XL CAPITAL LTD
Form 424B5
July 28, 2008

Filed Pursuant to Rule 424B5
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 July 28, 2008

Prospectus Supplement to Prospectus dated December 1, 2005.
Class A Ordinary Shares
Units

XL Capital Ltd
Class A Ordinary Shares
% Equity Security Units

This is an offering of Class A Ordinary Shares, which we refer to as the ordinary shares, and % Equity Security Units of XL Capital Ltd, which we refer to as the units. We refer to the ordinary shares and the units collectively as the securities. The offering of the ordinary shares is separate from the offering of the units and you are not required to purchase both securities if you purchase any securities.

Each unit has a stated amount of $25 and will initially consist of (a) a contract pursuant to which you agree to purchase, for $25, ordinary shares on August 15, 2011 and (b) a 1/40, or 2.5%, ownership interest in a senior note of XL Capital Ltd due August 15, 2021 with a principal amount of $1,000. The ownership interest in the senior note will initially be held as a component of the unit and will be pledged to secure the holder s obligation to purchase our ordinary shares under the related purchase contract.

We will make quarterly contract adjustment payments to you under the purchase contract at the annual rate of % of the stated amount of $25 per purchase contract. In addition, we will make quarterly interest payments on the senior notes at the initial annual rate of %. We have the right to defer the contract adjustment payments on the purchase contracts, but not the interest payments on the senior notes. If the senior notes are successfully remarketed on or before the third business day prior to August 15, 2011, the interest rate on the senior notes will be reset to a new fixed or floating rate, and the maturity date may be shortened and the optional redemption provisions may be modified. The senior notes will be unsecured and will rank equally with all of our other unsecured and unsubordinated debt. The units will be sold initially by the underwriters in a minimum number of 40 units.

All of the units will be issued as normal units (as defined below). Unless you separate your senior notes from your purchase contracts by substituting U.S. treasury securities for your senior notes as described in this prospectus supplement, your units will remain normal units. If a special event redemption described in this prospectus supplement occurs before August 15, 2011, the senior notes included in the normal units may be replaced by the treasury portfolio described in this prospectus supplement. If an accounting event occurs and is continuing prior to the stock purchase date, we may, at our option, fix the settlement rate according to a formula based on the Black-Scholes option pricing model as described in this prospectus supplement.

Our ordinary shares are listed on the New York Stock Exchange under the symbol XL. The last reported sale price of our ordinary shares on July 25, 2008 was $18.77 per ordinary share. We have applied to list the normal units on the

New York Stock Exchange. Prior to this offering, there has been no public market for the units.

See Risk Factors beginning on page S-27 to read about certain factors you should consider before buying the ordinary shares or the units.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Public Offering Price	Underwriting Discounts	Proceeds to Us Before Expenses
Per Ordinary Share	$	$	$
Total Ordinary Shares	$	$	$
Per Unit	$	$	$
Total Units	$	$	$
Total Ordinary Shares and Units	$	$	$

The public offering price for the units set forth above does not include accumulated contract adjustment payments and accrued interest, if any. Contract adjustment payments on the purchase contracts and interest on the senior notes will accrue from the date of initial issuance of the units, expected to be , 2008.

To the extent that the underwriters sell more than ordinary shares, the underwriters have the option to purchase up to an additional ordinary shares from us at the public offering price less the underwriting discount. In addition, to the extent that the underwriters sell more than units, the underwriters have the option to purchase up to an additional units from us at the public offering price less the underwriting discount.

The underwriters expect to deliver the securities in book-entry form only through the facilities of The Depository Trust Company against payment in New York, New York on or about , 2008.

Joint Book-Running Managers

Goldman, Sachs & Co. **UBS Investment Bank**

Joint Lead Managers

ABN AMRO **Citi** **JPMorgan**

Senior Co-Managers

Banc of America Securities LLC	**Barclays Capital**	**Calyon Securities (USA) Inc.**	**ING Wholesale**
KeyBanc Capital Markets	**Lazard Capital Markets**	**Mizuho Securities USA Inc.**	**Morgan Stanley**

Co-Managers

BNY Mellon Capital Markets, LLC **Comerica Securities** **Fortis Securities LLC**

Scotia Capital **UniCredit Capital Markets** **The Williams Capital Group, L.P.**

Prospectus Supplement dated , 2008.

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You should read this prospectus supplement along with the accompanying prospectus carefully before you invest. Both documents contain important information you should consider when making your investment decision. This prospectus supplement contains specific details regarding this offering and the accompanying prospectus contains information about our securities generally, some of which does not apply to this offering. This prospectus supplement may add, update or change information in the accompanying prospectus. To the extent that there is a conflict between the information contained or incorporated by reference in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus, on the other hand, you should rely on the information contained or incorporated by reference in this prospectus supplement.

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus supplement or the accompanying prospectus. You must not rely on any unauthorized information or representations. This prospectus supplement and the accompanying prospectus are an offer to sell only the securities offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus supplement and the accompanying prospectus is current only as of its date.

The distribution of this prospectus supplement and the accompanying prospectus and the offering and sale of the ordinary shares and units 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 ordinary shares or units 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 the ordinary shares or units. Non-resident or exempted companies or other non-resident or exempted entities established in the Cayman Islands, however, may purchase the ordinary shares and units.

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.

Our Articles of Association provide that our Board shall decline to register a transfer of shares if it appears that the effect of such transfer would be to increase the number of shares owned or controlled by any person to 10% or more of any class of voting shares of XL Capital Ltd, the total issued shares of XL Capital Ltd or the voting power of XL Capital Ltd. Our Articles of Association also restrict the voting power of any shareholder to less than approximately 10% of the total voting power. You should be aware of these limitations as you consider an investment in the ordinary shares or the units, as you will not be able to purchase either ordinary shares or units in this offering that would result in your ownership exceeding such 10% threshold. See Risk Factors Risks Relating to our Ordinary Shares. Ownership of the units by a U.S. person may cause such person to be treated for U.S. federal income tax purposes as the owner of our ordinary shares prior to the purchase contract settlement date. In addition, if an investor acquires 10% or more of our ordinary shares, such investor may, under certain circumstances, become subject to taxation for such investor s pro rata share of our income. For purposes of interpreting the voting restrictions in our Articles of Association, we intend to treat the ordinary shares issuable upon settlement of a purchase contract underlying a unit as currently owned by the holder of that unit. See Risk Factors Risks Related to Taxation If an investor acquires 10% or more of XL Capital Ltd s ordinary shares, it may be subject to taxation under the controlled foreign corporation (the CFC) rules. Moreover, the ownership of 10% or more of our ordinary shares may give rise to a requirement by such 10% holder to make certain filings disclaiming an intent to control with applicable insurance regulatory departments.

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 the units or the shares. You should read carefully this entire prospectus supplement, including the Risk Factors section, the accompanying prospectus and the information incorporated by reference, herein and therein. In this prospectus supplement, XL Capital refers to XL Capital Ltd, and the Company, we, our, ours and us refer to XL Capital Ltd and its subsidiaries, in each case, unless the context otherwise requires.

XL Capital Ltd

We, together with our subsidiaries, are a leading provider of global insurance and reinsurance coverages 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, Bermuda HM 11. 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.

Recent Developments

SCA Agreement

On July 28, 2008, we announced that we and certain of our subsidiaries had entered into a Master Commutation, Release and Restructuring Agreement (the SCA Agreement) with Security Capital Assurance Ltd and certain of its subsidiaries (collectively, SCA) in connection with the termination of certain reinsurance and other agreements as described below. Certain of the counterparties to credit default swap agreements with SCA are also parties, and others may become parties (up to and including the closing under the SCA Agreement), to the SCA Agreement. Such counterparties that are or become parties to the SCA Agreement are herein called the CDS Counterparties. The SCA Agreement provides for the payment by us to SCA of $1.775 billion in cash, the issuance by us to SCA of eight million Class A ordinary shares to be newly issued by us and the transfer by us of all of the shares we own in SCA (representing approximately 46% of SCA s issued and outstanding shares) (the SCA Shares) to a trust. This consideration will be made in exchange for, among other things, the full and unconditional:

- commutation of the Third Amended and Restated Facultative Quota Share Reinsurance Treaty, effective July 1, 2006, between XL Financial Assurance Ltd (XLFA) and XL Capital Assurance Inc. (XLCA), and all individual risk cessions thereunder (the XLFA/XLCA Quota Share), as a result of which the guarantee by our subsidiary, XL Insurance (Bermuda) Ltd (XLIB), of XLFA s obligations to XLCA thereunder (the XLFA Guarantee) will no longer have any force or effect;

commutation of the Excess of Loss Reinsurance Agreement executed on October 3, 2001, pursuant to which XLIB agreed to reinsure certain liabilities of XLFA (the Excess of Loss Agreement);

commutation of the Second Amended and Restated Facultative Master Certificate, effective March 1, 2007, pursuant to which XL Re America, Inc. (XLRA) agreed to reinsure certain liabilities of XLCA, and all individual risk cessions thereunder;

commutation of the Facultative Quota Share Reinsurance Agreement, effective August 17, 2001, as amended by Amendment No. 1 to such agreement, dated as of August 4, 2006, pursuant to which XLIB agreed to reinsure certain liabilities of XLFA and all individual risk cessions thereunder (the XLRA Master Facultative Agreement);

commutation of the Adverse Development Reinsurance

Agreement, dated as of August 4, 2006, between XLCA and XLRA, and the Indemnification Agreement, dated as of August 4, 2006, between XLFA and XLIB; and

termination of certain indemnification and services agreements between XL and SCA.

After giving effect to the closing of the SCA Agreement, $64.6 billion of our total net exposure (which was $65.7 billion as at June 30, 2008) under reinsurance agreements and guarantees with SCA subsidiaries will be eliminated.

Pursuant to the terms of the SCA Agreement, SCA will be required to use commercially reasonable efforts to commute the agreements that are the subject of our guarantee of XLCA s obligations under certain financial guarantees issued by XLCA to European Investment Bank (the EIB Policies), subject to certain limitations. In the event such commutations are not completed by the closing of the SCA Agreement, our exposures relating to the EIB Policies (which relate to project finance transactions) as of June 30, 2008 would be approximately $1.1 billion.

We expect to record a charge of between $1.4 billion and $1.5 billion in respect of the SCA Agreement in the quarter ending September 30, 2008.

It is expected that the SCA Shares will be transferred at closing of the SCA Agreement into a trust for the benefit of XLFA and/or XLCA until such time as an agreement between XLCA and the CDS Counterparties is reached, and thereafter the trust will act for the benefit of the CDS Counterparties. To the extent that the required regulatory approvals for the transfer are not received prior to such closing, the SCA Shares will be deposited into escrow pending the transfer. Upon any such deposit into escrow, we will irrevocably disclaim any and all voting, economic or other rights with respect to the SCA Shares.

As part of the transaction, the CDS Counterparties will provide releases to us and SCA.

We and SCA have obtained approval from the New York State Insurance Department (NYID) for the SCA Agreement and each of the commutations to which XLRA or XLCA is a party. SCA has also obtained applicable approvals from the Bermuda Monetary Authority (BMA), the Delaware Insurance Department and other regulators.

In addition to customary closing conditions, the SCA Agreement is conditioned on the commutation by SCA of the Amended and Restated Master Facultative Reinsurance Agreement, dated November 3, 1998, between Financial Security Assurance, Inc. (Financial Security) and XLFA, and all individual risk cessions thereunder. As a result of this commutation, our guarantee of XLFA s obligations thereunder (the Financial Security Guarantee) will no longer have any force or effect. On July 28, 2008, SCA announced that it had entered into an agreement with Financial Security to commute such agreement simultaneously with the closing of the SCA Agreement.

The closing of the SCA Agreement is also conditioned upon the termination of eight Merrill Lynch International (Merrill Lynch) asset backed security collateralized debt obligation credit default swaps entered into between Merrill Lynch and SCA. On July 28, 2008, SCA announced that it had entered into an agreement with Merrill Lynch to terminate such agreements simultaneously with the closing of the SCA Agreement.

The closing of the SCA Agreement is also conditioned upon the successful completion of these offerings. It is expected that the closing of the transactions under the SCA Agreement will occur immediately following the closing of these offerings.

See Description of the SCA Agreement and for a discussion of SCA's current financial condition, Risk Factors There is a possibility that the SCA Agreement and the related commutations and releases could be challenged or that we could be subject to litigation as a result of the SCA Agreement. Any such challenge could have a material adverse effect on our financial condition, results of operations and/or liquidity or the market price of our securities.

