)	1,810	1,693
Additional paid in capital	6,451,569	7,053,964
Accumulated other comprehensive income	411,405	411,405
Retained earnings	3,266,175	2,820,887
Total shareholders equity	$ 10,131,166	$ 10,288,166
Total capitalization	$ 13,499,542	$ 13,656,542

(1)

Assumes the proceeds of the issuance of the Series E preference shares will be used to (i) purchase approximately $830 million of the Company s Class A ordinary shares and (ii) for general corporate purposes, in particular, to refinance the Company s indebtedness and other components of the Company s capital structure.

(2) Available for the SCA group only.

USE OF PROCEEDS

We estimate our aggregate net proceeds from this offering of Series E Preference Shares will be approximately $987 million, after deducting underwriting discounts and estimated offering expenses. We intend to use the net proceeds from the sale of the Series E Preference Shares for the purchase of approximately $830 million of our Class A ordinary shares from time to time and for general corporate purposes, in particular, to refinance our indebtedness and other components of our capital structure. Please see the section entitled Capitalization for a description of the interest rates and maturities of our indebtedness.

RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERENCE ORDINARY SHARE DIVIDENDS

The ratio of earnings to fixed charges and the ratio of earnings to combined fixed charges and preference ordinary share dividends of XL Capital for each of the periods indicated are as follows:

	Fiscal Year Ended December 31,				
	2006	2005	2004	2003	2002
Ratio of Earnings to Fixed Charges	4.0x	**	4.8x	2.8x	3.0x
Ratio of Earnings to Combined Fixed Charges and Preference Ordinary Share Dividends	3.7x	**	4.2x	2.4x	2.9x

** For the year ended December 31, 2005, earnings were insufficient to cover fixed charges by approximately $1.4 billion.

We have computed the foregoing ratios by dividing (1) income from continuing operations before income taxes, minority interest and income or loss from equity investees plus the sum of fixed charges, amortization of capitalized interest and distributed income of equity investees, less minority interest, by (2) the sum of fixed charges and where indicated, preference ordinary share dividends. Fixed charges consist of interest expense on all indebtedness (including amortization of deferred financing costs) and the portion of operating lease rental expense that is representative of the interest factor (deemed to be 30% of operating lease rentals).

DESCRIPTION OF THE SERIES E PREFERENCE SHARES

The following description of the Series E Preference Shares includes a summary of certain provisions of our Memorandum and Articles of Association, as well as the XL Capital Board Resolutions designating the rights, preferences and other terms of the Series E Preference Shares being offered by this prospectus supplement. For a complete description of the terms and provisions of the Series E Preference Shares, you should refer to the accompanying prospectus, our Memorandum and Articles of Association and the XL Capital Board Resolutions, which are incorporated by reference herein. A copy of the XL Capital Board Resolutions designating the rights, preferences and other terms of the Series E Preference Shares being offered by this prospectus supplement will be filed as an exhibit to our registration statement by means of a Current Report on Form 8-K. Copies of our Memorandum and Articles of Association were filed as exhibits to our Annual Report on Form 10-K filed for the year ended December 31, 2006 and are incorporated by reference into this prospectus supplement and the accompanying prospectus. See Certain Tax Considerations elsewhere in this prospectus supplement for a summary of certain material U.S. federal and Cayman Islands tax consequences applicable to holders of Series E Preference Shares. In this section, references to XL Capital, we, us, our and ours refer to XL Capital Ltd and not any of its subsidiaries.

General

The Board of Directors of XL Capital on September 15, 2005 and February 23, 2007, and a Committee comprising Brian M. O Hara, President and Chief Executive Officer, Michael P. Esposito, Chairman of the Board of Directors, and Herbert Haag, a director of XL Capital, on March, 2007 pursuant to authorization given to such Committee by the Board of Directors, approved the resolutions setting forth the specific rights, preferences, limitations and other terms of the Series E Preference Shares (collectively, the XL Capital Board Resolutions). When issued and paid for as contemplated by this prospectus supplement and registered in XL Capital s Register of Members in accordance with XL Capital s Memorandum and Articles of Association, the Series E Preference Shares will be legally and validly issued, fully paid and non-assessable. Holders of the Series E Preference Shares will have no preemptive rights with respect to any securities of XL Capital. The Series E Preference Shares will not be subject to any sinking fund. Unless redeemed by us as provided herein, the Series E Preference Shares will have a perpetual term, with no maturity.

The Board of Directors of XL Capital may from time to time create and issue preference ordinary shares of other series without the approval of XL Capital s shareholders and may fix the relative rights, preferences and limitations of such securities. As of March 12, 2007, XL Capital had not issued, or committed to issue, any preference ordinary shares which would have ranked senior to or junior to the Series E Preference Shares and XL Capital had outstanding the following preference ordinary shares which will rank *pari passu* with the Series E Preference Shares:

9,200,000 Series A Cumulative Preference Ordinary Shares, liquidation preference $25 per share; and

11,500,000 Series B Cumulative Preference Ordinary Shares, liquidation preference $25 per share.

In addition, XL Capital has the right (and in certain events the obligation) to issue (i) up to a total of 20,000,000 Series C Cumulative Preference Ordinary Shares, liquidation preference $25 per share, pursuant to the terms of a contingent capital facility that XL Capital entered into in 2003 and (ii) up to a total of 350,000 Series D Non-Cumulative Perpetual Preferred Shares, liquidation preference $1,000 per share, pursuant to the terms of a contingent capital facility that XL Capital entered into in 2006. Each of these shares will, if issued, similarly rank *pari passu* with the Series E Preference Shares as to the payment of dividends with respect to an applicable Dividend Period and the distribution of assets upon the liquidation, dissolution or winding up of XL Capital.

XL Capital may from time to time in the future issue one or more additional series of preference ordinary shares which would rank *pari passu* with or junior to the Series E Preference Shares and XL Capital s other preference ordinary shares as described under Ranking. Unless previously redeemed or called for redemption, certain transactions that would vary the rights of holders of the Series E Preference Shares will not be permitted without the approval of a special resolution in writing by holders of all of the Series E Preference Shares or the sanction of a special resolution passed by two-thirds of the votes cast at a separate meeting of holders of Series E Preference Shares,

subject to any requirements of Cayman Islands law. Section 60 of the Cayman Islands Companies Law defines a resolution as a special resolution when (i) it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given, or (ii) if so authorized by its articles of association, it has been approved in writing by all of the members entitled to vote at a general meeting of the company. Under XL Capital s Memorandum and Articles of Association, at every separate meeting of holders of Series E Preference Shares, the necessary quorum will be any one or more persons present in person or by proxy holding not less than 50% of the issued shares of that class. The rights conferred upon holders of Series E Preference Shares will not be deemed to be varied by the creation or issue of any further class or series of shares ranking *pari passu* with or junior to the Series E Preference Shares or convertible into or exchangeable for any class or series of preference ordinary shares ranking *pari passu* with or junior to the Series E Preference Shares as to the payment of dividends and the distribution of assets upon the liquidation, dissolution or winding up of XL Capital. See Voting Rights and Ranking.

XL Capital currently conducts substantially all its operations through its subsidiaries, and its subsidiaries generate substantially all of its operating income and cash flow. As a result, distributions and advances from XL Capital s subsidiaries are the principal source of funds necessary to meet its dividend, redemption and liquidation preference payment obligations. Contractual provisions or laws, as well as the financial condition and operating and regulatory requirements of XL Capital s subsidiaries, may limit XL Capital s ability to obtain the cash required to satisfy its obligations, including dividend, redemption and liquidation preference payments on the Series E Preference Shares. For a description of certain regulatory restrictions on the payment of dividends by XL Capital s subsidiaries, see Note 26 of the notes to XL Capital s consolidated financial statements included in XL Capital s Annual Report on Form 10-K for the year ended December 31, 2006, which is incorporated by reference in this prospectus supplement and the accompanying prospectus.

Dividends

The rights of holders of the Series E Preference Shares to receive dividends are non-cumulative. Accordingly, to the extent dividends are neither declared nor paid in respect of any Dividend Period in respect of the Series E Preference Shares, holders of the Series E Preference Shares will have no right to receive some or all of the dividends in respect of that Dividend Period and XL Capital will have no obligation to pay some or all of the dividends in respect of that Dividend Period in respect of the Series E Preference Shares, whether or not dividends are payable in respect of any future Dividend Period.