Second Quarter Results

For the quarter ended June 30, 2008, we recorded net income available to ordinary shareholders of $237.9 million as compared to $544.5 million for the quarter ended June 30, 2007. The key elements are as follows:

A solid underwriting performance with gross written premiums for the quarter of $1,947.5 million, a reduction of 12.7% from the prior year quarter which included gross written premiums of $52.0 million from SCA. Gross written premiums for the current quarter included $1,388.8 million from the Insurance segment and $397.5 million from the Reinsurance segment compared with $1,417.9 million and $526.3

million in the prior year quarter. The loss ratio for the quarter was 62.2% with a combined ratio of 92.3% as compared to 56.9% and 86.3%, respectively, in the prior year quarter. The results for the current quarter benefited from favorable prior year development of $182.6 million but were adversely affected by $98.1 million of natural catastrophe losses. In the prior year quarter there was favorable prior year development of $124.1 million offset in part by $30.0 million of natural property catastrophe losses. Further details of the performance of the operating segments are set out below.

A charge of $82.4 million arising from guarantee and reinsurance agreements with SCA. This comprised $22.7 million in respect of the XLRA Master Facultative Agreement, $3.7 million for the unwinding of the discounted loss reserves in respect of the Excess of Loss Agreement and $56.0 million in respect of the XLFA Guarantee.

A contribution of $28.2 million from the Life Operations segment and a contribution of $6.2 million from the Other Financial Lines segment compared with contributions of $24.7 million and $6.8 million, respectively, in the prior year quarter.

Net investment income from P&C operations, excluding investment income from structured products, was $298.1 million as compared to $323.0 million in the prior year quarter. Net investment income from P&C structured products was $25.1 million as compared to $31.0 million in the prior year quarter. Both reductions were caused principally by lower average yields for the period. There was a net loss of $20.4 million from investment affiliates as compared to a profit of $67.0 million in the prior year quarter and net income from investment manager affiliates of $1.7 million compared to $43.9 million in the prior year quarter. Both results reflected the difficult market conditions during the period.

Net income from financial and operating affiliates, excluding the SCA related charges noted above, was $11.7 million as compared to a loss of $2.2 million in the prior year quarter.

There were net realized gains of $2.0 million in the quarter arising from our investment portfolio including a charge of $47.7 million for other than temporary impairments.

In the prior year quarter, we recorded net realized gains of $18.3 million. The 2007 total included a gain of $81.3 million on the sale by us of shares of SCA.

Operating expenses for the quarter were $298.3 million as compared to $306.6 million in the prior year quarter. The expense for the current quarter was lower than the prior year quarter principally due to the inclusion in the prior year quarter of $19.5 million of expenses relating to SCA from the time that it was a subsidiary. The underlying increase in operating expenses was caused principally by $17.0 million arising from the US Dollar being weaker than in the prior year quarter, professional fees of $10.9 million incurred in connection with our negotiations with SCA and $9.5 million of expenses from the XL GAPS business that was acquired in the fourth quarter of 2007. These items were offset in part by lower accruals for performance based compensation.

For the first half of 2008, net income available to ordinary shareholders was $449.7 million as compared to $1,094.3 million in the prior year period.

Our ordinary shareholders equity at June 30, 2008 was $7.77 billion, a reduction of $486.2 million from $8.26 billion at March 31, 2008. This reduction reflected the net income for the quarter offset by an increase of $686.3 million in unrealized losses within the investment portfolio, caused principally by interest rate increases in the quarter. Book value per ordinary share at June 30, 2008 was $43.39.

Segment Highlights Second quarter 2008 versus second quarter 2007

Insurance

Gross and net premiums written decreased by 2.1% and 1.8%, respectively, during the three months ended June 30, 2008 compared with the three months ended June 30, 2007. Gross premiums written decreased as a result of continued decreases in premium rates across most lines of business as market conditions continued to soften, selective non-renewals and decreases in new business within certain specialty lines including professional, environmental and aerospace lines of business. To date we have seen limited lost renewals from recent rating actions, largely limited to U.S. professional lines as noted above. Partially offsetting these decreases was growth in certain lines of business where we have expanded our operations recently and by favorable foreign exchange rate movements of $43.1 million. Net premiums written decreased as a result of the factors noted above affecting gross premiums written.

Net premiums earned decreased by 3.3% in the three months ended June 30, 2008 compared with the three months ended June 30, 2007. The decrease resulted primarily from the earn-out of overall lower net premiums written in the past twelve months including decreases in professional, aerospace, programs and marine lines of business, partially offset by growth in excess and surplus lines as well as certain property lines of business.

The loss ratio was 64.2% and the combined ratio was 94.0% compared to 62.6% and 90.6%, respectively, in the prior year quarter. The current quarter results included favorable prior year development of $99.7 million (or 9.8 loss ratio points) and $59.9 million (or 5.9 loss ratio points) from natural catastrophe loss activity in the quarter. The prior year quarter included $43.7 million (or 4.2 loss ratio points) of favorable prior year releases and $20.0 million (or 1.9 loss ratio points) from natural catastrophe loss activity. In addition, the 5 point increase in standard professional lines loss ratio initiated in the first quarter of 2008 related to sub-prime loss activity on the 2008 report year had a 1.3 point impact on the segment loss ratio in the second quarter of 2008.

Reinsurance

Gross and net premiums written during the three months ended June 30, 2008 decreased by 24.5% and 31.2%, respectively, as compared to the second quarter in 2007. These decreases resulted from softening market conditions and us declining certain business where market rates were below our acceptable underwriting return levels, together with increased retentions by clients. For the three months ended June 30, 2008, premium rate decreases were most significant in non-U.S. property lines of business as well as U.S. casualty lines. Up to June 30, 2008, the negative impact on gross premiums written as a result of rating agency actions was limited. Since that date, some ceding companies have taken actions placing limitations on the amount of new and/or renewal business that they will cede to us. The overall impact of these actions has, to date, been limited. We anticipate that many of these companies will remove these limitations after the SCA Agreement closes and our financial strength ratings are clarified. Net premiums written reflect the above changes in gross premiums written combined with a reduction in ceded premiums in the three months ended June 30, 2008 as compared to the same period in 2007. Ceded premiums written decreased as a result of property catastrophe cessions to Cyrus Re II in 2008 being 10% as compared to cessions of 35% to Cyrus Re throughout 2007. This reduction has been offset by ceded premiums totaling $23.3 million associated with the purchase of an additional catastrophe loss protection including industry loss warranty covers in the second quarter of 2008.

Net premiums earned in the second quarter of 2008 decreased 18.0% as compared to the second quarter of 2007. This decrease was a reflection of the overall reduction of net premiums written over the last 24 months, partially offset by the impact of favorable foreign exchange rate movements.

The loss ratio was 58.1% and the combined ratio was 89.0% in the three months ended June 30, 2008 compared to 46.8% and 78.4%, respectively, in the prior year quarter. The current quarter results included favorable prior year development of $82.9 million (or 16.9 loss ratio points) and $38.2 million (or 7.8 loss ratio points) from natural catastrophe loss activity in the quarter. Additionally, there was $14.6 million (or 3.0 loss ratio points) of activity arising from certain property risk and catastrophe losses impacting three structured products transactions. The prior year quarter included $80.4 million (or 13.4 loss ratio points) of favorable prior year releases and $10.0 million (or 1.7 loss ratio points) from natural catastrophe loss activity.

Life Operations

Gross written premiums for the life operations were $161.2 million during the three months ended June 30, 2008 as compared to $235.0 million in the prior year quarter which included a single premium for $94.6 million. The contribution for the quarter was $28.1 million as compared to $24.7 million in the prior year quarter, the increase arising principally from higher investment income, caused in part by foreign exchange rate fluctuations.

Other Financial Lines

The other financial lines segment recorded a contribution of $6.2 million during the three months ended June 30, 2008 as compared to a contribution of $6.8 million in the prior year quarter. During the quarter, $778 million of funding agreements matured and the outstanding deposit liabilities in respect of this business at June 30, 2008 were $1,058 million. The lower income in the quarter arising from lower underlying balances was offset mostly by reduced operating expenses.

In the prior year quarter, SCA was a separate segment until the effective date of the secondary sale by us of shares in SCA. This sale reduced our interest in SCA from 63% to 46% and, following that sale, SCA was accounted for as an affiliate rather than as a consolidated subsidiary. The contribution from SCA as a subsidiary in the prior year quarter was $14.4 million. The income statement impact of all transactions with SCA subsequent to the June 6, 2007 sale have been included in net (loss) income from operating affiliates.

Dividend Reduction and Declaration of Dividend

On July 28, 2008, we announced that our Board of Directors had approved a reduction in the quarterly dividend payable on our Class A Ordinary Shares to $0.19 per ordinary share, beginning with the next quarterly dividend. In line with that reduction, the Board of Directors declared a quarterly dividend, of $0.19 per ordinary share payable on September 30, 2008 to ordinary shareholders of record as of September 12, 2008. See Price Range of Ordinary Shares and Dividends.

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Ratings

In June 2008, Moody s Investor Services, Inc. (Moody s) affirmed the A1 financial strength rating of our principal insurance and reinsurance subsidiaries; however, Moody s provided a Negative outlook with regards to these ratings as a result of further stress on our capital and financial flexibility resulting from the downgrades at SCA in the first six months of 2008 and uncertainty surrounding reinsurance and agreements with SCA.

Consistent with the ratings actions noted above, Standard and Poor s (S&P), in July 2008, placed the A+ financial strength rating of our leading property and casualty operating companies on CreditWatch with negative implications . As well, in June 2008, Fitch Ratings (Fitch) placed the A+ financial strength rating of our leading property and casualty operating subsidiaries on Rating Watch Negative.

Additionally, as relates to the S&P and Moody s rating actions, further concerns were expressed relating to our investment portfolio and the underlying exposure to structured mortgage securities.

Based on the announcements relating to the SCA Agreement and these offerings, if successful, it is management s expectation that our financial strength and debt ratings will ultimately be affirmed at their current levels, though we do expect that some of the rating agencies will maintain or assign a negative outlook to us.

Exercise of Put Right

We intend to exercise a put option, which we refer to as the Put Option Exercise, under the terms of the Put Option Agreement, dated as of July 11, 2003, which we entered into in connection with our Mangrove Bay contingent capital transaction. Pursuant to the Put Option Exercise, we will issue 20,000,000 Series C preference ordinary shares to the trust in return for approximately $500 million in cash. We anticipate exercising this option such that we receive such proceeds concurrently with the closing of these offerings or shortly thereafter.

Redemption of X.L. America Notes

Concurrently with the closing of the offerings, we intend to call for redemption all $255 million aggregate principal amount of X.L. America, Inc. s outstanding 6.58% Guaranteed Senior Notes due 2011, which we refer to as the X.L. America Notes Redemption. The redemption price, including applicable premiums and accrued interest, will be approximately $283 million. In connection with this redemption, we expect to record an additional charge of approximately $21.8 million in the quarter ending September 30, 2008, as a result of a make-whole provision contained in the agreement governing the Senior Notes.

Executive Management Changes

On July 28, 2008 we announced executive management changes as detailed below:

Henry C.V. Keeling, Executive Vice President and Chief Operating Officer, will retire effective August 1, 2008. As a result of Henry s decision to retire, the role of the Chief Operating Officer will be eliminated.

Michael C. Lobdell will leave his current position of Executive Vice President and Chief Executive of Global Business Services, effective August 31, 2008. We now intend to realign the majority of Global Business Services within the business operations and the current executive structure will no longer be required.

Fiona Luck, Executive Vice President and Chief of Staff, will become Special Advisor to the CEO, based in Bermuda and London and with a reduced time commitment. She will step down

from her current role and the senior leadership group on August 1, 2008, at which time the role of Chief of Staff will be eliminated.

Susan Cross, Global Chief Actuary, will join the senior leadership group with immediate effect.

In addition, consistent with our commitment to enhancing enterprise risk management, efforts continue to identify and appoint a new Chief Enterprise Risk Officer.

In late October 2007, we announced that Mr. Brian O Hara, our President and Chief Executive Officer (CEO), had informed our Board of Directors of his decision to retire as President and CEO in mid-2008. Accordingly, the Board of Directors implemented a CEO succession plan including the authorization of a Succession Committee to lead the new CEO selection process. On March 17, 2008, we announced that Mr. Michael S. McGavick would replace Mr. O Hara as our CEO and Mr. McGavick assumed the role of CEO effective as of May 1, 2008. To provide continuity during the transition, Mr. O Hara has agreed to serve as Chairman of our Board during the final year of his current term on the Board, which expires at the 2009 Annual Meeting of Shareholders.

Performance Option Awards

On July 25, 2008, following approval of the compensation committee, our board of directors approved the issuance of grants to employees of options to purchase, in the aggregate, approximately 2,825,000 ordinary shares under our Amended and Restated 1991 Performance Incentive Program. The options grant includes options to purchase 50,000 shares for Brian W. Nocco, our Chief Financial Officer, and options to purchase 100,000 shares for James H. Veghte, our Chief Executive of Reinsurance Operations. The option grants are intended to be in lieu of a portion of the grantees regular incentive compensation for 2008. The date of grant of the options will be the date that is ten trading days following the date of pricing of this offering (and subject to closing of the offering). The exercise price per share of the options will be the closing sales price per share of our ordinary shares on the New York Stock Exchange on the date of grant. In the case of options granted to members of our senior leadership group, the options will be scheduled to vest on the date that is the later of three years from the date of grant or the date upon which the closing price of the ordinary shares on the New York Stock Exchange has equaled or exceeded 130% of the option exercise price for a period of at least ten consecutive trading days. In the case of options granted to other employees, the options will be scheduled to cliff vest on the third anniversary of the date of grant.

Other Initiatives

We are exploring strategic opportunities related to our Life Reinsurance operations and, following the offerings, plan to focus exclusively on our core P&C Insurance and Reinsurance businesses. In addition, we will take actions during the remainder of 2008 to eliminate approximately $110 million to $120 million from our run rate operating expenses from 2009 onwards, thereby reducing our expense base by approximately $70 million from 2008 levels. As a result of this, we expect to record a charge of between $50 million to $60 million in the remainder of 2008.

We also announced the launch of a five-year operational transformation program for XL Insurance. The transformation of XL Insurance s operating systems will result in the consolidation of multiple business processes and technology systems into a unified global architecture. In addition, the transformation will enhance key business functions through advanced technology for global claims, new underwriting and policy administration for most U.S. policy volume, strategic and operational management information, technical accounting and reinsurance administration. Accenture, the global management consulting, technology services and outsourcing company, will provide business consulting and technological services under a multi-year contract.

THE OFFERINGS

Issuer	XL Capital Ltd
Class A Ordinary Shares Offered by Us	ordinary shares.
Equity Security Units Offered by Us	units. See Description of Equity Security Units below.
Class A Ordinary Shares to Be Outstanding After These Offerings	ordinary shares.
	The number of Class A Ordinary Shares to be outstanding after these offerings is based on approximately 179,064,757 ordinary shares outstanding as of July 21, 2008 and includes the 8,000,000 restricted ordinary shares to be issued to SCA in connection with the SCA Agreement. The number excludes (i) 8,990,203 ordinary shares that may be issued upon exercise of vested options and (ii) ordinary shares issuable upon settlement of the units being offered hereunder and the settlement of our currently outstanding equity security units. This number assumes that the underwriters option to purchase additional ordinary shares is not exercised. If the option to purchase additional ordinary shares is exercised in full, we will issue and sell an additional ordinary shares. For a more complete description of our ordinary shares, see Description of XL Capital Ordinary Shares in the accompanying prospectus.
Use of Proceeds	We estimate our net proceeds from the offering of ordinary shares, assuming no exercise of the overallotment option, after deducting underwriting discounts and commissions and estimated offering expenses, to be approximately $ billion. We estimate our net proceeds from the offering of units, assuming no exercise of the overallotment option, after deducting underwriting discounts and commissions and estimated offering expenses, to be approximately $ million.
	We expect that the aggregate gross proceeds from both offerings will be approximately $2.5 billion.

	We intend to use net proceeds from the offerings, together with the approximately $500 million of net proceeds from the Put Option Exercise, to pay $1.775 billion to SCA as part of the SCA Agreement and to pay approximately $283 million for the X.L. America Notes Redemption, with the remainder of the net proceeds being used for general corporate purposes, including, without limitation, capital funding of certain of our subsidiaries. We currently intend to use the proceeds from the settlement of the purchase contracts to repay other debt as soon as practicable following such settlement, and we have agreed not to use such proceeds to repurchase ordinary shares. See Use of Proceeds in this prospectus supplement.
New York Stock Exchange Symbol	Ordinary Shares XL Units XL Pr Y
Ownership Limitations	Our Articles of Association provide that our Board shall decline to register a transfer of shares if it appears that the effect of such transfer would be to increase the number of shares owned or controlled by any person to 10% or more of any class of voting shares of XL Capital Ltd, the total issued shares of XL Capital Ltd or the voting power of XL Capital Ltd. Our Articles of Association also restrict the voting power of any shareholder to less than approximately 10% of the total voting power. You should be aware of these limitations as you consider an investment in the ordinary shares or the units, as you will not be able to purchase either ordinary shares or units in this offering that would result in your ownership exceeding such 10% threshold. See Risk Factors Risks Relating to our Ordinary Shares. Ownership of the units by a U.S. person may cause such person to be treated for U.S. federal income tax purposes as the owner of our ordinary shares prior to the purchase contract settlement date. In addition, if an investor acquires 10% or more of our ordinary shares, such investor may, under certain circumstances, become subject to taxation for such investor s pro rata share of our income. For purposes of interpreting the voting restrictions in our Articles of Association, we intend to treat the ordinary shares issuable upon settlement of a purchase contract underlying a unit as currently owned by the holder of that unit. See Risk Factors Risks Related to Taxation If an investor acquires 10% or more of XL Capital Ltd s ordinary shares, it may be subject to taxation under the controlled foreign corporation (the CFC) rules. Moreover, the ownership of 10% or more of our ordinary shares may give rise to a requirement by such 10% holder to make certain filings disclaiming an intent to control with applicable insurance regulatory departments.

Risk Factors	An investment in the ordinary shares or units involves certain risks that you should carefully evaluate prior to making an investment in the ordinary shares or units. In particular, you should evaluate the specific risk factors under Risk Factors beginning on page S-27 of this prospectus supplement and the disclosure contained in the documents incorporated by reference into this prospectus supplement and the accompanying prospectus for a discussion of certain risks involved with an investment in the ordinary shares or units.

DESCRIPTION OF EQUITY SECURITY UNITS

What are the equity security units?

Each equity security unit, which we refer to as a unit, will initially consist of and represent:

(1) a purchase contract pursuant to which:

you will agree to purchase, and we will agree to sell, for $25, a number of our ordinary shares on August 15, 2011 (the stock purchase date) to be determined based on the average trading price of our ordinary shares for a 20 trading-day period ending on the third trading day immediately preceding that date, calculated in the manner described below or, if we have previously fixed the settlement rate as a result of an accounting event (as defined below), the fixed number of shares to be determined as described below; and

we will pay you contract adjustment payments on a quarterly basis at the annual rate of % of the stated amount of $25, subject to our right to defer such payments, as specified below; and

(2) a 1/40, or 2.5%, ownership interest in a senior note due August 15, 2021 (which maturity may be shortened to any date on or after August 15, 2013 in the case of a successful remarketing of the senior notes) of XL Capital with a principal

amount of $1,000, on which we will pay interest at the initial annual rate of % until a successful remarketing of the senior notes and at the reset rate or a floating rate plus the reset spread (as described below) thereafter. Interest will be payable quarterly in arrears through and including the stock purchase date and, thereafter, interest will be payable semi-annually in arrears, if the senior notes are successfully remarketed at a fixed rate or quarterly in arrears if the senior notes are successfully remarketed at a floating rate.

The ownership interests in the senior notes that are a component of your units will be owned by you, but will initially be pledged to the collateral agent for our benefit to secure your obligations under the related purchase contracts. We refer in this prospectus supplement to the purchase contracts, together with the pledged ownership interest in the senior notes (or, after a special event redemption described below, the pledged treasury securities), as normal units.

Each holder of normal units may elect at any time on or before the thirteenth business day prior to the stock purchase date (subject to certain exceptions) to withdraw from the pledge, the pledged ownership interest in the senior notes (or, after a special event redemption, the pledged treasury securities) underlying the normal units, thereby creating stripped units. To create stripped units, the holder must substitute, as pledged securities, specifically identified treasury securities that will pay $25 (the amount due under the purchase contract) per unit on the stock purchase date, and the pledged ownership interest in the senior notes or treasury securities will be released from the pledge and delivered to the holder. Holders of stripped units may recreate normal units by re- substituting the senior notes (or, after a special event redemption, the applicable treasury securities) for the treasury securities underlying the stripped units on or before the thirteenth business day prior to the stock purchase date.

If a special event redemption occurs, in each case as described in this prospectus supplement, the applicable ownership interest in the treasury securities will replace the ownership interest in a senior note as a component of each unit and will be pledged to the collateral agent for our benefit to secure your obligations under the purchase contract.

What are the purchase contracts?

The purchase contract underlying a unit obligates you to purchase, and us to sell, for $25, on the stock purchase date, a number of our newly issued ordinary shares equal to the settlement rate described below. The settlement rate will be based on the average trading price of our ordinary shares for a period preceding that date, calculated in the manner described below or, if we have previously fixed the settlement rate as a result of an accounting event (as defined below), the fixed number of shares to be determined as described below.

You will not have any voting or other rights with respect to our ordinary shares until you pay the $25 purchase price and acquire the ordinary shares upon settlement of the purchase contracts.

What payments will we make to holders of the units and the senior notes?

If you hold normal units, we will pay you (a) quarterly contract adjustment payments on the underlying purchase contracts at the annual rate of % of the $25 stated amount accrued through but excluding the stock purchase date and (b) quarterly interest payments on the ownership interests in senior notes that are pledged in respect of your normal units at the initial annual rate of % accrued through but excluding the stock purchase date.

If you hold stripped units, you will receive only the quarterly contract adjustment payments at the annual rate of % of the $25 stated amount. There will be no distributions in respect of the treasury securities that are a component of the stripped units and you will not be entitled to receive quarterly interest payments on the senior notes unless, separately, you continue to hold the senior notes that were released to you when you created the stripped units. If you hold the senior notes separately from the units and do not separately hold stripped units, you will receive only the interest payable on the senior notes and no contract adjustment payments.

The contract adjustment payments on normal and stripped units are subject to our deferral right as described below. We are not entitled to defer interest payments on any senior notes, whether held as part of, or separately from, the units.

The senior notes, whether held separately from, or as part of, the units, will initially pay interest at the annual rate of %. If the senior notes are successfully remarketed, however, the rate of interest payable from the settlement date of the successful remarketing, which we anticipate to be on or before August 15, 2011, until their maturity will be the reset rate. The reset rate, or if we elect to remarket the senior notes at a floating rate, the reset spread, will be the interest rate or spread established by the remarketing agent in accordance with the procedures and the requirements described in this prospectus supplement. If the remarketing agent cannot establish a reset rate or reset spread during the remarketing period, the remarketing agent will not reset the interest rate on the senior notes and the interest rate will continue to be the initial annual rate of %.

What are the payment dates?

Subject to our deferral right in respect of the contract adjustment payments described below, we will make contract adjustment payments quarterly in arrears on each February 15, May 15, August 15 and November 15, commencing on November 15, 2008 and ending on the stock purchase date. We will initially make interest payments on the senior notes quarterly in arrears on February 15, May 15, August 15 and November 15, commencing on November 15, 2008. If the senior notes are successfully remarketed and the interest rate is reset to a fixed rate of interest, following the stock purchase date, interest will be payable semi-annually in arrears on February 15 and August 15 of each year. If the senior notes are successfully remarketed and the interest rate is reset to a floating rate, following the stock purchase date, interest will be payable quarterly in arrears on February 15, May 15, August 15 and November 15 of each year.

Can we defer payments?

We can defer payment of all or part of the contract adjustment payments on the purchase contracts until the stock purchase date. Additional contract adjustment payments will accrue on any deferred installments of contract adjustment payments at a rate of % per year until paid, compounded quarterly, to but excluding the stock purchase date, unless your purchase contract has been settled early or terminated. We are not entitled to defer interest payments on the senior notes.

What is the reset rate or reset spread?

To facilitate the remarketing of the senior notes at the remarketing price described below, the remarketing agent will reset the rate of interest on the senior notes, effective from the settlement date of a successful remarketing until their maturity. The reset rate, or if we elect to remarket the senior notes at a floating rate, the reset spread will be the rate or spread sufficient to cause the then-current market value of each outstanding senior note to be equal to 100% of the remarketing value described below.

The reset rate or reset spread will be determined by the remarketing agent during the seven business day (as defined below) period beginning on the ninth business day prior to the stock purchase date and ending on the third business day prior to the stock purchase date. If the remarketing agent fails to remarket the senior notes that form part of the normal units by the end of the third business day immediately preceding the stock purchase date, we will be entitled to exercise our rights as a secured party with respect to such senior notes and, subject to applicable law, may retain the pledged senior notes or treasury securities, as the case may be, or sell them in one or more public or private sales to satisfy in full such holder s obligation to purchase ordinary shares under the related purchase contracts.

The term business day means, with respect to the senior notes, any day other than a Saturday, Sunday or other day in the City of New York, New York, in Bermuda or in any place of payment on which banking institutions are authorized by law or regulation to close.

The reset rate or reset spread may not exceed the maximum rate, if any, permitted by applicable law.

What is the remarketing?