During the Series E Fixed Rate Period, holders of Series E Preference Shares will be entitled to receive, when, as and if declared by the Board of Directors of XL Capital, cash dividends at a fixed annual rate equal to % of the $1,000 liquidation preference per share on April 15 and October 15 of each year, commencing on October 15, 2007. In the event that a Dividend Payment Date during the Series E Fixed Rate Period is not a Business Day, any dividend then due and payable will instead be paid on the immediately following Business Day and no further sum will be payable in respect of such delay. During the Series E Fixed Rate Period, dividends payable with respect to any full Dividend Period will be computed on the basis of a 360-day year consisting of twelve 30-day months and dividends payable for any Dividend Period that is not a full Dividend Period will be computed on the basis of the actual number of days elapsed during the Dividend Period, in each case rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

During the Series E Floating Rate Period, holders of Series E Preference Shares will be entitled to receive, when, as and if declared by the Board of Directors of XL Capital, cash dividends at a floating annual rate equal to Three-Month LIBOR (as defined below), plus % on the liquidation preference of $1,000 per share on January 15, April 15, July 15 and October 15 of each year. In the event that a Dividend Payment Date during the Series E Floating Rate Period would otherwise fall on a day that is not a Business Day, such Dividend Payment Date will be postponed to the immediately following Business Day and the applicable Dividend Period will end on, but exclude, such immediately following Business Day. During the Series E Floating Rate Period, dividends will be calculated by applying the Series E Floating Rate to the liquidation preference of $1,000 per share and multiplying such product by

the actual number of days in the Dividend Period divided by 360 and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

Three-Month LIBOR with respect to any Dividend Period shall be the rate (expressed as a percentage per annum) for deposits in United States dollars for a three-month period beginning on the first day of such Dividend Period that appears on Reuters LIBOR01 Page (as defined below) as of 11:00 a.m., London time, on the Determination Date (as defined below). If the Reuters LIBOR01 Page as of 11:00 a.m., London time, does not include the applicable rate or is unavailable on the Determination Date, the calculation agent will request the principal London office of each of four major banks in the London interbank market, as selected by the calculation agent, to provide that bank s offered quotation (expressed as a percentage per annum) as of approximately 11:00 a.m., London time, on the Determination Date to prime banks in the London interbank market for deposits in a Representative Amount (as defined below) for a three-month period beginning on the first day of that Dividend Period. If at least two offered quotations are so provided, LIBOR for the Dividend Period will be the arithmetic mean (rounded upward if necessary to the nearest whole multiple of 0.00001%) of those quotations. If fewer than two quotations are so provided, the calculation agent will request each of three major banks in New York City, as selected by the calculation agent, to provide that bank s rate (expressed as a percentage per annum), as of approximately 11:00 a.m., New York City time, on the Determination Date for loans in a Representative Amount to leading European banks for a three-month period beginning on the first day of that Dividend Period. If at least three rates are so provided, LIBOR for the Dividend Period will be the arithmetic mean (rounded upward if necessary to the nearest whole multiple of 0.00001%) of those rates. If fewer than three rates are so provided, then LIBOR for the Dividend Period will be LIBOR in effect with respect to the immediately preceding Dividend Period.

Business Day means a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in Bermuda, the Cayman Islands, London and New York City.

Determination Date with respect to any Dividend Period will be the second London Banking Day preceding the first day of that Dividend Period. London Banking Day is any day in which dealings in United States dollars are transacted or, with respect to any future date, are expected to be transacted in the London interbank market.

Representative Amount means a principal amount of not less than $1,000,000 for a single transaction in the relevant market at the relevant time.

Reuters LIBOR01 Page means the display designated on page LIBOR01 on the Reuters Page (or such other page as may replace the LIBOR01 page on the Reuters Page or such other service as may be nominated by the British Bankers Association for the purpose of displaying London interbank offered rates for U.S. Dollar deposits).

Reuters Page means the display on Reuters Money 3000 Service, or any successor service.

Dividends on the Series E Preference Shares, if declared, will begin to accrue from the date of original issuance or the most recent Dividend Payment Date. If declared, dividends will be payable to holders of record as they appear in XL Capital s Register of Members at the close of business on the applicable record date, which will be one day prior to the Dividend Payment Date as long as all of the Series E Preference Shares remain in book-entry form. If all of the Series E Preference Shares are not in book-entry form, the record date will be 15 days prior to the Dividend Payment Date for the Series E Preference Shares, irrespective of whether or not such record date is a Business Day.

No dividends on the Series E Preference Shares will be declared by the Board of Directors of XL Capital, or paid or set apart for payment by XL Capital, at any time during which the terms and provisions of any of XL Capital s agreements, including any agreement relating to XL Capital s indebtedness, would prohibit a declaration, payment or setting apart for payment of a dividend or provide that such a declaration, payment or setting apart for payment would constitute a breach or a default or would not be permitted thereunder. No dividends on the Series E Preference Shares will be declared or paid or set apart for payment if prohibited by applicable law or regulation.

As long as any Series E Preference Shares are outstanding, no dividends or other distributions may be declared or paid or set apart for payment on any class or series of shares ranking *pari passu* with the Series E Preference Shares as to the payment of dividends and the distribution of amounts upon any liquidation, dissolution or winding up of XL Capital, as further described in the XL Capital Board Resolutions and Ranking (the Parity Shares), for any period unless either (1) full dividends have been, or contemporaneously are, declared and paid or declared and a sum sufficient for the payment thereof set apart for such payments on the Series E Preference Shares for the then-current Dividend Period, or (2) all dividends declared upon the Series E Preference Shares and any Parity Shares are declared *pro rata* so that the amount of dividends declared per share on the Series E Preference Shares and any Parity Shares will in all cases bear to each other the same ratio that accrued and unpaid dividends per share on the Series E Preference Shares (with respect to the then-current Dividend Period) and such Parity Shares bear to each other.

As long as any Series E Preference Shares are outstanding, (i) no dividends (other than those paid in ordinary shares or other shares ranking junior in right of payment to the Series E Preference Shares as to dividends and the distribution of assets upon any liquidation, dissolution or winding up of XL Capital (together with the ordinary shares, Fully Junior Shares)) may be declared or paid or set apart for payment upon any ordinary shares or other shares ranking junior in right of payment to the Series E Preference Shares as to dividends or the distribution of assets upon any liquidation, dissolution or winding up of XL Capital (together with the ordinary shares, Junior Shares), (ii) no other distribution (other than those paid in Fully Junior Shares) may be declared or paid or set apart for payment upon any Junior Shares, and (iii) no Junior Shares may be redeemed, purchased or otherwise acquired (other than a redemption, purchase or other acquisition of ordinary shares made for purposes of any employee incentive, stock, benefit or any similar plan of XL Capital or any of its subsidiaries) for any consideration (or any moneys be paid to or made available for a sinking fund or the redemption of any Junior Shares) by XL Capital (except by conversion into or exchange for Fully Junior Shares), unless, in any such case, full dividends on the Series E Preference Shares and any Parity Shares have been or contemporaneously are declared and paid, or declared and a sum sufficient for the payment thereof set apart for payment, for the then-current Dividend Period.

Subject to applicable law, any dividend payment unclaimed for a period of six years from the date of declaration of such dividend shall be forfeited and shall revert to XL Capital, and the payment by the Board of Directors of XL Capital of any unclaimed dividend, interest or other sum payable on or in respect of the share into a separate account will not make XL Capital a trustee thereof.

Payment of Additional Amounts

XL Capital will make all payments on the Series E Preference Shares free and clear of, and without deduction or withholding for or on account of, any present or future taxes, assessments or other governmental charges imposed by any jurisdiction, political subdivision or taxing authority described in the second paragraph under Redemption Tax Redemption, unless the deduction or withholding of such taxes, assessments or other governmental charges is required by law, regulations or rulings or the application or official interpretation of such law, regulations or rulings. In such a case, XL Capital will pay, or cause to be paid, additional amounts to the registered holders of the Series E Preference Shares as additional dividends to make up for any deduction or withholding for any present or future taxes, assessments or other governmental charges imposed by any jurisdiction, political subdivision or taxing authority described in the second paragraph under Redemption Tax Redemption in respect of any amounts that XL Capital or a successor corporation must pay with respect to the Series E Preference Shares, so that the net amounts paid to holders of the Series E Preference Shares, after that deduction or withholding, shall equal the respective amounts that would have been receivable by such holders had no such withholding or deduction been required. For the avoidance of doubt, all references to payments on the Series E Preference Shares, including, without limitation, payments of liquidation amounts, redemption prices and dividends, shall be deemed to include the payment of any such additional dividends in respect of additional amounts. However, XL Capital will not be obligated to pay additional amounts to any holder of Series E Preference Shares that:

resides in or is a citizen of the jurisdiction, political subdivision or taxing authority imposing the taxes, assessments or other governmental charges that would otherwise trigger XL Capital s obligation to pay additional amounts; or

- is a fiduciary, partnership, limited liability company or other pass-through entity if, and to the extent that, the payment of additional amounts would be required by a jurisdiction, political subdivision or taxing authority described in the second paragraph under Redemption Tax Redemption to be included in the income for tax purposes of a beneficiary or settlor with respect to that fiduciary or a member of that partnership, limited liability company or other pass-through entity who would not have been entitled to any additional amounts had that beneficiary, settlor or member held those Series E Preference Shares directly.

In addition, XL Capital will not be obligated to pay any additional amounts to any holder of Series E Preference Shares on account of:

- any tax, assessment or other governmental charge that would not have been imposed but for the existence of any present or former connection between the holder of a Series E Preference Share and the taxing jurisdiction or political subdivision, or any Series E Preference Share presented for payment more than 30 days after the relevant date, which means, in respect of any payment, the date on which such payment first becomes due and payable, but if the full amount of the moneys payable has not been received by the depositary on or prior to such due date, it means the first date on which the full amount of such moneys having been so received and being available for payment to holders of the Series E Preference Shares, and notice to that effect shall have been duly given to holders of the Series E Preference Shares;

- any estate, inheritance, gift, sales, transfer, personal property or similar tax, assessment or other governmental charge;

- any tax, assessment or other governmental charge that is payable other than by withholding or deduction from payment of the liquidation preference of or any dividends on the Series E Preference Shares;

- any tax, assessment or other governmental charge that is imposed or withheld by reason of the failure by the holder or the beneficial owner of the Series E Preference Shares to promptly comply with a request by XL Capital to (i) provide information, documents, certifications or other evidence concerning the nationality, residence or identity of the holder or beneficial owner of such Series E Preference Shares or (ii) make and deliver any declaration or other similar claim, other than a claim for refund of a tax, assessment or other governmental charge withheld by XL Capital, or satisfy any information or reporting requirements, which, in the case of clause (i) or (ii) of this sentence, is required or imposed by a statute, treaty, regulation or administrative practice of the taxing jurisdiction as a precondition to exemption from all or part of that tax, assessment or other governmental charge; or

- any combination of the items identified by the bullet points above.

XL Capital s obligation to make any payments of such additional amounts with respect to dividends (including any accrued and unpaid dividends relating to any redemption payments or payments on liquidation, dissolution or winding up of XL Capital) is subject to the limitation based on distributable profits described under Certain Restrictions on Payment of Dividends and Certain Restrictions on Redemption or Purchase of Shares and to applicable law.