The remarketing agent will attempt to remarket the senior notes of holders of normal units and will use the proceeds to settle directly the purchase contracts on the stock purchase date. The remarketing will be one way for holders of normal units to satisfy their obligations to purchase ordinary shares under the related purchase contracts. Holders of normal units may elect not to participate in any remarketing by following the procedures set forth in the Remarketing Notice described below.

As described below, a holder of a senior note in which interests are not held as part of normal units may elect to have the separately held senior note remarketed along with the senior notes in which interests are held as part of the normal units.

We will enter into a remarketing agreement with a nationally recognized investment banking firm that will act as remarketing agent. The remarketing agent will agree to use reasonable best efforts to remarket the senior notes that are included in the normal units (as well as separately held senior notes) that are participating in the remarketing, at a price per senior note that will result in net cash proceeds equal to 100% of the remarketing value. The remarketing value of a senior note will be equal to the principal amount of the senior note. We anticipate that the settlement date of any successful remarketing will be on or before August 15, 2011.

The proceeds of the remarketing will be paid directly to us in settlement of the obligations of the holders of normal units to purchase our ordinary shares. The remarketing agent will remit the remaining portion of the proceeds, if any, for payment to the holders of the normal units or senior notes participating in the remarketing. We will separately pay a fee to the remarketing agent. Holders of senior notes that are remarketed will not be responsible for the payment of any remarketing fee in connection with the remarketing.

In connection with a successful remarketing, in addition to resetting the interest rate, we may elect, without the consent of any holders of the senior notes, to:

- shorten the stated maturity of the senior notes to any date on or after August 15, 2013; and

- modify our right to call the senior notes for redemption, effective on or after the remarketing settlement date, to eliminate the optional redemption right in its entirety, to provide that the optional redemption right will arise at a later date and/or to provide for an interest make-whole payment and/or a call premium upon exercise of the optional

redemption
right.

A holder of normal units may elect not to participate in any remarketing and instead retain the ownership interests in senior notes underlying those normal units by delivering to the collateral agent, in respect of each senior note to be retained, cash in the amount and on the date specified in the Remarketing Notice to satisfy its obligations under the related purchase contracts.

Prior to any remarketing, we will use commercially reasonable efforts to file and obtain effectiveness of a registration statement with respect to the senior notes if so required under the U.S. federal securities laws at the time.

If the remarketing is successful and the rate is reset, the reset rate or the applicable index plus the reset spread will apply to all outstanding senior notes, whether or not the holders participated in such remarketing, and will become effective on the remarketing settlement date. In addition, upon a successful remarketing, other provisions of the senior notes may be modified as described above. Your senior notes will become subject to the modified terms whether or not you participate in the remarketing.

What happens if the remarketing agent does not successfully remarket the senior notes on the remarketing date?

If the remarketing agent cannot establish a reset rate or reset spread meeting the requirements described above on the ninth business day prior to the stock purchase date and therefore cannot remarket the senior notes participating in the remarketing at a price per senior note that will result in net cash proceeds equal to 100% of the remarketing value, the remarketing agent will attempt to establish a reset rate or reset spread meeting these requirements on each of the six business days immediately following the initial proposed remarketing date. We refer to this period as the remarketing period. If the remarketing agent fails to remarket the senior notes underlying the normal units at that price by the end of the remarketing period, holders of normal units will be deemed to have directed us to retain the securities pledged as collateral in satisfaction of the holders obligations under the related purchase contracts, and we will exercise our rights as a secured party and may, subject to applicable law, retain or dispose of such securities to satisfy in full such holders obligation to purchase our ordinary shares under the related purchase contracts on the stock purchase date. In no event will a holder of a purchase contract be liable for any deficiency between the amount of such proceeds and the purchase price for the ordinary shares under the purchase contract. In addition, holders of senior notes that remain outstanding on the stock purchase date following a failed remarketing will have the right to put their senior notes to us on the date set forth in the Remarketing Notice for an amount equal to the principal amount of the senior notes, plus accrued and unpaid interest, by notifying the indenture trustee in accordance with the procedures set forth in the Remarketing Notice.

If I am not a party to a purchase contract, may I still participate in a remarketing of my senior notes?

Holders of senior notes in which interests are not included as part of normal units may elect to have their senior notes included in the remarketing in the manner described in Description of the Equity Security Units Optional Remarketing. The remarketing agent will use reasonable best efforts to remarket the separately held senior notes included in the remarketing at a price per senior note that will result in net cash proceeds equal to 100% of the remarketing value, determined on the same basis as for the other senior notes being remarketed. The proceeds will be remitted for payment to the holders whose separate senior notes were remarketed in the remarketing. If a holder of senior notes elects to have its senior notes remarketed during the remarketing period but the remarketing agent fails to remarket the senior notes during such remarketing period, the senior notes will be promptly returned to the custodial agent for release to the holder at the end of that period.

What is the settlement rate?

The settlement rate is the number of newly issued ordinary shares that we are obligated to sell and you are obligated to purchase upon settlement of a purchase contract on the stock purchase date.

The settlement rate for each purchase contract, subject to any then applicable anti-dilution adjustments, will be as follows:

if the applicable market value, determined as described below, of our ordinary shares is equal to or greater than $, the settlement rate will be ordinary shares per purchase contract;

if the applicable market value of our ordinary shares is less than $ but greater than $, the settlement rate will be equal to $25 divided by the applicable market value of our ordinary shares per purchase contract; or

if the applicable market value of our ordinary shares is less than or equal to $, the settlement rate will be ordinary shares per purchase contract.

Applicable market value means the average of the closing price per ordinary share on each of the 20 consecutive trading days ending on the third trading day immediately preceding the stock purchase date.

If an accounting event occurs and is continuing prior to the earlier of the date of any successful remarketing of the senior notes and the stock purchase date, we may, at our option, fix the settlement rate according to a formula based on the Black-Scholes option pricing model, which is a function of several variables, including the market price of our ordinary shares, our dividend yield, the remaining maturity of the purchase contract, the risk-free rate and the volatility of our ordinary shares.

Accounting event means the receipt, at any time prior to the earlier of the date of any successful remarketing of the senior notes and the stock purchase date, by the audit committee of our Board of Directors of a written report in accordance with Statement on Auditing Standards No. 97, Amendment to Statement on Auditing Standards No. 50, Reports on the Application of Accounting Principles, from our independent registered public accounting firm, provided at the request of management, to the effect that, as a result of any change in accounting rules or interpretations thereof after the date of this prospectus supplement, we must either (a) account for the purchase contracts as derivatives under Statement of Financial Accounting Standards (FAS) No. 133, Accounting for Derivative Instruments and Hedging Activities (or any successor accounting standard), or (b) account for the units using the if-converted method under FAS No.

128, Earnings per Share (or any successor accounting standard), and that such accounting treatment will cease to apply upon fixing the settlement rate on the purchase contracts.

At the option of each holder, a purchase contract may be settled early by the early delivery of cash to the purchase contract agent, as described below, in which case the settlement rate will be ordinary shares per purchase contract or, if we have previously fixed the settlement rate as a result of an accounting event, a number of ordinary shares equal to the fixed accounting event settlement rate, in each case subject to any then applicable anti-dilution adjustments; *provided* that at the time of such early settlement, we have an effective shelf registration statement covering the sale of such ordinary shares (and, subject to our right to customary black-out periods for up to 90 days in any 360-day period), unless we have been advised by counsel that no prospectus is required to be delivered in connection with the sale of such ordinary shares.

For a series of diagrams that explain some of the key features of the units, including the settlement rate and the reference price, see Equity Security Units Explanatory Diagrams below.

Besides participating in a remarketing, how else can I satisfy my obligations under the purchase contract?

Besides participating in the remarketing, your obligations under the purchase contract may also be satisfied:

- if you have created stripped units, by delivering and pledging specified U.S. treasury securities in substitution for your senior notes and applying the cash payments received upon maturity of those pledged treasury securities;

- through the early delivery of cash to the purchase contract agent on or prior to the thirteenth business day prior to the stock purchase date in the manner described in Description of the Equity Security Units Early Settlement ;

by delivering a notice to settle for cash along with the requisite amount of cash on the thirteenth business day prior to the stock purchase date for settlement of the purchase contracts in the manner described in Description of the Equity Security Units Notice to Settle with Cash ; or

if we undergo certain fundamental changes, through an early settlement of the purchase contract as described in Description of the Equity Security Units Early Settlement

upon
Fundamental
Change.

In addition, the purchase contracts, our related rights and obligations and those of the holders of the units, including their rights to receive accumulated contract adjustment payments or deferred contract adjustment payments, as the case may be, and obligations to purchase our ordinary shares, will automatically terminate upon our bankruptcy, insolvency or reorganization. Upon such a termination of the purchase contracts, the pledged senior notes or treasury securities will be released and distributed to you. If we become the subject of a case under the U.S. federal bankruptcy code, a delay may occur as a result of the imposition of an automatic stay, if applicable, under the bankruptcy code or other stay and continue until the automatic stay has been lifted. No stay will be lifted unless and until such time as the bankruptcy judge agrees to lift it and allows your collateral to be returned to you.

If the purchase contract is settled early or is terminated as the result of certain bankruptcy, insolvency or reorganization events with respect to us, a holder will have no further right to receive any contract adjustment payments or deferred contract adjustment payments and, except in the case of a merger early settlement, you will not receive any accrued and unpaid contract adjustment payments.

Under what circumstances may we redeem the senior notes before they mature?

If we are required to pay additional amounts with respect to the senior notes, or if the accounting rules change in a way that adversely affects our accounting treatment of the purchase contracts or the units, then we may elect to redeem the senior notes at the redemption price described under Description of the Senior Notes Special Event Redemption. In addition, we may initially redeem the senior notes at our option on any date after August 15, 2013, subject to modification of the redemption provisions in connection with a successful remarketing, as described under Description of the Senior Notes Redemption at Our Option. If the senior notes are redeemed before a successful remarketing, the money received from the redemption will be used by the collateral agent to purchase a portfolio of zero-coupon U.S. treasury securities that mature on or prior to each payment date of the senior notes through the stock purchase date, in an aggregate amount equal to the principal amount of the senior notes included in normal units and the interest that would have been due on such payment date on the senior notes included in normal units. For a holder of normal units, these treasury securities will replace the senior notes as the collateral securing such holder s obligations to purchase ordinary shares under the purchase contracts. If your senior notes are not components of normal units, you, rather than the collateral agent, will receive the related redemption payment. If the senior notes are redeemed, then each normal unit will consist of a purchase contract for ordinary shares and an ownership interest in the portfolio of treasury securities.

What is the maturity of the senior notes?

The senior notes will mature on August 15, 2021, subject to our right to shorten the maturity date as described under Description of the Senior Notes Remarketing.

What are the rights and privileges of our ordinary shares?

The ordinary shares that you will be obligated to purchase under the purchase contracts have one vote per share, subject to the provisions of our Articles of Association that restrict the voting power of any shareholder to less than 10% of total voting power. For more information, please see the discussion of our ordinary shares in the accompanying prospectus under the heading Description of XL Capital Ordinary Shares.

What are the U.S. federal income tax consequences related to the units?

If you purchase units in the offering, you will be treated for U.S. federal income tax purposes as having acquired purchase contracts and ownership interests in the senior notes constituting those units and, by purchasing the units, you agree to treat the purchase contracts and ownership interests in the senior notes in that manner for all tax purposes. You must allocate the purchase price of the units between purchase contracts and ownership interests in the senior notes in proportion to their respective fair market values, which will establish your initial tax basis in each component of the units. We expect to report the fair market value of each purchase contract as $0 and the fair market value of each senior note as $1,000 (or $25 for each 1/40, or 2.5%, ownership interest in a senior note included in a normal unit).

For U.S. federal income tax purposes, we intend to treat the senior notes as indebtedness of XL Capital. Interest on the senior notes generally will be taxable to you as ordinary interest income at the time it is paid or accrued in accordance with your method of accounting for tax purposes.

If you own stripped units, you will be required to include in gross income your allocable share of any original issue discount or acquisition discount on the treasury securities that accrues in such year.

We intend to report the contract adjustment payments as income to you. You may want to consult your tax advisor concerning alternate characterizations.

There is only one published revenue ruling that addresses the treatment of instruments similar to the units. No other statutory, judicial or administrative authority directly addresses the treatment of the units or instruments similar to units for U.S. federal income tax purposes. You are urged to consult your own tax advisor concerning the tax consequences of an investment in units. For additional information, see Certain Tax Considerations Taxation of Shareholders United States.

What are the ERISA considerations?

Plans subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended (ERISA), or Section 4975 of the Internal Revenue Code of 1986, as amended (the Code), may invest in the units subject to the considerations set forth in Certain ERISA Considerations.

Will the equity security units be listed on a stock exchange?

We have applied to list the normal units on the New York Stock Exchange. We have no obligation and do not currently intend to apply for any separate listing of either the stripped units or the senior notes on any stock exchange; however, in the event that we become aware that either of these securities is separately traded to a sufficient extent that applicable exchange listing requirements are met, we will attempt to cause those securities to be listed on the exchange on which the normal units are then listed.