Certain Restrictions on Payment of Dividends

XL Capital s Memorandum and Articles of Association provide that no dividend shall be payable except out of XL Capital s profits, realized or unrealized, or out of monies otherwise available for dividends in accordance with Cayman Islands law. Under Cayman Islands law, XL Capital may not lawfully pay a dividend out of the share premium account unless, immediately following the date on which the dividend is proposed to be paid, XL Capital shall be able to pay its debts as they become due in the ordinary course of business. In addition, XL Capital s directors are, as a matter of prudence, required to ensure that any dividend declared or paid is not of an amount that reduces XL Capital s reserves to a level that is not sufficient to meet the reserve requirements of XL Capital s business.

Certain Restrictions on Redemption or Purchase of Shares

Prior to or concurrent with the original issuance of the Series E Preference Shares, XL Capital will enter into a replacement capital covenant for the benefit of persons that hold specified series of our long-term indebtedness providing that we will not redeem or repurchase the Series E Preference Shares on or before April 15, 2047 (which date may be extended at the option of XL Capital), unless during the six months prior to the date of that redemption or repurchase, we receive a specified amount of proceeds from the sale of ordinary shares and certain other securities that have characteristics that are the same as, or more equity-like than, the applicable characteristics of the Series E Preference Shares at that time of redemption or repurchase. The replacement capital covenant is not intended for the benefit of holders of the Series E Preference Shares and is not enforceable by them, and the replacement capital covenant is not a term of the Series E Preference Shares. See Certain Terms of the Replacement Capital Covenant in this prospectus supplement.

Under Cayman Islands law, XL Capital may not redeem or purchase the Series E Preference Shares, except out of XL Capital s profits, from the proceeds of a new issue of shares made for the purpose of the redemption or purchase, out of capital or from the share premium account. A payment out of capital or the share premium account is not lawful unless immediately following the date on which the payment is proposed to be made, XL Capital is able to pay its debts as they fall due in the ordinary course of business. The premium, if any, payable on redemption or purchase must be provided for out of XL Capital s profits that would otherwise be available for dividend or distribution or out of XL Capital s share premium account before or at the time the Series E Preference Shares are redeemed or purchased.

Liquidation Preference

Upon any voluntary or involuntary liquidation, dissolution or winding up of the affairs of XL Capital, holders of the Series E Preference Shares will be entitled to receive from its assets legally available for distribution to shareholders, as a liquidation preference, $1,000 per share plus any declared but unpaid dividends with respect to the then-current Dividend Period to the date fixed for distribution before any distribution is made to holders of any Junior Shares, without interest on such declared but unpaid dividends and without accumulation of dividends for any prior Dividend Period to the extent not declared and payable in respect of such Dividend Period.

After payment of the full amount of the liquidating distributions to which they are entitled, holders of outstanding Series E Preference Shares will have no right or claim to any of XL Capital s remaining assets. In the event that, upon any such voluntary or involuntary liquidation, dissolution or winding up of XL Capital, XL Capital s available assets are insufficient to pay the amount of the liquidating distributions on all outstanding Series E Preference Shares and the corresponding amounts payable on all Parity Shares, then holders of such Series E Preference Shares and all such Parity Shares shall share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

If liquidating distributions shall have been made in full to all holders of the Series E Preference Shares and all Parity Shares, XL Capital s remaining assets will be distributed among holders of any Junior Shares according to their respective rights and preferences and, in each case, according to their respective number of shares. For such purposes, a consolidation, amalgamation, merger, arrangement or reconstruction involving XL Capital or the sale or transfer of all or substantially all of the shares or the property or business of XL Capital will not be deemed to constitute a liquidation, dissolution or winding up.

Redemption

The Series E Preference Shares will be issued as perpetual securities with no fixed maturity date and holders of the Series E Preference Shares will not have any rights to require XL Capital to redeem their Series E Preference Shares at any time.

Except as described below under Redemption upon the Submission of Certain Shareholder Proposals, Tax Redemption and Rating Redemption, the Series E Preference Shares may not be redeemed at the option of XL Capital prior to April 15, 2017. From or after April 15, 2017, XL Capital, at its option, upon not less than 30 nor more than 60 days prior written notice, may redeem the Series E Preference Shares in whole at any time or from

time to time in part, for cash at a redemption price of $1,000 per share plus any declared but unpaid dividends with respect to the then-current Dividend Period to the date of redemption, without interest on such declared but unpaid dividends and without accumulation of dividends for any prior Dividend Period to the extent not declared and payable in respect of such Dividend Period. Holders of any Series E Preference Shares to be redeemed will be entitled to the redemption price following the surrender of certificates for such shares at the place designated in the notice.

If fewer than all of the outstanding Series E Preference Shares are to be redeemed at the option of XL Capital, the number of shares to be redeemed will be determined by XL Capital in its discretion and such shares may be redeemed *pro rata* from holders of record of Series E Preference Shares in proportion to the number of such shares held by such holders (with adjustments to avoid redemption of fractional shares), or by lot.

Unless the full dividends on the Series E Preference Shares and all Parity Shares for the then-current Dividend Period shall have been declared and paid, or declared and a sum sufficient for the payment thereof set apart for payment on or prior to the date of such redemption, purchase or other acquisition, no Series E Preference Shares or Parity Shares may be redeemed, purchased or otherwise acquired by XL Capital unless all outstanding Series E Preference Shares and any Parity Shares are redeemed; provided that XL Capital may acquire fewer than all of the outstanding Series E Preference Shares or Parity Shares pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding Series E Preference Shares and Parity Shares.

Notice of any redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each holder of record of Series E Preference Shares to be redeemed at the address shown in XL Capital s Register of Members; provided that, if the Series E Preference Shares are held in book-entry form through DTC, XL Capital may give notice in any manner permitted by DTC. Each notice will state, as appropriate: (i) the redemption date; (ii) the number of Series E Preference Shares to be redeemed; (iii) the redemption price; (iv) the place or places where certificates for such Series E Preference Shares are to be surrendered for payment of the redemption price if any such certificates are outstanding; and (v) where applicable, that dividends on such Series E Preference Shares to be redeemed will cease to accrue on such redemption date. If fewer than all Series E Preference Shares are to be redeemed, the notice provided to each such holder thereof will also specify the number of the Series E Preference Shares to be redeemed from such holder. If notice of redemption of the Series E Preference Shares has been given and if the funds necessary for such redemption have been set apart by XL Capital in trust for the benefit of holders of the Series E Preference Shares so called for redemption, then from and after the redemption date, dividends will cease to accrue on such Series E Preference Shares being redeemed, such Series E Preference Shares will no longer be deemed to be outstanding and all rights of holders of such shares will terminate, except the right to receive the redemption price.

If a redemption date falls after a dividend record date with respect to which a dividend has been declared and prior to the corresponding Dividend Payment Date, holders of the Series E Preference Shares at the close of business on the dividend record date will be entitled to receive the dividend payable with respect to the Series E Preference Shares on the corresponding Dividend Payment Date notwithstanding the redemption thereof between the dividend record date and the corresponding Dividend Payment Date or a default in the payment of the dividend due on such Dividend Payment Date.

Subject to (i) the replacement capital covenant described under Certain Restrictions on Redemption or Purchase of Shares, (ii) certain limitations contained in XL Capital s Memorandum and Articles of Association, (iii) any special rights granted to any of XL Capital s issued and outstanding shares, (iv) applicable law and (v) XL Capital s requirement to make a purchase or exchange offer on the same terms to holders of all outstanding Series E Preference Shares and Parity Shares, XL Capital may, at any time and from time to time, acquire outstanding Series E Preference Shares in the open market, by tender to all holders of Series E Preference Shares, by private agreement or otherwise as XL Capital sees fit. Any Series E Preference Shares that XL Capital acquires for its own account (other than in the ordinary course of business of dealing in securities) will be canceled by XL Capital and will no longer be issued and outstanding.

Redemption upon the Submission of Certain Shareholder Proposals

At any time prior to April 15, 2017, provided that at such time, some or all of the Series E Preference Shares are outstanding, if XL Capital (i) shall have submitted to holders of its ordinary shares a proposal concerning an amalgamation, consolidation, merger, arrangement, reconstruction, reincorporation, deregistration or any other similar transaction involving XL Capital that requires, or (ii) shall have submitted any proposal for any other matter that, as a result of any change in Cayman Islands law after the date of this prospectus supplement (whether by enactment or official interpretation) requires, in each case, a vote of holders of the Series E Preference Shares at the time outstanding, voting separately as a single class (alone or with one or more other classes or series of preference ordinary shares), then XL Capital will have the option, upon not less than 30 nor more than 60 days prior written notice in accordance with the procedures described under Redemption, to redeem all of the outstanding Series E Preference Shares for cash at a redemption price equal to the applicable Make Whole Amount for the Series E Preference Shares, plus any declared but unpaid dividends with respect to the then-current Dividend Period to the date of redemption, without interest on such declared but unpaid dividends and without accumulation of dividends for any prior Dividend Period to the extent not declared and payable in respect of such Dividend Period.

Our ability to redeem the Series E Preference Shares will be limited by the terms of a replacement capital covenant that we will enter into in connection with this offering.

Tax Redemption

XL Capital will have the option to redeem the Series E Preference Shares for cash at any time, in whole but not in part, upon not less than 30 nor more than 60 days prior written notice in accordance with the procedures described under Redemption, at a redemption price of $1,000 per share plus any declared but unpaid dividends with respect to the then-current Dividend Period to the date of redemption, without interest on such declared but unpaid dividends and without accumulation of dividends for any prior Dividend Period to the extent not declared and payable in respect of such Dividend Period, if (i) there is a change in tax law that would require XL Capital or any successor corporation to pay any additional amounts with respect to the Series E Preference Shares and (ii) the payment of such additional amounts cannot be avoided by the use of any reasonable measures available to XL Capital or any successor corporation.

A change in tax law that would trigger the provisions of the preceding paragraph would be (i) a change in or amendment to laws, regulations or rulings of any jurisdiction, political subdivision or taxing authority described in the next sentence, (ii) a change in the official application or interpretation of those laws, regulations or rulings or (iii) any execution of or amendment to any treaty affecting taxation to which any jurisdiction, political subdivision or taxing authority described in the next sentence is party after the date of this prospectus supplement. The jurisdictions, political subdivisions and taxing authorities referred to in the previous sentence are (a) the Cayman Islands or any political subdivision or governmental authority of or in the Cayman Islands with the power to tax, (b) any jurisdiction from or through which XL Capital or its paying agent is making payments on the Series E Preference Shares or any political subdivision or governmental authority of or in that jurisdiction with the power to tax or (c) any other jurisdiction in which XL Capital or a successor corporation is organized or generally subject to taxation or any political subdivision or governmental authority of or in that jurisdiction with the power to tax.

In addition, XL Capital will have the option to redeem the Series E Preference Shares for cash at any time, in whole but not in part, upon not less than 30 nor more than 60 days prior written notice in accordance with the procedures set forth under Redemption at a redemption price of $1,000 per share plus any declared but unpaid dividends with respect to the then-current Dividend Period to the date of redemption, without interest on such declared but unpaid dividends and without accumulation of dividends for any prior Dividend Period to the extent not declared and payable in respect of such Dividend Period, if the entity formed by a consolidation, merger or amalgamation involving XL Capital or the entity to which it conveys, transfers or leases substantially all of its properties and assets is required to pay additional amounts in respect of any tax, assessment or governmental charge imposed on any holder of Series E Preference Shares as a result of a change in tax law that occurred after the date of the consolidation, merger, amalgamation, conveyance, transfer or lease and the payment of those amounts cannot be avoided by any reasonable measures available to XL Capital.

Our ability to redeem the Series E Preference Shares will be limited by the terms of a replacement capital covenant that we will enter into in connection with this offering.

Rating Redemption

If at any time following the original date of issuance of the Series E Preference Shares there shall occur a Rating Agency Event in respect of the Series E Preference Shares, then XL Capital will have the option, upon not less than 30 nor more than 60 days prior written notice in accordance with the procedures described under Redemption, to redeem all of the outstanding Series E Preference Shares for cash at a redemption price equal to the applicable Make Whole Amount for the Series E Preference Shares, plus any declared but unpaid dividends with respect to the then-current Dividend Period to the date of redemption, without interest on such declared but unpaid dividends and without accumulation of dividends for any prior Dividend Period to the extent not declared and payable in respect of such Dividend Period.

For purposes of the preceding paragraph, Rating Agency Event means a change by any nationally recognized statistical rating organization within the meaning of Rule 15c3-1 under the U.S. Securities Exchange Act of 1934, as amended (the Exchange Act), that currently publishes a rating for XL Capital (a Rating Agency) to XL Capital s equity credit criteria for the Series E Preference Shares, as such criteria are in effect on the date of this prospectus supplement (the Current Criteria), which change results in (i) the shortening of the length of time for which such current equity credit is scheduled to be in effect with respect to the Series E Preference Shares or (ii) a lower equity credit being given to the Series E Preference Shares as of the date of such change than the equity credit that would have been assigned to the Series E Preference Shares as of the date of such change by such Rating Agency pursuant to its Current Criteria.

Our ability to redeem the Series E Preference Shares will be limited by the terms of a replacement capital covenant that we will enter into in connection with this offering.

Make Whole Amount

With respect to the Series E Preference Shares, the Make Whole Amount for any redemption date will be equal to the greater of (i) the aggregate liquidation preference of the Series E Preference Shares to be redeemed and (ii) the sum of the present values of the aggregate liquidation preference of the Series E Preference Shares to be redeemed and the remaining scheduled payments of dividends on the Series E Preference Shares to be redeemed up to but excluding April 15, 2017 discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at a rate equal to the Treasury Rate (as defined below) plus basis points.

For the purposes of the preceding paragraph:

Comparable Treasury Issue means the United States Treasury security selected by the Reference Treasury Dealer as having a maturity comparable to the period from and including the redemption date to but excluding April 15, 2017, that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to such period of time. If no United States Treasury security has a maturity which is within a period from three months before to three months after the remaining life, the two most closely corresponding United States Treasury securities, as selected by the Reference Treasury Dealer, shall be used as the Comparable Treasury Issue, and the adjusted Treasury Rate shall be interpolated or extrapolated on a straight-line basis, rounding to the nearest month, using such securities.

Comparable Treasury Price means, with respect to any redemption date, (i) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third Business Day preceding such redemption date, as set forth in the H.15 Daily Update published on such Business Day, or (ii) if such release (or any successor release) is not published or does not contain prices on such Business Day, the Reference Treasury Dealer Quotation actually obtained by the calculation agent for such redemption date.

H.15 (519) means the weekly statistical release entitled H. 15 (519) Selected Interest Rates, or any successor publication, published by the Board of Governors of the Federal Reserve System.

H.15 Daily Update means the daily update of H. 15 (519) available through the world wide website of the Board of Governors of the Federal Reserve System or any successor site or publication.

Reference Treasury Dealer means a nationally recognized investment bank that is a primary U.S. government securities dealer in New York City selected by XL Capital.

Reference Treasury Dealer Quotation means, with respect to the Reference Treasury Dealer and any redemption date, the average, as determined by the calculation agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the calculation agent by the Reference Treasury Dealer at 5:00 p.m., New York City time, on the third Business Day preceding such redemption date.

Treasury Rate means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

Voting Rights

Generally, holders of the Series E Preference Shares will not have any voting rights, except as described below or as otherwise from time to time required by law. If dividends on the Series E Preference Shares are not paid in an aggregate amount equivalent to dividends for six full quarterly periods (which, during the Series E Fixed Rate Period, shall mean three Dividend Periods and, during the Series E Floating Rate Period, shall mean six Dividend Periods), whether or not declared and whether or not consecutive, holders of the Series E Preference Shares voting as a single class with all other series of the preference ordinary shares then having such right, will have the right to elect two persons who will then be appointed as additional directors to the Board of Directors of XL Capital. The right of holders of the Series E Preference Shares will cease (subject always to the same provision for the vesting of such rights if dividends on the Series E Preference Shares are not paid in future periods) upon the earlier to occur of (i) the first date as of which full dividends on the Series E Preference Shares have been paid for at least four consecutive quarterly periods (which, during the Series E Fixed Rate Period, shall mean two Dividend Periods and, during the Series E Floating Rate Period, shall mean four Dividend Periods) and (ii) the redemption of all the Series E Preference Shares.

Unless previously redeemed or called for redemption, certain transactions that would vary the rights of holders of the Series E Preference Shares will not be permitted without the approval of a special resolution in writing by holders of all Series E Preference Shares or the sanction of a special resolution passed by two-thirds of the votes cast at a separate meeting of holders of the Series E Preference Shares, subject to any requirements of Cayman Islands law. Section 60 of the Cayman Islands Companies Law defines a resolution as a special resolution when (i) it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given; or (ii) if so authorized by its articles of association, it has been approved in writing by all of the members entitled to vote at a general meeting of the company. Pursuant to XL Capital s Articles of Association, at every separate meeting of holders of Series E Preference Shares, the necessary quorum shall be any one or more persons present in person or by proxy holding not less than 50% of the issued shares of that class. The rights conferred upon holders of Series E Preference Shares and Parity Shares shall not be deemed to be varied by the creation or issue of any further class or series of shares ranking *pari passu* therewith as described under Ranking. Notwithstanding the foregoing, holders of the Series E Preference Shares are not entitled to vote on any sale of all or substantially all of the assets of XL Capital or the issuance of any shares that rank *pari passu* with the Series E Preference Shares as to the payment of dividends and the distribution of assets upon the liquidation, dissolution or winding up of XL Capital.

Conversion

The Series E Preference Shares will not be convertible into, exchangeable for or carry rights or options to purchase, any ordinary shares or any other class or series of securities of XL Capital or any other entity.

Ranking

Any class or series of shares of XL Capital shall be deemed to rank (i) senior to the Series E Preference Shares and the Parity Shares, as to the payment of dividends and as to any voluntary or involuntary return of assets on liquidation, dissolution or winding up of XL Capital, if holders of such class or series shall be entitled to the receipt of dividends or of amounts distributable upon any voluntary or involuntary return of assets on liquidation, dissolution or winding up, as the case may be, of XL Capital in preference or priority to holders of the Series E Preference Shares and the Parity Shares, (ii) *pari passu* with the Series E Preference Shares and the Parity Shares, as to the payment of dividends and as to distribution of assets upon any voluntary or involuntary return of assets on liquidation, dissolution or winding up of XL Capital, whether or not the dividend rates, dividend payment dates or redemption or liquidation prices per share thereof shall be different from those of the Series E Preference Shares or Parity Shares, if holders of such class or series, the Series E Preference Shares and the Parity Shares shall be entitled to the receipt of dividends and of amounts distributable upon any voluntary or involuntary return of assets on liquidation, dissolution or winding up of XL Capital in proportion to their respective amounts of accrued and unpaid dividends per share or liquidation preferences, without preference or priority of one over the other, or (iii) junior to the Series E Preference Shares and the Parity Shares, as to the payment of dividends or as to distribution of assets upon any voluntary or involuntary return of assets on liquidation, dissolution or winding up XL Capital, if such class or series is ordinary shares or other shares ranking junior in right of payment to the Series E Preference Shares and the Parity Shares as to dividends or as to the distribution of assets upon any voluntary or involuntary return of assets on liquidation, dissolution or winding up of XL Capital. The Series E Preference Shares will therefore rank *pari passu* on the basis set out above with the Series A Cumulative Preference Ordinary Shares, the Series B Cumulative Preference Ordinary Shares and, if issued, the Series C Cumulative Preference Ordinary Shares and the Series D Non-Cumulative Perpetual Preferred Shares of XL Capital, being in each case Parity Shares, including as to the payment of dividends and as to distribution of assets upon any voluntary or involuntary return of assets on liquidation, dissolution or winding up of XL Capital on the basis set out above.