EQUITY SECURITY UNITS EXPLANATORY DIAGRAMS

The following diagrams demonstrate some of the key features of the purchase contracts, normal units, stripped units and senior notes, and the transformation of normal units into stripped units and senior notes. The following diagrams assume that the senior notes are successfully remarketed, the interest rate on the senior notes is reset, there is no early settlement, the settlement rate has not been fixed as a result of an accounting event, the payment of contract adjustment payments is not deferred and that there are no other changes to the terms of the senior notes as part of the remarketing.

Purchase Contracts

Normal units and stripped units both include a purchase contract under which you agree to purchase ordinary shares on the stock purchase date.

The number of ordinary shares to be purchased under each purchase contract will depend on the applicable market value. The applicable market value means the average of the closing price per ordinary share on each of the 20 consecutive trading days ending on the third trading day immediately preceding the stock purchase date.

The following charts are intended to illustrate (1) the value of the ordinary shares to be delivered upon settlement of the purchase contracts on the stock purchase date in relation to the market price of the ordinary shares and (2) the number of ordinary shares that a holder of units will receive on the stock purchase date, expressed as a percentage of the maximum number of ordinary shares deliverable upon settlement of the purchase contracts.

(1) The reference price is $, the price per share in the ordinary share offering. The closing price of our ordinary shares on July 25, 2008 was $18.77.

(2) The threshold appreciation price is $, which represents a premium of approximately % over the reference price.

(3) For each of the percentage categories shown, the percentage of ordinary shares to be delivered on the stock purchase date to a holder of normal units or stripped units is determined by dividing:

the related number of ordinary shares to be delivered, calculated in the manner indicated in the footnote for each such category, by

an amount equal to $25, the stated amount of the unit, divided by the reference price.

(4) If the applicable market value of our ordinary shares is less than or equal to the reference price, the number of ordinary shares to be delivered will be calculated by dividing the stated amount of $25 by the reference price.

(5) If the applicable market value of our ordinary shares is between the reference

price and the threshold appreciation price, the number of ordinary shares to be delivered will be calculated by dividing the stated amount of $25 by the applicable market value.

(6) If the applicable market value of our ordinary shares is greater than or equal to the threshold appreciation price, the number of ordinary shares to be delivered will be calculated by dividing the stated amount of $25 by the threshold appreciation price.

Normal Units

A normal unit will consist of two components as illustrated below:

After a special event redemption, the normal units will include specified treasury securities in lieu of the senior notes.

If you hold a normal unit, you will hold an ownership interest in a senior note and, after a special event redemption, an ownership interest in specified treasury securities, but will pledge that interest to the collateral agent for our benefit to secure your obligations under the purchase contract.

If you hold a normal unit, you may also substitute the requisite amount of cash for your ownership interest in a senior note if you decide not to participate in the remarketing.

Stripped Units

A stripped unit consists of two components as illustrated below:

If you hold a stripped unit, you own a 1/40, or 2.5%, interest in the treasury security but will pledge it to the collateral agent for our benefit to secure your obligations under the purchase contract. The treasury security is a zero-coupon U.S. treasury security (CUSIP No. 912833DA5) that matures on August 15, 2011.

Senior Notes

Senior notes will have the terms illustrated below:

If you hold an ownership interest in a senior note that is a component of a normal unit, you have the option to either:

allow the ownership interest in the senior note to be included in the remarketing process, the proceeds of which will be applied to settle the purchase contract; or

elect not to participate in the remarketing by delivering the requisite amount of cash to be applied to settle the related purchase contract.

If you hold a senior note that is not a component of a normal unit, you have the option to either:

continue to hold the senior note, the interest rate on which will be reset at a new fixed or floating rate effective from the settlement date of a successful remarketing of the senior notes and the terms of which may be changed as described under Description of the Senior Notes Remarketing ;

or

deliver the senior note to the remarketing agent to be included in the remarketing.

Transforming Normal Units into Stripped Units and Senior Notes

To create stripped units, you must substitute for the pledged ownership interest in the senior note (or, after a special event redemption, the pledged treasury securities) the specified zero-coupon U.S. treasury security that matures on August 15, 2011.

Upon such substitution, the pledged senior note or, after a special event redemption, the pledged treasury securities will be released from the pledge and delivered to you.

The zero-coupon U.S. treasury security, together with the purchase contract, would then constitute a stripped unit. The senior note (or, after a special event redemption, treasury securities), which was previously a component of normal units, is tradable as a separate security.

The transformation of normal units into stripped units and senior notes and the transformation of stripped units and senior notes into normal units may generally be effected only in integral multiples of 40 units. If, however, the senior notes constituting a part of the normal units have been replaced with treasury securities due to a special event redemption, the transformation of normal units into stripped units and the recreation of normal units from stripped units may be effected only in integral multiples of units such that both the treasury securities to be deposited and the treasury securities to be released are in integral multiples of $1,000.

The following illustration depicts the transformation of 40 normal units into 40 stripped units and one $1,000 principal amount senior note.

stripped units and one $1,000 principal amount senior note.

After a special event redemption, the normal units will include ownership interests in specified U.S.

treasury securities in lieu of an ownership interest in senior notes.

You can also transform stripped units and senior notes (or, after a special event redemption, treasury securities) into normal units. Following that transformation, the specified zero-coupon U.S. treasury security, which was previously a component of the stripped units, is tradable as a separate security.

RISK FACTORS

Investing in the ordinary shares or the units involves risk. In deciding whether to invest in the ordinary shares or the units, you should carefully consider the following risk factors, any of which could have a significant or material adverse effect on our business, financial condition and results of operations, in addition to the other information contained in this prospectus supplement and the accompanying prospectus and the information incorporated by reference herein and therein. Additional risks not presently known to us or that we currently deem immaterial may also impair our business, financial condition and results of operations.

Risks Related to the Company

A downgrade in our credit ratings by one or more rating agencies could materially and negatively impact our business, financial condition, results of operations and/or liquidity.

As our ability to underwrite business is dependent upon the quality of our claims paying and financial strength ratings as evaluated by independent rating agencies, a further downgrade by any of these institutions could cause our competitive position in the insurance and reinsurance industry to suffer and make it more difficult for us to market our products. A downgrade could also result in a substantial loss of business for us as ceding companies and brokers that place such business may move to other insurers and reinsurers with higher ratings.

In June 2008, Moody s affirmed the A1 financial strength rating of our principal insurance and reinsurance subsidiaries; however, Moody s provided a Negative outlook with regards to these ratings as a result of further stress on our capital and financial flexibility resulting from the downgrades at SCA in the first six months of 2008 and uncertainty surrounding reinsurance and agreements with SCA.

Consistent with the ratings actions noted above, S&P, in July 2008, placed the A+ financial strength rating of our leading property and casualty operating companies on CreditWatch with negative implications . As well, in June 2008, Fitch placed the A+ financial strength rating of our leading property and casualty operating subsidiaries on Rating Watch Negative.

Additionally, as relates to the S&P and Moody s rating actions, further concerns were expressed relating to our investment portfolio and the underlying exposure to structured mortgage securities.

Based on the announcements relating to the SCA Agreement and these offerings, if successful, it is management s expectation that our financial strength and debt ratings will ultimately be affirmed at their current levels, though we do expect that some of the rating agencies will maintain or assign a negative outlook to us.

A downgrade of the A.M. Best financial strength rating of XL Capital Ltd, XL Insurance (Bermuda) Ltd or XL Re Ltd below A-, which is currently two notches below our current A.M. Best rating of A, would constitute an event of default and may require the posting of cash collateral under our letter of credit and revolving credit facilities. Such downgrades by A.M. Best or similar downgrades by S&P will also trigger cancellation provisions in the majority of our assumed reinsurance contracts. See A decline in our ratings may allow many of our clients to terminate their contracts with us, below. Either of these events would reduce our financial flexibility and materially adversely affect our business, financial condition and results of operations and could have a significant adverse effect on the market price for our securities.

A decline in our ratings may allow many of our clients to terminate their contracts with us.

The majority of our assumed reinsurance contracts contain provisions that would allow our clients to cancel the contract in the event of a downgrade in our ratings below specified levels by

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one or more rating agencies. Based on premium value, approximately 65% of our reinsurance contracts that incepted at January 1, 2008 contained provisions allowing clients to cancel those contracts upon a decline in our ratings.

Typically, the cancellation provisions in our assumed reinsurance contracts would be triggered if S&P or A.M. Best were to downgrade our financial strength ratings below A-, which is currently three levels below our current S&P rating of A+ and two levels below our current A.M. Best rating of A. Whether a client would exercise its cancellation rights after such a downgrade would likely depend, among other things, on the reasons for the downgrade, the extent of the downgrade, the prevailing market conditions, the degree of unexpired coverage, and the pricing and availability of replacement reinsurance coverage. In the event of such a downgrade, we cannot predict whether or how many of our clients would actually exercise such cancellation rights or the extent to which any such cancellations would have a material adverse effect on our financial condition, results of operations or future prospects and could have a significant adverse effect on the market price for our securities.

The occurrence of disasters could adversely affect our financial condition.

We have substantial exposure to losses resulting from natural and man-made disasters and other catastrophic events. Catastrophes can be caused by various events, including hurricanes, earthquakes, floods, hailstorms, explosions, severe weather, fires, war, acts of terrorism and political instability. The incidence and severity of catastrophes are inherently unpredictable, and it is difficult to predict the timing of such events with statistical certainty or estimate the amount of loss any given occurrence will generate.

The occurrence of claims from catastrophic events is likely to result in substantial volatility in our financial condition and results of operations for the fiscal quarter or year in which a catastrophic event occurs, as well as subsequent fiscal periods, and could have a material adverse effect on our financial condition and results of operations and our ability to write new business. This risk is exacerbated due to accounting principles and rules that do not permit reinsurers to reserve for such catastrophic events until they occur. We expect that increases in the values and concentrations of insured property, the effects of inflation and changes in cyclical weather patterns will increase the severity of catastrophic events in the future. Although we attempt to manage our exposure to catastrophic events, a single catastrophic event could affect multiple geographic zones and lines of business and the frequency or severity of catastrophic events could exceed our estimates, in each case potentially having a material adverse effect on our financial condition and results of operations. In addition, while we may, depending on market conditions, purchase catastrophe reinsurance and retrocessional protection, the occurrence of one or more major catastrophes in any given period could result in losses that exceed such reinsurance and retrocessional protection or make it more difficult or expensive for us to purchase reinsurance or retrocessional protection and have a material adverse effect on our financial condition and results of operations and result in substantial liquidation of investments, possibly at a loss, and outflows of cash as losses are paid.

The failure of any of the underwriting risk management strategies that we employ could have a material adverse effect on our financial condition, results of operations and/or liquidity.

We seek to limit our loss exposure by, among other things, writing a number of our reinsurance contracts on an excess of loss basis, adhering to maximum limitations on reinsurance written in defined geographical zones, limiting program size for each client and prudently underwriting each program written. In addition, in the case of proportional treaties, we generally seek to use per occurrence limitations or loss ratio caps to limit the impact of losses from any one event. We cannot be sure that all of these loss limitation methods will have the precise risk management impact intended. For instance, although we also seek to limit our loss exposure by geographic diversification, geographic zone limitations involve significant underwriting judgments, including the determination of the area of the zones and the inclusion of a particular policy within a particular zone s limits. Underwriting involves the exercise of considerable judgment and the making of important assumptions about matters that are inherently unpredictable and beyond our control, and for which historical experience and probability analysis may not provide sufficient guidance. The failure of any of the underwriting risk management strategies that we employ could have a material adverse effect on our financial condition and results of operations. Also, we cannot provide assurance that various provisions of our policies, such as limitations or exclusions from coverage or choice of forum, will be enforceable in the manner that we intend and disputes relating to coverage and choice of legal forum may arise, which could materially adversely affect our financial condition and results of operations.

If actual claims exceed our loss reserves, our financial results could be adversely affected.

Our results of operations and financial condition depend upon our ability to assess accurately the potential losses associated with the risks that we insure and reinsure. We establish reserves for unpaid losses and loss adjustment expense (LAE) liabilities, which are estimates of future payments of reported and unreported claims for losses and related expenses with respect to insured events that have occurred. The process of establishing reserves for property and casualty claims can be complex and is subject to considerable variability as it requires the use of informed estimates and subjective judgments. Actuarial estimates of unpaid loss and LAE liabilities are subject to potential errors of estimation, which could be significant, due to the fact that the ultimate disposition of claims incurred prior to the date of such estimation, whether reported or not, is subject to the outcome of events that have not yet occurred. Examples of these events include the accuracy of the factual information on which the estimates were based, especially as this develops, jury decisions, court interpretations, legislative changes, changes in the medical condition of claimants, public attitudes, and economic conditions such as inflation. Any estimate of future costs is subject to the inherent limitation on the ability to predict the aggregate course of future events. It should therefore be expected that the actual emergence of loss and LAE liabilities will vary, perhaps materially, from any estimate.