Limitations on Ownership and Transfer Restrictions

XL Capital s Articles of Association provide that the Board of Directors of XL Capital shall decline to register a transfer of shares if it appears to the directors, whether before or after such transfer, that the effect of such transfer would be to increase the number of shares owned or controlled by any person to 10% or any higher percentage of any class of voting shares or of the total issued shares or of the voting power of XL Capital. In addition, XL Capital s Articles of Association also provide that if, and so long as, the votes conferred by the ownership or control of shares (including any preference ordinary shares) of any person constitute 10% or more of the votes conferred by the issued shares of XL Capital, each such share held by such person shall confer only a fraction of a vote that would otherwise be applicable according to the formula as described in XL Capital s Articles of Association, and will continue to be readjusted until no shareholder s voting rights exceeds this limitation as a result of such reduction. Notwithstanding the foregoing, the directors may make such final adjustments to the aggregate number of votes conferred by the ownership or control of shares of any person that they consider fair and reasonable in light of all the circumstances, to ensure that such votes represent less than 10% of the aggregate voting power of the votes conferred by all the issued shares of XL Capital. For these purposes, references to ownership or control of shares of XL Capital mean ownership within the meaning of Section 958 of the U.S. Internal Revenue Code of 1986, as amended, and Section 13(d)(3) of the Exchange Act.

Market for the Series E Preference Shares

There is currently no established trading market for the Series E Preference Shares and the Series E Preference Shares will not be listed on any securities exchange or otherwise quoted in any automated inter-dealer quotation system. The underwriters are under no obligation to make a market in the Series E Preference Shares and, to the extent that such market making is commenced, it may be discontinued at any time. There is no assurance that a secondary market will develop or, if it does develop, that it will provide holders of the Series E Preference Shares with any

significant liquidity with respect to their investment or that the market will continue. Prospective investors should proceed on the assumption that they may have to bear the economic risk of an investment in the Series E Preference Shares for an extended period, if not indefinitely.

Transfer Agent, Paying Agent, Calculation Agent and Registrar

The transfer agent, paying agent and registrar for the Series E Preference Shares is Mellon Investor Services LLC. XL Capital will initially serve as the calculation agent with respect to the Series E Preference Shares. Prior to the earlier of the delivery of any redemption notice relating to the Series E Preference Shares and April 15, 2017, XL Capital is expected to appoint an independent investment banking institution of national standing to serve as the calculation agent with respect to the Series E Preference Shares.

Book-Entry Issuance

The Series F Preference Shares will be represented by one or more global securities that will be deposited with and registered in the name of The Depository Trust Company (DTC) or its nominee. This means that we will not issue certificates to you for the Series E Preference Shares except in limited circumstances. The global securities will be issued to DTC, the depository for the Series E Preference Shares, who will keep a computerized record of its participants (for example, your broker) whose clients have purchased the Series E Preference Shares. Each participant will then keep a record of its clients. Unless exchanged in whole or in part for a certificated security, a global security may not be transferred. However, DTC, its nominees, and their successors may transfer a global security as a whole to one another. Beneficial interests in the global securities will be shown on, and transfers of the global securities will be made only through, records maintained by DTC and its participants. The Series E Preference Shares will be issued in registered global form in minimum denominations of $1,000 and integral multiples of $1,000 in excess thereof.

DTC is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered under the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants (direct participants) deposit with DTC. DTC also records the settlement among direct participants of securities transactions, such as transfers and pledges, in deposited securities through computerized records for direct participants accounts. This eliminates the need to exchange certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations.

DTC s book-entry system is also used by other organizations such as securities brokers and dealers, banks and trust companies that work through a direct participant. The rules that apply to DTC and its participants are on file with the SEC.

DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc.

When you purchase Series E Preference Shares through the DTC system, the purchases must be made by or through a direct participant, who will receive credit for the Series E Preference Shares on DTC s records. Since you actually own the Series E Preference Shares, you are the beneficial owner and your ownership interest will only be recorded in the direct (or indirect) participants records. DTC has no knowledge of your individual ownership of the Series E Preference Shares. DTC s records only show the identity of the direct participants and the amount of the Series E Preference Shares held by or through them. You will not receive a written confirmation of your purchase or sale or any periodic account statement directly from DTC. You will receive these from your direct (or indirect) participant. Thus, the direct (or indirect) participants are responsible for keeping accurate account of the holdings of their customers like you.

We will wire dividend payments to DTC s nominee and we will treat DTC s nominee as the owner of the global securities for all purposes. Accordingly, we will have no direct responsibility or liability to pay amounts due on the global securities to you or any other beneficial owners in the global securities.

Any redemption notices will be sent by us directly to DTC, who will in turn inform the direct participants, who will then contact you as a beneficial holder.

It is DTC s current practice, upon receipt of any payment of dividends or liquidation amount, to credit direct participants accounts on the payment date based on their holdings of beneficial interests in the global securities as shown on DTC s records. In addition, it is DTC s current practice to assign any consenting or voting rights to direct participants whose accounts are credited with preferred securities on a record date, by using an omnibus proxy. Payments by participants to owners of beneficial interests in the global securities, and voting by participants, will be based on the customary practices between the participants and owners of beneficial interests, as is the case with the Series E Preference Shares held for the account of customers registered in street name. However, payments will be the responsibility of the participants and not of DTC or us.

Series E Preference Shares represented by global securities will be exchangeable for certificated securities with the same terms in authorized denominations of such series only if:

- DTC is unwilling or unable to continue as depositary or if DTC ceases to be a clearing agency registered under applicable law and a successor depositary is not appointed by us within 90 days; or

- we determine not to require all of the Series E Preference Shares to be represented by global securities.

If the book-entry-only system is discontinued, the transfer agent will keep the registration books for the Series E Preference Shares at its corporate office.

CERTAIN TERMS OF THE REPLACEMENT CAPITAL COVENANT

We will covenant in the replacement capital covenant initially for the benefit of persons that hold our 6.375% Senior Notes due November 15, 2024 issued in the aggregate principal amount of $350,000,000 (CUSIP 98372PAG3) that we will not redeem or purchase the Series E Preference Shares on or before April 15, 2047 (which date may be extended at our option) unless during the six months on or prior to the date of that redemption or purchase, we receive a specified amount of proceeds from the sale of ordinary shares and certain other securities that have characteristics that are the same as, or more equity-like than, the applicable characteristics of the Series E Preference Shares being redeemed or purchased at that time.

Our ability to raise proceeds from qualifying securities during the six months on or prior to a proposed redemption or purchase of the Series E Preference Shares will depend on, among other things, the condition of our business and our financial condition, market conditions at that time as well as the acceptability to prospective investors of the terms of those qualifying securities.

Our covenants in the replacement capital covenant will initially run only to the benefit of holders of our 6.375% Senior Notes due November 15, 2024, which we refer to as the initial covered debt. The replacement capital covenant is not intended for the benefit of holders of the Series E Preference Shares, and is not enforceable by them, and the replacement capital covenant is not a term of the Series E Preference Shares.

The replacement capital covenant may be terminated if (i) holders of at least a majority by principal amount of the then-effective series of covered debt consent or agree in writing to terminate the replacement capital covenant, (ii) we no longer have outstanding any indebtedness that qualifies as covered debt or (iii) we no longer have any outstanding Series E Preference Shares. In addition, if not earlier terminated, the replacement capital covenant will terminate on April 15, 2047; provided, however, that the April 15, 2047 termination date may be extended at our option.

CERTAIN TAX CONSIDERATIONS

The following summary of the taxation of XL Capital and its Bermuda insurance subsidiaries (collectively, XL) and the taxation of shareholders of XL Capital is based upon current law and is for general information only. Legislative, judicial or administrative changes may be forthcoming that could affect this summary.

The foregoing discussion (including and subject to the matters and qualifications set forth in such summary) of certain tax considerations (i) under Taxation of XL Capital and XL Cayman Islands and Taxation of Shareholders Cayman Islands is based upon the advice of Cayman Islands legal counsel, (ii) under Taxation of XL Capital and XL Bermuda is based upon the advice of Bermuda legal counsel and (iii) under Taxation of XL Capital and XL United States and Taxation of Shareholders United States is based upon the advice of Cahill Gordon & Reindel LLP, New York, New York. The advice of such firms does not include any factual or accounting matters, determinations or conclusions such as amounts of related person insurance income and computations and amounts of components thereof (for example, amounts or computations of income or expense items or reserves entering into computations of related person insurance income) or facts relating to XL Capital s business or activities. The summary is based upon current law and is for general information only.

The tax treatment of a holder of Series E Preference Shares, or of a person treated as a holder of Series E Preference Shares for U.S. federal income, state, local or non-U.S. tax purposes, may vary depending on the holder s particular tax situation. Legislative, judicial or administrative changes or interpretations may be forthcoming that could be retroactive and could affect the tax consequences to holders of Series E Preference Shares.

PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE FEDERAL, STATE, LOCAL AND NON-U.S. TAX CONSEQUENCES OF OWNING SERIES E PREFERENCE SHARES.

Taxation of XL Capital and XL

Cayman Islands

Under current Cayman Islands law, XL Capital is not obligated to pay any taxes in the Cayman Islands on its income or gains. XL Capital has received an undertaking from the Governor-in-Council of the Cayman Islands pursuant to the provisions of the Tax Concessions Law, as amended, that until June 2, 2018, (i) no subsequently enacted law imposing any tax on profits, income, gains or appreciation shall apply to XL Capital and (ii) no such tax and no tax in the nature of an estate duty or an inheritance tax shall be payable on any shares, debentures or other obligations of XL Capital. Under current law, no tax will be payable on the transfer or other disposition of the Series E Preference Shares. The Cayman Islands currently impose stamp duties on certain categories of documents; however, the current operations of XL Capital do not involve the payment of such stamp duties in any material amount. The Cayman Islands currently impose an annual corporate fee upon all exempted companies incorporated in the Cayman Islands.

Bermuda

XL has received from the Ministry of Finance in Bermuda exemptions from any Bermuda taxes that might be imposed on profits, income or any capital asset, gain or appreciation, until March 28, 2016. The exemptions are subject to the proviso that they are not construed to prevent the application of any tax or duty to such persons as are ordinarily resident in Bermuda (XL Capital and XL are not so currently designated) and to prevent the application of any tax payable in accordance with the provisions of The Land Tax Act 1967 payable in relation to the land leased to XL. XL Capital, as a permit company under The Companies Act 1981 of Bermuda, has received similar exemptions, which are effective until March 28, 2016. Both XL Capital and XL are required to pay certain annual Bermuda government fees and XL, additionally, is required to pay certain business fees as an insurer under The Insurance Act 1978 of Bermuda. Currently, there is no Bermuda withholding tax on dividends paid by XL to XL Capital.

United States

XL Capital and XL intend to take the position that they are not engaged in a trade or business within the U.S. through a permanent establishment in the U.S. However, because definitive identification of activities that constitute

being engaged in a trade or business in the U.S. is not provided by the Internal Revenue Code of 1986, as amended (the Code), or regulations or court decisions, there can be no assurance that the Internal Revenue Service (IRS) will not contend successfully that XL Capital or XL is or will be engaged in a trade or business in the U.S. A foreign corporation deemed to be so engaged would be subject to U.S. federal income tax, as well as a 30% branch profits tax, on its income that is treated as effectively connected with the conduct of that trade or business unless the corporation is entitled to relief under the permanent establishment provision of a tax treaty, as discussed below. Such income tax, if imposed, would be based on effectively connected income computed in a manner generally analogous to that applied to the income of a domestic corporation. Under regulations, the foreign corporation would be entitled to deductions and credits only if the return is filed timely under rules set forth therein. Penalties may be assessed for failure to file tax returns. XL Capital files protective U.S. federal income tax returns to preserve the right to claim income tax deductions and credits if it is ever determined that XL Capital is subject to U.S. federal income tax. The branch profits tax is imposed on net income after subtracting the regular corporate income taxes and making certain other adjustments.

Bermuda Treaty. Under the income tax treaty between Bermuda and the U.S. (the Treaty), XL is subject to U.S. income tax on any income effectively connected with a U.S. trade or business only if that trade or business is conducted through a permanent establishment in the U.S. No regulations interpreting the Treaty have been issued. While there can be no assurances, XL Capital does not believe that XL has a permanent establishment in the U.S. XL would not be entitled to the benefits of the Treaty if (i) 50% or less of XL s stock were beneficially owned, directly or indirectly, by Bermuda residents or U.S. citizens or residents, or (ii) XL s income were used in substantial part to make disproportionate distributions, or meet certain liabilities, to persons who are not Bermuda residents or U.S. citizens or residents. While there can be no assurances, XL Capital believes that XL will be eligible for Treaty benefits after the issuance of Series E Preference Shares offered hereby.

Net Investment Income. Foreign insurance companies carrying on an insurance business within the U.S. have a certain minimum amount of effectively connected net investment income, determined in accordance with a formula that depends, in part, on the amount of U.S. risk insured or reinsured by such companies. If XL is considered to be engaged in the conduct of an insurance business in the U.S. and is not entitled to the benefits of the Treaty in general (because it fails to satisfy one of the limitations on treaty benefits discussed above), the Code could subject a significant portion of XL s investment income to U.S. income tax. In addition, although the Treaty clearly applies to premium income, the Treaty may be construed as not protecting investment income. Several practitioners and commentators, however, have asserted that, as a policy matter, the Treaty should be construed more liberally to protect investment income to the same extent as premium income. If XL were found to be engaged in a trade or business in the U.S. and were entitled to the benefits of the Treaty in general, but the Treaty were found not to protect investment income, a portion of XL s investment income could be subject to U.S. income tax.

Withholding Tax. Foreign corporations not engaged in a trade or business in the U.S. are nonetheless subject to U.S. federal income tax on certain fixed or determinable annual or periodic gains, profits and income derived from sources within the U.S. as enumerated in section 881(a) of the Code, such as dividends and certain interest on investments. That tax generally is imposed by withholding at a 30% rate. The Treaty does not provide for a reduction in such withholding tax rate.

Excise Tax. The U.S. also imposes an excise tax on insurance and reinsurance premiums paid to foreign insurers or reinsurers with respect to risks located in the U.S. The rates of tax applicable to premiums paid to XL are 4% for casualty insurance premiums and 1% for reinsurance premiums. Although payment of the tax generally is the responsibility of the person that pays the premium to the foreign insurer or reinsurer, if the tax is not paid by the purchaser of the insurance or reinsurance, the foreign insurer or reinsurer generally is liable for the tax. In addition, the IRS has taken the position that when a foreign insurer or reinsurer cedes U.S. risks to a foreign insurer that is not eligible for the excise tax exemption under an applicable treaty, an additional excise tax may be imposed.

Legislative Proposals. Congress has periodically considered legislation intended to eliminate certain tax advantages perceived to be enjoyed by Bermuda insurance companies because of the favorable tax environment in Bermuda. Congress has also considered legislation intended to eliminate certain perceived tax benefits of U.S. insurance companies that have Bermuda affiliates, including benefits resulting principally from reinsurance between or among U.S. insurance companies and their Bermuda affiliates. To that end, section 845 of the Code was amended in

2004 to permit the IRS to reallocate, recharacterize or adjust items of income, deduction or certain other items related to a reinsurance agreement between related parties to reflect the proper amount, source, or character for each item (in contrast to prior law, which covered only source and character). In addition, one legislative proposal would impose additional limits on the deductibility of interest by foreign-owned U.S. corporations. Another legislative proposal would treat a non-U.S. corporation as a U.S. corporation for U.S. federal income tax purposes if it were considered to be primarily managed and controlled in the U.S.

Taxation of Shareholders

Cayman Islands

Payments by XL Capital to holders of Series E Preference Shares are not subject to Cayman Islands withholding tax.

United States

The following is a discussion of the material U.S. federal income tax consequences of the purchase, ownership and disposition of the Series E Preference Shares. Except where otherwise indicated, this discussion applies only to U.S. holders (as defined below) who purchase Series E Preference Shares in the initial offering and hold Series E Preference Shares as capital assets (generally, assets held for investment). This discussion is based upon the Code, Treasury regulations, including proposed Treasury regulations, issued thereunder, IRS rulings and pronouncements, and judicial decisions now in effect, all of which are subject to change, possibly with retroactive effect.

The discussion does not address all aspects of U.S. federal income taxation that may be relevant to U.S. holders in light of their particular circumstances, such as U.S. holders who are subject to special tax treatment (for example, (1) financial institutions, regulated investment companies, real estate investment trusts, insurance companies, dealers in securities or currencies, tax-exempt organizations, partnerships or other pass-through entities or traders in securities who elect to mark to market their securities, (2) persons holding the Series E Preference Shares as part of a straddle, hedge, conversion transaction or other integrated investment, (3) persons whose functional currency is not the U.S. dollar, or (4) persons owning (directly, indirectly or constructively) 10% or more of the total combined voting power or total value of the stock of XL Capital). In addition, the discussion does not address alternative minimum taxes, any state, local or foreign tax laws, or the tax consequences to a holder that is a non-U.S. holder (as defined below).

If a partnership holds the Series E Preference Shares, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner in a partnership holding Series E Preference Shares, you should consult your tax advisor.

For purposes of this discussion, U.S. holder means a holder who is, for U.S. federal income tax purposes, (1) an individual citizen or resident of the U.S., (2) a domestic corporation, (3) an estate whose income is subject to U.S. federal income tax regardless of its source or (4) a trust if a U.S. court is able to exercise primary supervision over the trust s administration and one or more U.S. persons are authorized to control all substantial decisions of the trust, or the trust has a valid election in effect to be treated as a U.S. person. A non-U.S. holder means a holder that is not a U.S. holder. **Prospective investors that are non-U.S. holders are urged to consult their own tax advisors with respect to the U.S. federal income tax consequences of an investment in Series E Preference Shares.**

Dividends. Subject to the discussions below relating to the potential application of the controlled foreign corporation, related person insurance income, and passive foreign investment company rules, distributions on Series E Preference Shares will constitute dividends for U.S. federal income tax purposes to the extent paid out of XL Capital s current or accumulated earnings and profits, computed using U.S. federal income tax principles. Dividends paid by XL Capital to U.S. corporate shareholders will not be eligible for the dividends received deduction provided by section 243 of the Code. We do not intend to list the Series E Preference Shares on any securities exchange. As a result, we do not expect that dividends paid by XL Capital to U.S. holders who are individuals will constitute qualified dividend income eligible for a reduced rate of tax. The amount of any distribution in excess of our current and accumulated earnings and profits will first be applied to reduce your tax basis in the Series E Preference Shares, and any amount in excess of tax basis will be treated as gain from the sale or exchange of your Series E Preference Shares.