Similarly, the actual emergence of claims for life business may vary from the assumptions underlying the policy benefit reserves, in particular, the future assumed mortality improvements on the blocks of in-payment annuities.

In relation to financial guarantee business and related exposures, we establish reserves for losses and loss adjustment expenses on such business based on management s best estimate of the ultimate expected incurred losses. Our estimated ultimate expected incurred losses are comprised of: (i) case basis reserves, (ii) unallocated reserves, and (iii) cumulative paid losses to date. Establishment of such reserves requires the use and exercise of significant judgment by management, including with respect to estimates regarding the occurrence and amount of a loss on an insured or reinsured obligation. Estimates of losses may differ from actual results and such difference may be material, due to the fact that the ultimate dispositions of claims are subject to the outcome of events that have not yet occurred. Examples of these events include changes in the level of interest rates, credit deterioration of insured and reinsured obligations, and changes in the value of specific assets supporting insured and reinsured obligations. Both qualitative and quantitative factors are used in establishing such reserves. In determining the reserves, management considers all factors in the aggregate, and does not attribute the reserve provisions or any portion thereof to any specific factor. In general, guarantees written in credit default swap form are exposed to the same risks as noted above, except in events of default by the guarantor. Credit default swaps, however, do not qualify for the financial guarantee scope exception under FAS 133, and, therefore are reported at fair value with changes in the fair value included in earnings. Fair value for such swaps are determined based on methodologies further described in Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting

Policies and Estimates in our Annual Report filed on Form 10-K for the year ended December 31, 2007, which is incorporated by reference in this prospectus supplement and the accompanying prospectus. Any estimate of future costs is subject to the inherent limitation on our ability to predict the aggregate course of future events. It should therefore be expected that the actual emergence of losses and loss adjustment expenses will vary, perhaps materially, from any estimate.

We have an actuarial staff in each of our operating segments that regularly evaluates the levels of loss reserves, taking into consideration factors that may impact the ultimate losses incurred. Any such evaluation could result in future changes in estimates of losses or reinsurance recoverable and would be reflected in our results of operations in the period in which the estimates are changed. Losses and loss expenses, to the extent that they exceed the applicable reserves, are charged to income as incurred. The reserve for unpaid losses and loss expenses represents the estimated ultimate losses and loss expenses less paid losses and loss expenses, and comprises case reserves and incurred but not reported loss reserves (IBNR). During the loss settlement period, which can span many years in duration for casualty business, additional facts regarding individual claims and trends often will become known and case reserves may be adjusted by allocation from IBNR without any change in the overall reserve. In addition, application of statistical and actuarial methods may require the adjustment of the overall reserves upward or downward from time to time. Accordingly, the ultimate settlement of losses may be significantly greater than or less than reported loss and loss expense reserves.

There is a possibility that the SCA Agreement and the related commutations and releases could be challenged or that we could be subject to litigation as a result of the SCA Agreement. Any such challenge could have a material adverse effect on our financial condition, results of operations and/or liquidity or the market price of our securities.

We provided certain reinsurance protections (the Reinsurance Agreements) with respect to adverse development on certain transactions as well as indemnification under specific facultative and excess of loss coverages for subsidiaries of SCA: XLFA and XLCA. As at June 30, 2008, our total net exposure under facultative agreements with SCA subsidiaries was approximately $6.4 billion of net par value outstanding. Pursuant to the SCA Agreement, all of these Reinsurance Agreements will be commuted.

In addition, through one or more of our subsidiaries, we entered into certain agreements with subsidiaries of SCA pursuant to which we guaranteed certain obligations of XLFA and XLCA under specific agreements more fully described below under Description of the SCA Agreement (the Guarantee Agreements). See Description of the SCA Agreement below for more information regarding the Guarantee Agreements and the Reinsurance Agreements. As at June 30, 2008, the total net par value outstanding of business written by subsidiaries of SCA which falls under the Guarantee Agreements was approximately $59.3 billion. Pursuant to the terms of, and required conditions under, the SCA Agreement, XLFA s facultative quota share reinsurance agreement with XLCA, and all individual risk cessions thereunder, and the Financial Security Master Facultative Agreement, and all individual risk cessions thereunder, will be commuted, thereby rendering the XLFA Guarantee and Financial Security Guarantee of no further force and effect.

After the closing under the SCA Agreement, SCA and its applicable subsidiaries will be required to use commercially reasonable efforts to commute the underlying financial guarantees that are the subject of the EIB Guarantees. There can be no assurances that such commutation will ultimately occur and that our $1.1 billion exposure (as of June 30, 2008 after giving effect to the SCA Agreement) under the EIB Guarantees will be eliminated.

While the NYID and the BMA have approved the SCA Agreement and related agreements and transactions as further described below, including the commutation of the agreements described above, and the Delaware Insurance Department (DID) has approved the SCA Agreement and the commutation of the XLFA/XLCA Quota Share, which approval will become effective upon the redomestication of XLFA as a Delaware domiciled insurance company, and although the Company believes the effect of the SCA Agreement will be to relieve us of all of our obligations under the Reinsurance Agreements and the Guarantee Agreements (other than as noted above with respect to the EIB Guarantee, if such Guarantee remains in place post-closing), no assurance can be given that the enforceability of the SCA Agreement, the agreements relating thereto and the transactions contemplated thereunder will not be challenged, including under applicable fraudulent transfer laws (described in the following paragraph) and/or by asserting any number of other theories for recovery, including third-party beneficiary rights, or that other litigation will not be commenced against us as a result of the SCA Agreement and such related agreements and transactions. We believe that we would have significant defenses to any such challenges and would vigorously defend against any such claims. However, we cannot assure you that any such claims would not be made or that any such claims would not ultimately be successful.

Under federal bankruptcy law and comparable provisions of state fraudulent transfer laws (including those applicable in any state insurance insolvency proceeding) SCA s commutation and release of our obligations pursuant to the SCA Agreement and related agreements would constitute a voidable fraudulent transfer if it was determined that SCA or any applicable subsidiary thereof, at the time it entered into the SCA Agreement or such related agreement:

intended to hinder, delay or defraud its creditors; or

received less than reasonably equivalent value or fair consideration for such release; and either

was insolvent or rendered insolvent by reason of such incurrence; or

was engaged in a business or transaction for which its remaining assets constituted unreasonably small capital; or intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

Among other regulatory approvals obtained in connection with the SCA Agreement, the NYID issued an approval letter to XLCA under Section 1505 of the New York Insurance Law and the DID issued an approval letter to XLFA under Section 5005(a) of the Delaware Insurance Code (effective upon XLFA s redomestication to Delaware) (both of which statutes require that the terms of a transaction between an insurer domiciled in the applicable jurisdiction and one or more of its affiliates be fair and equitable) stating, in the case of NYID, that the terms of the SCA Agreement and each of the commutations to which XLCA or XLRA is a party are fair and equitable and do not adversely affect policyholders of XLCA or XLRA and, in the case of the DID, stating that the terms of the SCA Agreement and the commutation of the XLFA/XLCA Quota Share are fair and equitable to XLFA. The BMA (the domiciliary regulator of XLFA) also issued an approval letter approving the SCA Agreement and each commutation to which XLFA is a party, including the XLFA/XLCA Quota Share. There can be no assurance that a court would agree with our, the NYID s, the DID s, the BMA s or SCA s conclusions, or as to what law or standard a court would ultimately apply in making any such determination or as to how such court would ultimately rule. Additionally, in the event of any liquidation or rehabilitation or similar proceeding of any insurance subsidiary of SCA, there can be no assurance that any insurance regulator or regulators responsible for such proceedings, in their capacity as liquidator or rehabilitator, would respect the insurance regulatory approvals obtained in connection with the SCA Agreement.

If any challenge were successful, we could be required to honor our original obligations under the Reinsurance Agreements and Guarantee Agreements or be subject to other remedies. Any challenge could have a material adverse effect on the market price for our securities and on our business and, if successful, could also have a material adverse effect on our financial condition, results of operations and liquidity.

SCA's Current Financial Condition.

On July 28, 2008, SCA announced that it has conducted a review of its June 30, 2008 loss reserves. Based on the preliminary results of this review, SCA announced that it believes that its case reserves will have increased substantially as of June 30, 2008, primarily due to significant deterioration with respect to its exposure to collateralized debt obligations of asset backed securities and residential mortgage-backed securities. SCA further stated that, as a result, it s New York-based insurance subsidiary, XLCA, will report negative statutory surplus and its Bermuda-based reinsurance subsidiary, XLFA, will report negative total statutory capital and surplus as of June 30, 2008. Upon the successful closing of the transactions contemplated by the SCA Agreement, SCA s settlement with Merrill Lynch International (the Merrill Agreement) and related agreements, and pending the satisfaction of the conditions to closing of the SCA Agreement and the Merrill Agreement, XLCA stated that it expects to have positive statutory surplus and XLFA expects to have positive total statutory capital and surplus. In the absence of the consummation of the transactions contemplated by the SCA Agreement, the Merrill Agreement and related agreements, SCA stated that XLCA and XLFA would likely be subject to regulatory action by their primary regulators, the NYID and the BMA. SCA further stated that, as a result of these developments, there is substantial doubt about SCA s ability to continue as a going concern. SCA also disclosed that upon closing of the transactions contemplated by the SCA Agreement and the Merrill Agreement, SCA intends to re-assess whether substantial doubt exists about SCA s ability to continue as a going concern.

Operational risks, including human or systems failures, are inherent in our business.

Operational risk and losses can result from, among other things, fraud, errors, failure to document transactions properly or to obtain proper internal authorization, failure to comply with regulatory requirements, information technology failures, or external events.

We believe that our modeling, underwriting and information technology and application systems are critical to our business. Moreover, our information technology and application systems have been an important part of our underwriting process and our ability to compete successfully. We have also licensed certain systems and data from third parties. We cannot be certain that we will have access to these, or comparable, service providers, or that our information technology or application systems will continue to operate as intended. A major defect or failure in our internal controls or information technology and application systems could result in management distraction, harm to our reputation or increased expense.

In particular, we have outsourced the day-to-day management, custody and record-keeping of our investment portfolio to third-party managers and custodians that we believe to be reputable. A major defect in those investment managers investment management strategy, information and technology systems, internal controls or decision-making could result in management distraction and/or significant financial loss. A major defect in custodian internal controls or information and technology systems could result in management distraction or significant financial loss.

We believe appropriate controls and mitigation procedures are in place to prevent significant risk of defect in our internal controls, information technology, application systems, investment management and custody and record-keeping, but internal controls provide only reasonable, not absolute, assurance as to the absence of errors or irregularities and any ineffectiveness of such controls and procedures could have a material adverse effect on our business.

The effects of emerging claim and coverage issues on our business are uncertain.

As industry practices and legal, judicial, social and other environmental conditions change, unexpected issues related to claims and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number or size of claims, such as the effects that recent disruptions in the credit markets could have on the number and size of reported claims under D&O and professional liability insurance lines of business. In some instances, these changes may not become apparent until some time after we have issued the insurance or reinsurance contracts that are affected by the changes. As well, our actual losses may vary materially from our current estimate of the loss based on a number of factors, including receipt of additional information from insureds or brokers, the attribution of losses to coverages that had not previously been considered as exposed and inflation in repair costs due to additional demand for labor and materials. As a result, the full extent of liability under an insurance or reinsurance contract may not be known for many years after such contract is issued and a loss occurs.

We may require additional capital in the future, which may not be available to us on satisfactory terms, on a timely basis or at all.

Our future capital requirements depend on many factors, including our ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover our losses. To the extent that the funds generated by our ongoing operations are insufficient to fund future operating requirements and cover claim payments, or that our capital position is adversely impacted by mark-to-market movements on the investment portfolio, we may need to raise additional funds through financings or curtail our growth and reduce our assets. Any future financing may not be available on terms that are favorable to us, if at all. Following this offering, it may be more difficult for us to raise additional capital for some period of time. Any future equity financings could be dilutive to our existing shareholders or could result in the issuance of securities that have rights, preferences and privileges that are senior to those of our other securities. Our inability to obtain adequate capital could have a material adverse effect on our business, financial condition and results of operations.

Under Rule 3-09 of Regulation S-X, we may be required to file separate audited financial statements of SCA (the SCA Financials) in our Annual Report on Form 10-K for the year ended December 31, 2008. If we are required to file the SCA Financials and they are not available at the time of filing our Annual Report, we may not satisfy the registrant requirements for use of Form S- 3 and therefore may be ineligible to use such Form. Should we be unable to file our Annual Report including the SCA Financials on or before the required date, we may be ineligible to use Form S- 3 for a period of twelve months. This restriction could adversely affect our ability to raise capital. We may seek a no action letter or other relief from the SEC from the requirement to file the SCA financials. However, we cannot assure you that we will be successful in obtaining such a letter or other relief.