Disposition of Series E Preference Shares. Subject to the discussions below relating to the potential application of the controlled foreign corporation, related person insurance income, and passive foreign investment company rules, U.S. holders of Series E Preference Shares generally will recognize U.S. source capital gain or loss for U.S. federal income tax purposes on the sale, exchange or other disposition of Series E Preference Shares in the same manner as on the sale, exchange or other disposition of any other shares held as capital assets. If the U.S. holder s holding period for those Series E Preference Shares exceeds one year, any gain will be subject to tax at a current maximum marginal U.S. federal income tax rate of 15% for noncorporate shareholders (20% for taxable years beginning on or after January 1, 2011) and 35% for corporations. Any such gain will generally be U.S. source gain and will generally constitute passive category income for foreign tax credit limitation purposes.

Classification as a Controlled Foreign Corporation. Under section 951(a) of the Code, each United States shareholder of a foreign corporation that is a controlled foreign corporation (CFC) for an uninterrupted period of 30 days or more during the tax year who owns shares in the CFC, directly or indirectly through foreign entities, on the last day of the CFC s taxable year on which it is a CFC, must include in its gross income for U.S. federal income tax purposes its pro rata share of the CFC s subpart F income (which includes foreign insurance income and certain types of passive income), even if the subpart F income is not distributed. A foreign corporation s status as a CFC has no adverse U.S. federal income tax consequences for a U.S. holder that is not a United States shareholder. Under Code section 951(b), any U.S. corporation, citizen, resident or other U.S. person who owns, directly or indirectly through foreign entities, or is considered to own (by application of the rules of constructive ownership set forth in Code section 958(b), generally applying to family members, partnerships, estates, trusts or controlled corporations) 10% or more of the total combined voting power of all classes of stock of the foreign corporation will be considered to be a United States shareholder. In general, a foreign corporation is treated as a CFC only if such United States shareholders collectively own (directly, indirectly or constructively) more than 50% (more than 25% for certain insurance companies) of the total combined voting power or total value of the corporation s stock on any day during a taxable year. We believe that because of the wide dispersion of our share ownership and the restrictions incorporated in our Articles of Association, we are not a CFC under the foregoing general rules.

Related Person Insurance Income. Different definitions of United States shareholder and controlled foreign corporation are applicable to a foreign corporation that earns related person insurance income (RPII). RPII is defined as any insurance income (as defined in the Code) attributable to policies of insurance or reinsurance with respect to which the person (directly or indirectly) insured is a United States shareholder or a person related to such shareholder.

RPII Exceptions. The special RPII rules do not apply if (A) direct and indirect insureds and persons related to such insureds, whether or not U.S. persons, are treated as owning directly or indirectly less than 20% of the voting power and less than 20% of the value of the stock of a non-U.S. insurance company (the Ownership Exception), (B) the RPII of a non-U.S. insurance company, determined on a gross basis, is less than 20% of such company s gross insurance income for the taxable year (the Gross Income Exception), (C) the non-U.S. insurance company elects to be taxed on its RPII as if the RPII were effectively connected with the conduct of a U.S. trade or business, or (D) the non-U.S. insurance company elects to be treated as a U.S. corporation. Where none of these exceptions applies, each U.S. person owning directly or indirectly stock of any of our non-U.S. insurance subsidiaries on the last day of the taxable year of such subsidiary on which it is a CFC for RPII purposes will be required to include in its gross income for U.S. federal income tax purposes its share of the RPII for the entire taxable year, determined as if all such RPII were distributed proportionately only to such U.S. shareholders at that date, but limited by such subsidiary s current-year earnings and profits and by the U.S. shareholder s share, if any, of prior-year deficits in earnings and profits.

We believe that currently the direct or indirect insureds, and persons related to such insureds, of our non-U.S. insurance subsidiaries do not, and will not, directly or indirectly own 20% or more of either the voting power or value of our stock or that of any of our non-U.S. insurance subsidiaries. We also believe that the gross RPII of each of our non-U.S. insurance subsidiaries currently does not, and will not in any taxable year for the foreseeable future, equal or exceed 20% of such subsidiary s gross insurance income. Consequently, we do not expect any U.S. holder owning Series E Preference Shares to be required to include RPII in gross income for U.S. federal income tax purposes. However, as discussed below, there is limited guidance regarding the RPII provisions and the related Treasury regulations are in proposed form. In addition, a recent legislative proposal would eliminate the Gross Income

Exception. Accordingly, there is uncertainty with respect to the meaning and application of the RPII provisions, and there is a possibility that future legislation or IRS guidance could have retroactive effect.

General. Gross and net RPII and gross insurance income have been computed by us on an unconsolidated basis, without reference to the income of our investment subsidiaries. We believe, based on the advice of counsel, that the exclusion of the investment subsidiaries income is consistent with both existing and proposed Treasury regulations under section 953 of the Code. However, there can be no assurance that the IRS may not, by rule, regulation, interpretation or otherwise, require a portion or all of the income of such subsidiaries to be treated as includable in our insurance income, or that a court might not uphold such action by the IRS.

Generally, the term related person for RPII purposes means someone who controls or is controlled by the U.S. shareholder or someone who is controlled by the same person or persons who control the U.S. shareholder. Control is measured by either more than 50% in value or more than 50% in voting power of stock, applying constructive ownership principles similar to the rules of section 958 of the Code. For purposes of inclusion of RPII in the income of U.S. shareholders, unless an exception applies, the term United States shareholder includes all U.S. persons who own, directly or indirectly through foreign entities, any amount (rather than 10% or more) of our stock or the stock of any of our non-U.S. insurance subsidiaries. Each non-U.S. insurance subsidiary will be treated as a CFC for RPII purposes if such persons are treated as owning (directly, indirectly or constructively) 25% by vote or value or more of the stock of such non-U.S. insurance subsidiary on any day during a taxable year.

In determining United States shareholders, for purposes of including RPII, stock held indirectly by U.S. persons is treated as held by United States shareholders, but the constructive ownership rules of section 958(b) of the Code do not apply. Accordingly, U.S. persons holding options to subscribe for unissued shares in us are not treated as United States shareholders.

Computation of RPII. To determine how much RPII we or any of our non-U.S. insurance subsidiaries has earned in each taxable year, we may obtain and rely upon information from insureds to determine whether any of the insureds or persons related to such insureds own shares in us (directly or indirectly) and are U.S. persons. For any year in which we believe that neither the Ownership Exception nor the Gross Income Exception is met, we may also seek information from our shareholders regarding whether direct or indirect owners of Series E Preference Shares at the end of the year are U.S. persons so that the RPII may be determined and apportioned among such persons. To the extent we unable to determine whether a direct or indirect owner of shares is a U.S. person, we may assume that such owner is not a U.S. person, thereby increasing the per share RPII amount for all U.S. shareholders.

If, as believed, RPII is less than 20% of our gross insurance income and the gross income of each of our non-U.S. insurance subsidiaries, U.S. shareholders will not be required to include RPII in their taxable income. The amount of RPII includible in the income of a U.S. shareholder is based upon the net RPII income for the year after deducting related expenses such as losses, loss reserves and operating expenses.

Apportionment of RPII to U.S. Shareholders. Every U.S. person who owns, directly or indirectly, Series E Preference Shares on the last day of the taxable year in which we or any of our non-U.S. insurance subsidiaries does not meet any of the RPII exceptions described above should expect that for such year it will be required to include in gross income its share of our or such subsidiary s RPII for the entire taxable year, whether or not distributed, even though such U.S. holder may not have owned the shares for the entire year. A U.S. person who owns, directly or indirectly, Series E Preference Shares during the taxable year but not on the last day of such taxable year is not required to include in gross income any part of our or such subsidiary s RPII.

Basis Adjustments. A U.S. shareholder s tax basis in its Series E Preference Shares will be increased by the amount of any RPII that the shareholder includes in income. The shareholder may exclude from income the amount of any distributions by us to the extent of the RPII included in income for the year in which the distribution was paid or for any prior year. The U.S. shareholder s tax basis in its Series E Preference Shares will be reduced by the amount of such distributions that are excluded from income.

Uncertainty of Application of RPII. The RPII provisions of the Code have never been interpreted by the courts or the U.S. Treasury Department. Regulations interpreting the RPII provisions of the Code exist only in proposed form. It is not certain whether these regulations will be adopted in their proposed form or what changes or clarifications might ultimately be made to them. It is also uncertain whether any such changes, and any interpretation or application of RPII by the IRS, the courts or otherwise, might have retroactive effect. Accordingly, the meaning of the RPII provisions and the application of those provisions to us and our subsidiaries are uncertain. The RPII provisions include the grant of authority to the U.S. Treasury Department to prescribe such regulations as may be necessary to carry out the purposes of this subsection including . . . regulations preventing the avoidance of this subsection through cross insurance arrangements or otherwise. In addition, there can be no assurance that the amounts of the RPII inclusions will not be subject to adjustment based upon subsequent IRS examination. Each U.S. person who is considering an investment in Series E Preference Shares should consult his tax advisor regarding the effects of those uncertainties.

Code Section 1248. Code section 1248 provides that if a U.S. person sells or exchanges shares in a foreign corporation and such person owned (directly, indirectly or constructively) 10% or more of the voting power of the corporation at any time during the five-year period ending on the date of disposition when the corporation was a CFC (a 10% U.S. shareholder), any gain from the sale or exchange of the shares may be treated as dividend income to the extent of the CFC s earnings and profits, determined under U.S. federal income tax principles, during the period that the shareholder held the shares and while the corporation was a CFC (with certain adjustments). A 10% U.S. shareholder may in certain circumstances be required to report a disposition of shares of a CFC by attaching IRS Form 5471 to the U.S. income tax or information return that it would normally file for the taxable year in which the disposition occurs. Code section 953(c)(7) generally provides that section 1248 also will apply to the sale or exchange of shares in a foreign corporation that earns RPII if the foreign corporation would be taxed as an insurance company if it were a domestic corporation, regardless of whether the shareholder is a 10% U.S. shareholder, whether RPII constitutes 20% or more of the corporation s gross insurance income, or whether direct or indirect insureds and persons related to such insureds are treated as owning directly or indirectly 20% or more of the voting power or value of the corporation s stock. Existing Treasury Department regulations do not address whether Code section 1248 and the requirement to file Form 5471 would apply when the foreign corporation (such as us) is not a CFC but the foreign corporation has a subsidiary that is a CFC or that would be taxed as an insurance company if it were a domestic corporation.