We may be unable to purchase reinsurance and, even if we are able to successfully purchase reinsurance, we are subject to the possibility of uncollectability.

We purchase reinsurance for our own account in order to mitigate the volatility that losses impose on our financial condition. Our clients purchase reinsurance from us to cover part of the risk originally written by them. Retrocessional reinsurance involves a reinsurer ceding to another reinsurer, the retrocessionaire, all or part of the reinsurance that the first reinsurer has assumed. Reinsurance, including retrocessional reinsurance, does not legally discharge the ceding company from its liability with respect to its obligations to its insureds or reinsureds. A reinsurer s or retrocessionaire s insolvency, inability or refusal to make timely payments under the terms of its agreements with us, therefore, could have a material adverse effect on us because we remain liable to our insureds and reinsureds. At June 30, 2008, we had $4.8 billion of reinsurance recoverables and reinsurance balances receivable, net of reserves for uncollectible recoverables. For further information regarding our reinsurance exposure, see Management s Discussion and Analysis of Financial Condition and Results of Operations in our Quarterly Report filed on Form 10-Q for the quarter ended June 30, 2008, which is incorporated by reference in this prospectus supplement and the accompanying prospectus.

From time to time, market conditions may limit or prevent us from obtaining the types and amounts of reinsurance that we consider adequate for our business needs such that we may not be able to obtain reinsurance or retrocessional reinsurance from entities with satisfactory creditworthiness in amounts that we deem desirable or on terms that we deem appropriate or acceptable.

Since we depend on a few brokers for a large portion of our revenues, loss of business provided by any one of them could adversely affect us.

We market our insurance and reinsurance products worldwide primarily through insurance and reinsurance brokers. Marsh & McLennan Companies and AON Corporation and their respective subsidiaries provided approximately 18% and 17%, respectively, of our gross written premiums for property and casualty operations for the year ended December 31, 2007. Loss of all or a substantial portion of the business provided by one or more of these brokers could have a material adverse effect on our business.

Our reliance on brokers subjects us to credit risk.

In certain jurisdictions, when an insured or ceding insurer pays premiums for policies of insurance or contracts of reinsurance to brokers for further payment to us, such premiums might be considered to have been paid and the insured or ceding insurer will no longer be liable to us for such amounts, whether or not we have actually received the premiums from the broker. In addition, in accordance with industry practice, we generally pay amounts owed on claims under our reinsurance contracts to brokers, and these brokers, in turn, pay these amounts over to the clients that have purchased reinsurance from us. Although the law is unsettled and depends upon the facts and circumstances of the particular case, in some jurisdictions, if a broker fails to make such a claims payment to the insured or ceding insurer, we might remain liable to the insured or ceding insurer for that non-payment. Consequently, we assume a degree of credit risk associated with the brokers with whom we transact business. Due to the unsettled and fact-specific nature of the law governing these types of scenarios, we are unable to quantify our exposure to this risk. To date, we have not experienced any material losses related to such credit risks.

Our investment performance may adversely affect our financial results and ability to conduct business.

Our assets are invested by a number of professional investment advisory management firms under the direction of our management team in accordance, in general, with detailed investment guidelines set by us. Although our investment policies stress diversification of risks, conservation of principal and liquidity, our investments are subject to market-wide risks and fluctuations, as well as to risks inherent in particular securities. Investment losses could significantly decrease our asset base, thereby adversely affecting our ability to conduct business and pay claims.

We are exposed to significant capital markets risk related to changes in interest rates, credit spreads, equity prices and foreign exchange rates which may adversely affect our results of operations, financial condition or cash flows.

We are exposed to significant capital markets risk related to changes in interest rates, credit spreads and defaults, market liquidity, equity prices and foreign currency exchange rates. In the first six months of 2008, particularly in the first quarter, financial market conditions continued to be extremely challenging as the global credit crisis that began in July 2007 continued to adversely impact global fixed income markets. While credit spreads on both corporate and structured credit improved modestly in the second quarter, spread levels remained wide as of June 30, 2008 as compared to June 30, 2007, resulting in continuing depressed pricing on credit product. Continuing challenges included continued weakness in the U.S. housing market and increased mortgage delinquencies, investor anxiety over the U.S. economy, rating agency downgrades of various structured products and financial issuers, unresolved issues with structured investment vehicles and monolines, deleveraging of financial institutions and hedge funds and a serious dislocation in the inter-bank market. If significant, continued volatility, changes in interest rates, changes in credit spreads and defaults, a lack of pricing transparency, market liquidity, declines in equity prices, and the strengthening or weakening of foreign currencies against the U.S. dollar, individually or in tandem, could have a material adverse effect on our consolidated results of operations, financial condition or cash flows through realized losses, impairments, and changes in unrealized positions. Levels of write down or impairment are impacted by our assessment of the intent and ability to hold securities which have declined in value until recovery. We periodically review our investment portfolio. If, as a result of such review, we determine to reposition or realign portions of the portfolio where we determine not to hold certain securities in an unrealized loss position to recovery, then we will incur an other than temporary impairment charge.

Our exposure to interest rate risk relates primarily to the market price and cash flow variability associated with changes in interest rates. Our investment portfolio contains interest rate sensitive instruments, such as fixed income securities, which may be adversely affected by changes in interest rates from governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. A rise in interest rates would increase the net unrealized loss position of our investment portfolio, offset by our ability to earn higher rates of return on funds reinvested. Conversely, a decline in interest rates would decrease the net unrealized loss position of our investment portfolio, offset by lower rates of return on funds reinvested. Our mitigation efforts with respect to interest rate risk are primarily focused towards maintaining an investment portfolio with diversified maturities that has a weighted average duration that is approximately equal to the duration of our estimated liability cash flow profile. However, our estimate of the liability cash flow profile may be inaccurate and we may be forced to liquidate investments prior to maturity at a loss in order to cover liabilities. Although we take measures to manage the economic risks of investing in a changing interest rate environment, we may not be able to mitigate the interest rate risk of our assets relative to our liabilities.

A portion of our risk asset portfolio consists of below investment-grade high yield fixed income securities. These securities, which pay a higher rate of interest, also have a higher degree of credit or default risk. Certain sectors within the investment and below investment grade fixed income market, such as structured and corporate credit may be less liquid in times of economic weakness or market disruptions. While we have put in place procedures to monitor the credit risk and liquidity of our invested assets, in general and those impacted by recent credit market issues specifically, it is possible that, in periods of economic weakness or periods of turmoil in capital markets, we may experience default losses in our portfolio, in particular the structured credit portfolio, which constituted 32% of our total portfolio as of June 30, 2008. This may result in a material reduction of net income, capital and cash flows. Beginning in the latter half of 2007 and continuing throughout 2008, increasing delinquencies in U.S. residential collateral in various securitized products has lead to increased volatility and decreased liquidity across financial markets as a whole. Decreases in market liquidity have increased the difficulty and volatility in pricing across credit exposed markets. Such illiquidity volatility and related uncertainty may persist or even worsen in the future.

We invest a portion of our portfolio in common stock or equity-related securities such as hedge funds and private investments. The value of these assets fluctuates, along with other factors, with equity and credit markets. In times of economic weakness, the market value and liquidity of these assets may decline, and may impact net income, capital, and cash flows. In addition, certain of the products offered by our Life Operations segment offer guaranteed benefits which increase our potential benefit exposure should equity markets decline.

Our functional currencies of our principal insurance and reinsurance subsidiaries include the U.S. dollar, U.K. sterling, the Euro, the Swiss Franc, and the Canadian dollar. Exchange rate fluctuations relative to the functional currencies may materially impact our financial position and results of operations. Many of our non-U.S. subsidiaries maintain both assets and liabilities in currencies different than their functional currency, which exposes us to changes in currency exchange rates.

In addition, locally-required capital levels are invested in local currencies in order to satisfy regulatory requirements and to support local insurance operations regardless of currency fluctuations. Foreign exchange rate risk is reviewed as part of our risk management process. While we utilize derivative instruments such as futures, options and foreign currency forward contracts to, among other things, manage our foreign currency exposure, it is possible that these instruments will not effectively mitigate all or a substantial portion of our foreign exchange rate risk.

Current legal and regulatory activities relating to insurance brokers and agents, contingent commissions, the municipal guaranteed investment contract market and the financial guarantee market could adversely affect our business, financial condition and results of operations.

Contingent commission arrangements have been a focus of investigations by various regulatory agencies, including certain state Attorneys General and insurance departments. Due to various governmental investigations into contingent commission practices, various market participants have modified or eliminated acquisition expenses formerly arising from Placement Service Agreements and related arrangements. As a result, it is possible that policy commissions or brokerage that we pay may increase in the future and/or that different forms of contingent commissions will develop in the future. Any such additional expense could have a material adverse effect on our financial conditions or results.

One of our subsidiaries that had been a provider of municipal guaranteed investment contracts (GICs) received a grand jury subpoena in November 2006 from the Antitrust Division of the U.S. Department of Justice (the DOJ) and a subpoena from the SEC seeking documents pursuant to respective investigations into municipal GICs and related products sold in connection with municipal bond offerings. Our subsidiary is fully cooperating with these federal industry-wide investigations. In June 2008, subsidiaries of ours also received a subpoena from the Office of the Connecticut Attorney General and an Antitrust Civil Investigative Demand from the Office of the Florida Attorney General in connection with a coordinated multi-state Attorneys General investigation into the matters referenced in the DOJ and SEC subpoenas. We are fully cooperating with these investigations.

At this time, we are unable to predict the potential effects, if any, that these investigations may have upon us, the insurance and reinsurance markets in general or industry and reinsurance business practices or what, if any, changes may be made to laws and regulations regarding the industry. Any of the foregoing could also result in litigation or otherwise adversely affect our business, financial condition, or results of operations.

Lawsuits, including putative class action lawsuits, have been filed against us by policyholders and security holders the ultimate outcome of which could have a material adverse effect on our consolidated financial condition, future operating results and/or liquidity.

We are subject to lawsuits and arbitrations in the regular course of our business. In addition, lawsuits have been filed against us as detailed in Legal Proceedings in our Quarterly Report filed on Form 10-Q for the quarter ended June 30, 2008, which is incorporated by reference in this prospectus supplement and the accompanying prospectus. We believe that we have substantial defenses to all outstanding litigation and intend to pursue our defenses vigorously, although an adverse resolution of one or more of these items could have a material adverse effect on our results of operations in a particular fiscal quarter or year.

The loss of one or more key executives or the inability to attract and retain qualified personnel could adversely affect our ability to conduct business.

Our success depends on our ability to retain the services of our existing key executives and to attract and retain additional qualified personnel in the future. The loss of the services of any of our key executives or the inability to hire and retain other highly qualified personnel in the future could adversely affect our ability to conduct our business. In addition, we do not maintain key man life insurance policies with respect to our employees.

Many of our senior executives working in Bermuda are not Bermudian and our success may depend in part on the continued services of key employees in Bermuda. Under Bermuda law, non- Bermudians (other than spouses of Bermudians and holders of permanent resident certificates) may not engage in any gainful occupation in Bermuda without an appropriate governmental work permit. A work permit may be granted or renewed by the Bermuda government for a specific period of time, upon showing that, after proper public advertisement, no Bermudian (or spouse of a Bermudian or holder of a permanent resident certificate) is available who meets the minimum standards reasonably required by an employer with respect to a certain position. The government of Bermuda places a six-year term limit on individuals with work permits, subject to certain exemptions for key employees. No assurances can be given that any work permit will be issued or, if issued, renewed upon the expiration of the relevant term.

Because we are a holding company, if our subsidiaries do not make dividend and other payments to us, we may not be able to pay dividends or make payments on our debt securities and other obligations.

As a holding company with no direct operations or significant assets other than the capital stock of our subsidiaries, we rely on investment income, cash dividends and other permitted payments from our subsidiaries to make principal and interest payments on our debt, to pay operating expenses and common and preferred shareholder dividends and to pay certain of our other obligations that may arise from time to time. We expect future investment income, dividends and other permitted payments from these subsidiaries to be our principal source of funds to pay such expenses, preferred and common stock dividends and obligations. The payment of dividends to us by our insurance and reinsurance subsidiaries is limited under the laws of Bermuda, the Cayman Islands, the U.K., Ireland and certain insurance statutes of various states in the United States in which our insurance and reinsurance subsidiaries are licensed to transact business.