We believe, based on the advice of counsel, that Code section 1248 and the requirement to file Form 5471 will not apply to dispositions of Series E Preference Shares because we do not have any 10% shareholders and we are not directly engaged in the insurance business, and that the proposed regulations issued by the U.S. Treasury Department should be interpreted in this manner. There can be no assurance, however, that the IRS will interpret the proposed regulations in this manner or that the Treasury Department will not amend the proposed regulations to provide that Code section 1248 and the requirement to file Form 5471 will apply to dispositions of Series E Preference Shares.

If the IRS or Treasury Department were to take such action, we intend to notify shareholders that Code section 1248 and the requirement to file Form 5471 will apply to dispositions of Series E Preference Shares. Thereafter, we intend to send a notice after the end of each calendar year to all persons who were shareholders during the year notifying them that Code section 1248 and the requirement to file Form 5471 apply to dispositions of Series E Preference Shares. We intend to attach to this notice a copy of Form 5471 completed with all company information and instructions for completing the shareholder information.

Redemption of Series E Preference Shares. A redemption of Series E Preference Shares will be treated as a dividend to the extent of our current and accumulated earnings and profits unless it satisfies one of the alternative tests under section 302(b) of the Code to be treated as a sale or exchange, subject to the potential application of the CFC, RPII and PFIC rules. A redemption will qualify as a sale or exchange under section 302(b) if it (i) is substantially disproportionate, (ii) constitutes a complete termination of the holder s stock interest in XL Capital or (iii) is not essentially equivalent to a dividend, each within the meaning of section 302(b). In determining whether any of these tests is met, shares considered to be owned by the U.S. person under certain constructive ownership rules, as well as shares actually owned, must generally be taken into account. Because the determination of whether any of the alternative tests of section 302(b) of the Code is satisfied with respect to a particular holder of Series E Preference

Shares will depend on the facts and circumstances at the time the determination is made, U.S. holders are advised to consult their own tax advisors to determine their tax treatment in light of their own particular circumstances.

Passive Foreign Investment Companies. Sections 1291 through 1298 of the Code contain special rules applicable to foreign corporations that are passive foreign investment companies (PFICs). In general, a foreign corporation will be a PFIC if 75% or more of its income constitutes passive income or 50% or more of its assets produce passive income. If we were to be characterized as a PFIC, U.S. holders would be taxable at ordinary income tax rates and subject to a penalty tax at the time of their sale or other disposition at a gain of (or receipt of an excess distribution with respect to) its shares. In general, the shareholder receives an excess distribution if the amount of the distribution is more than 125% of the average distributions with respect to the stock during the three preceding taxable years (or shorter period during which the taxpayer held the stock). In general, the penalty tax is equivalent to an interest charge on taxes that are deemed due during the period the U.S. holder owned the shares, computed by assuming that the excess distribution or gain (in the case of a sale) with respect to the shares was taxed in equal portions throughout the holder s period of ownership. The interest charge is equal to the applicable rate imposed on underpayments of U.S. federal income tax for such period.

The PFIC statutory provisions contain an exception for income derived in the active conduct of an insurance business by a corporation which is predominantly engaged in an insurance business . . . . That exception is intended to ensure that income derived by a bona fide insurance company is not treated as passive income, except to the extent such income is attributable to financial reserves in excess of the reasonable needs of the insurance business. We believe, based on the advice of counsel, that we and our wholly-owned direct and indirect subsidiaries, taken as a whole, are predominantly engaged in an insurance business and do not have financial reserves in excess of the reasonable needs of our insurance business. The PFIC statutory provisions (unlike the RPII provisions of the Code) contain a look-through rule that states that, for purposes of determining whether a foreign corporation is a PFIC, such foreign corporation shall be treated as if it received directly its proportionate share of the income and as if it held its proportionate share of the assets of any other corporation in which it owns at least 25% of the stock. While no explicit guidance is provided by the statutory language, we believe that under the look-through rule, we would be deemed to own the assets and to have received the income of our insurance and investment subsidiaries directly for purposes of determining whether we qualify for the aforementioned insurance company exception. As a result, we believe that we are not a PFIC, and do not expect to be a PFIC in the foreseeable future. We believe, based upon the advice of counsel, that our interpretation of the PFIC rules, including the look-through rule, is consistent with the legislative intention generally to exclude bona fide insurance companies from the application of the PFIC provisions. No assurance can be given, however, about the positions the IRS or a court might take in the future. Although each of our investment subsidiaries, which are owned by our insurance subsidiaries, meets the definition of a PFIC, if we are not a PFIC, the PFIC statutory provisions state that a shareholder of ours will not be treated as a shareholder of such investment subsidiaries for PFIC tax purposes as long as the shareholder does not own 50% or more of the value of our shares.

However, no regulations interpreting the substantive PFIC provisions have yet been issued. Therefore, substantial uncertainty exists with respect to their application or their possible retroactivity. Each U.S. person who is considering an investment in Series E Preference Shares should consult his tax advisor regarding the effects of the PFIC provisions and the availability of any elections that may ameliorate the effects of those provisions.

Foreign Tax Credit. If, as expected, U.S. holders own at least 50% of our shares, only a portion of the dividends paid by us and current income inclusions, if any, under the CFC, RPII and PFIC rules (including sales of Series E Preference Shares treated as a dividend under Code section 1248) will be treated as foreign source income for purposes of computing a shareholder s U.S. foreign tax credit limitation. It is likely that such income that is foreign source income will constitute passive category income for foreign tax credit limitation purposes. The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to different classes of income. Thus, it may not be possible for most U.S. holders to utilize excess foreign tax credits to reduce U.S. tax on such income unless such credits can be applied against tax due on other foreign source income in the appropriate class.

Backup Withholding Tax and Information Reporting

Unless a U.S. holder is an exempt recipient, such as a corporation, payments on Series E Preference Shares and the proceeds received from the sale of Series E Preference Shares may be subject to information reporting and may also be subject to U.S. federal backup withholding tax if such U.S. holder fails to supply an accurate taxpayer identification number or otherwise fails to comply with applicable U.S. information reporting or certification requirements. Any amounts so withheld generally will be allowed as a credit against the U.S. holder s U.S. federal income tax liability and may entitle such holder to a refund, provided that the required information is timely furnished to the IRS.

UNDERWRITING

J.P. Morgan Securities Inc., Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated are acting as representatives of the underwriters for this offering. We and the underwriters named below will enter into an underwriting agreement covering all the Series E Preference Shares to be sold in this offering. Each underwriter has agreed to purchase, and we have agreed to sell to that underwriter, the number of Series E Preference Shares set forth opposite the underwriter s name in the following table.

Underwriter	Number of Series E Preference Shares
J.P. Morgan Securities Inc.	
Citigroup Global Markets Inc.	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
ABN AMRO Incorporated	
Barclays Capital Inc.	
Deutsche Bank Securities Inc.	
Goldman, Sachs & Co.	
RBS Greenwich Capital Markets, Inc.	
Wachovia Capital Markets, LLC	
BNY Capital Markets, Inc.	
CALYON	
HSBC Securities (USA) Inc.	
ING Belgium SA/NV	
KeyBanc Capital Markets, a division of McDonald Investments Inc.	
Lazard Capital Markets LLC	
Lloyds TSB Bank plc	
Total	1,000,000

It is anticipated that the underwriting agreement will provide that if the underwriters take any of the Series E Preference Shares presented in the table above, then they must take all of these shares. No underwriter will be obligated to take any Series E Preference Shares allocated to a defaulting underwriter except under limited circumstances. The underwriting agreement will provide that the obligations of the underwriters are subject to certain conditions precedent, including the absence of any material adverse change in our business and the receipt of certain certificates, opinions and letters from us, our counsel and our independent auditors.

The underwriters are offering the Series E Preference Shares, subject to the prior sale of shares, and when, as and if such shares are delivered to and accepted by them. The underwriters initially will offer to sell shares to the public at the public offering price shown on the cover page of this prospectus supplement. The underwriters may sell shares to securities dealers at a discount of up to $ per share from the public offering price. Any such securities dealers may resell shares to certain other brokers or dealers at a discount of up to $ per share from the public offering price. After the public offering, the underwriters may vary the public offering price and other selling terms.

The following table shows the per share and total underwriting discounts that we will pay to the underwriters.

	Underwriting Discounts
Per Share	$
Total	$

The underwriters have advised us that they may make short sales of our Series E Preference Shares in connection with this offering, resulting in the sale by the underwriters of a greater number of shares than they will be required to purchase pursuant to the underwriting agreement. The short position resulting from those short sales will

be deemed a naked short position. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the trading price of the Series E Preference Shares in the open market that could adversely affect investors who purchase Series E Preference Shares in this offering. Any naked short position will be closed out by purchasing Series E Preference Shares in the open market. Similar to the other stabilizing transactions described below, open market purchases made by the underwriters to cover all or a portion of their short position may have the effect of preventing or retarding a decline in the market price of our Series E Preference Shares following this offering. As a result, Series E Preference Shares may trade at a price that is higher than the price that otherwise might prevail in the open market.

The underwriters have advised us that, pursuant to Regulation M under the Securities Act, they may engage in transactions, including stabilizing bids or the imposition of penalty