Our U.S. insurance and reinsurance subsidiaries are subject to state regulatory restrictions that generally require cash dividends to be paid only out of earned statutory surplus. Further, the amount payable without the prior approval of the applicable state insurance department is generally limited to the greater of 10% of policyholders surplus or statutory capital, or 100% of the subsidiary s prior year statutory net income. In addition, Bermuda insurance laws and regulations (i) require our insurance and reinsurance subsidiaries to maintain certain minimum solvency margins and minimum liquidity ratios, (ii) prohibit dividends that would result in a breach of these requirements, and (iii) limit the amount by which we can reduce surplus without prior approval from the BMA.

In addition, the ability of our insurance and reinsurance subsidiaries to pay dividends could be constrained by our dependence on financial strength ratings from independent rating agencies. Our ratings from these agencies depend to a large extent on the capitalization levels of our insurance and reinsurance subsidiaries. Any such restriction on our insurance and reinsurance subsidiaries ability to pay dividends to us could have a material adverse effect on our financial condition and results of operations. Our insurance and reinsurance subsidiaries may not always be able to, or may not, pay preferred and common stock dividends to us sufficient to make our debt payments and pay our operating expenses, shareholder dividends or other obligations.

Risks Related to the Insurance and Reinsurance Industries

The insurance and reinsurance industries are historically cyclical and we may experience periods with excess underwriting capacity and unfavorable premium rates.

The insurance and reinsurance industries have historically been cyclical, characterized by periods of intense price competition due to excess underwriting capacity as well as periods when shortages of capacity permitted favorable premium levels. An increase in premium levels is often offset by an increasing supply of insurance and reinsurance capacity, either by capital provided by new entrants or by the commitment of additional capital by existing insurers or reinsurers, which may cause prices to decrease. Either of these factors could lead to a significant reduction in premium rates, less favorable policy terms and conditions and fewer submissions for our underwriting services. In addition to these considerations changes in the frequency and severity of losses suffered by insureds and insurers may affect the cycles of the insurance and reinsurance industries significantly. Currently, both the insurance and reinsurance industries are experiencing soft market conditions, including decreases in premium rates across most lines of business, increased competitive pressures and increased retention by insureds and/or cedants. Such soft market conditions may persist for the foreseeable future. Gross and net premiums written during the three months ended June 30, 2008 decreased by 24.5% and 31.2%, respectively, as compared to the second quarter in 2007. These decreases resulted from such softening market conditions and us declining certain business where market rates were below our acceptable underwriting return levels, together with increased retentions by clients.

Competition in the insurance and reinsurance industries could reduce our operating margins.

The insurance and reinsurance industries are highly competitive. We compete on an international and regional basis with major U.S., Bermudian, European and other international insurers and reinsurers and with underwriting syndicates, some of which have greater financial and management resources and higher ratings than we do. We also compete with new companies that continue to be formed to enter the insurance and reinsurance markets. In addition, capital market participants have recently created alternative products that are intended to compete with reinsurance products. Increased competition could result in fewer submissions, lower premium rates and less favorable policy terms and conditions, which could reduce our margins.

Unanticipated losses from terrorism and uncertainty surrounding the future of the TRIPRA could have a material adverse effect on our financial condition and results of operations.

In response to the tightening of supply in certain insurance and reinsurance markets resulting from, among other things, the September 11 event, the Terrorism Risk Insurance Program (TRIP) was created upon the enactment of the U.S. Terrorism Risk Insurance Act of 2002 (TRIA) to ensure the availability of commercial insurance coverage for certain terrorist acts in the U.S. This law established a federal assistance program through the end of 2005 to help the commercial property and casualty insurance industry cover claims related to future terrorism-related losses and required that coverage for terrorist acts be offered by insurers. TRIA was originally scheduled to expire at the end of 2005, but was extended in December 2005 for an additional two years. On December 26, 2007, President George Bush approved the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA), extending TRIP through December 31, 2014 and also eliminated the distinction between foreign and domestic acts of terrorism.

TRIA voided in force terrorism exclusions as of November 26, 2002 for certified terrorism on all TRIA specified property and casualty business. TRIA required covered insurers to make coverage available for certified acts of terrorism on all new and renewal policies issued after TRIA was enacted. TRIA along with further extensions to TRIP, as noted above, allows us to assess a premium charge for terrorism coverage and, if the policyholder declines the coverage or fails to pay the buy-back premium, certified acts of terrorism may then be excluded from the policy, subject, however, to state specific requirements. Terrorism coverage cannot be excluded from workers compensation policies. Subject to a premium-based deductible and provided that we have otherwise complied with all the requirements as specified under TRIPRA, we are eligible for reimbursement by the Federal Government for up to 85% of our covered terrorism-related losses arising from a certified terrorist attack. Such payment by the government will, in effect, provide reinsurance protection on a quota share basis. Entitlement to such reimbursement ends once the aggregated insured losses for the entire insurance industry exceed $100 billion in a single program year.

We believe that TRIP and the related legislation has been an effective mechanism to assist policyholders and industry participants with the extreme contingent losses that might be caused by acts of terrorism. We cannot assure you that TRIPRA will be extended beyond 2014, and its expiration could have an adverse effect on us, our clients or the insurance industry.

Potential government intervention in our industry as a result of recent events and instability in the marketplace for insurance products could hinder our flexibility and negatively affect the business opportunities that may be available to us in the market.

Government intervention and the possibility of future government intervention have created uncertainty in the insurance and reinsurance markets. Government regulators are generally concerned with the protection of policyholders to the exclusion of other constituencies, including shareholders of insurers and reinsurers. While we cannot predict the exact nature, timing or scope of possible governmental initiatives, such proposals could adversely affect our business by, among other things:

- Providing insurance and reinsurance capacity in markets and to consumers that we target, *e.g.*, the creation or expansion of state or federal catastrophe funds such as those in Florida;
- Requiring our participation in industry pools and guarantee associations;
- Expanding the scope of coverage under existing policies;

- Regulating the terms of insurance and reinsurance policies; or

- Disproportionately benefiting the companies of one country over those of another.

The insurance industry is also affected by political, judicial and legal developments that may create new and expanded theories of liability, which may result in unexpected claims frequency and severity and delays or cancellations of products and services by insureds, insurers and reinsurers which could adversely affect our business.

Consolidation in the insurance industry could adversely impact us.

Insurance industry participants may seek to expand through mergers and acquisitions. Continued consolidation within the insurance industry will further enhance the already competitive underwriting environment as we would likely experience more robust competition from larger, better capitalized competitors. These consolidated entities may use their enhanced market power and broader capital base to negotiate price reductions for our products and services, and reduce their use of reinsurance, and as such, we may experience rate declines and possibly write less business.

Risks Related to Regulation

The regulatory regimes under which we operate, and potential changes thereto, could have a material adverse effect on our business.

Our insurance and reinsurance subsidiaries operate in 28 countries around the world as well as in all 50 U.S. states. Our operations in each of these jurisdictions are subject to varying degrees of regulation and supervision. The laws and regulations of the jurisdictions in which our insurance and reinsurance subsidiaries are domiciled require, among other things, that these subsidiaries maintain minimum levels of statutory capital, surplus and liquidity, meet solvency standards, submit to periodic examinations of their financial condition and restrict payments of dividends and reductions of capital. Statutes, regulations and policies that our insurance and reinsurance subsidiaries are subject to may also restrict the ability of these subsidiaries to write insurance and reinsurance policies, make certain investments and distribute funds.

In recent years, the U.S. insurance regulatory framework has come under increased federal scrutiny. In addition, some state legislatures have considered or enacted laws that may alter or increase state regulation of insurance and reinsurance companies and holding companies. Moreover, the National Association of Insurance Commissioners, which is the organization of insurance regulators from the 50 U.S. states, the District of Columbia and the four U.S. territories, as well as state insurance regulators regularly reexamine existing laws and regulations.

We may not be able to comply fully with, or obtain desired exemptions from, revised statutes, regulations and policies that govern the conduct of our business. Failure to comply with, or to obtain desired authorizations and/or exemptions under, any applicable laws could result in restrictions on our ability to do business or undertake activities that are regulated in one or more of the jurisdictions in which we operate and could subject us to fines and other sanctions. In addition, changes in the laws or regulations to which our insurance and reinsurance subsidiaries are subject, or in the interpretations thereof by enforcement or regulatory agencies, could have a material adverse effect on our business.

If our Bermuda operating subsidiaries become subject to insurance statutes and regulations in jurisdictions other than Bermuda or if there is a change in Bermuda law or regulations or the application of Bermuda law or regulations, there could be a significant and negative impact on our business.

XL Insurance (Bermuda) Ltd and XL Re Ltd, two of our wholly-owned operating subsidiaries, are registered Bermuda Class 4 insurers. As such, they are subject to regulation and supervision in Bermuda. Bermuda insurance statutes and the regulations and policies of the BMA require XL Insurance (Bermuda) Ltd and XL Re Ltd to, among other things:

- maintain a minimum level of capital and surplus;
- maintain solvency margins and liquidity ratios;
- restrict dividends and distributions;

obtain prior approval regarding the ownership and transfer of shares;

maintain a principal office and appoint and maintain a principal representative in Bermuda;

file an annual statutory financial return; and

allow for the performance of certain periodic examinations of XL Insurance (Bermuda) Ltd and XL Re Ltd and their respective financial conditions.

These statutes and regulations may restrict our ability to write insurance and reinsurance policies, distribute funds and pursue our investment strategy.

We do not presently intend for XL Insurance (Bermuda) Ltd and XL Re Ltd to be admitted to do business in the United States, the United Kingdom or any jurisdiction other than Bermuda. However, we cannot provide assurance that insurance regulators in the United States, the United Kingdom or elsewhere will not review the activities of XL Insurance (Bermuda) Ltd or XL Re Ltd, their respective subsidiaries or their agents and claim that XL Insurance (Bermuda) Ltd or XL Re Ltd is subject to such jurisdiction s licensing requirements. If any such claim is successful and XL Insurance (Bermuda) Ltd or XL Re Ltd must obtain licenses in a jurisdiction other than Bermuda, we may be subject to taxation in such jurisdiction.

In addition, XL Insurance (Bermuda) Ltd and XL Re Ltd are subject to indirect regulatory requirements imposed by jurisdictions that may limit their ability to provide insurance or reinsurance to that jurisdiction s domestic insurers or reinsurers. For example, the ability of XL Insurance (Bermuda) Ltd and XL Re Ltd to write insurance or reinsurance may be subject, in certain cases, to a country s limits on how much reinsurance can be purchased from non-domestic reinsurers or requirements that such non-domestic reinsurers collateralize their payment obligations to domestic ceding companies. If we are unable to collateralize or provide other credit support for these reinsurance clients on commercially reasonable terms, we could be limited in our ability to write business for some of our clients. Proposed legislation and regulations may have the effect of imposing additional requirements upon, or restricting the market for, non-domestic insurers or reinsurers with whom domestic companies place business.

Generally, Bermuda insurance statutes and regulations applicable to XL Insurance (Bermuda) Ltd and XL Re Ltd are less restrictive than those that would be applicable if they were governed by the laws of any state in the United States. If in the future we become subject to any insurance laws of the United States or any state thereof or of any other jurisdiction, we cannot provide assurance that we would be in compliance with such laws or that complying with such laws would not have a significant and negative effect on our business.

The process of obtaining licenses is very time consuming and costly and XL Insurance (Bermuda) Ltd and XL Re Ltd may not be able to become licensed in jurisdictions other than Bermuda should we choose to do so. The modification of the conduct of our business that would result if we were required or chose to become licensed in certain jurisdictions could significantly and negatively affect our financial condition and results of operations. In addition, our inability to comply with insurance statutes and regulations could significantly and adversely affect our financial condition and results of operations by limiting our ability to conduct business as well as subjecting us to penalties and fines.

Because XL Insurance (Bermuda) Ltd and XL Re Ltd are Bermuda companies, they are subject to changes in Bermuda law and regulation that may have an adverse impact on our operations, including through the imposition of tax liability or increased regulatory supervision. In addition, XL Insurance (Bermuda) Ltd and XL Re Ltd will be exposed to any changes in the political environment in Bermuda, including, without limitation, changes as a result of the independence issues currently being discussed in Bermuda. The Bermuda insurance and reinsurance regulatory framework recently has become subject to increased scrutiny in many jurisdictions, including the United Kingdom. While we cannot predict the future impact on our operations of changes in the laws and regulation to which we are or may become subject, any such changes could have a material adverse effect on our business, financial condition and results of operations.

Changes in current accounting practices and future pronouncements may materially impact our reported financial results.

Unanticipated developments in accounting practices may require us to incur considerable additional expenses to comply with such developments, particularly if we are required to prepare information relating to prior periods for comparative purposes or to apply the new requirements retroactively. The impact of changes in current accounting practices and future pronouncements

cannot be predicted but may affect the calculation of net income, net equity, and other relevant financial statement line items. In particular, recent guidance and ongoing projects put in place by standard setters globally have indicated a possible move away from the current insurance accounting models toward more fair value based models which could introduce significant volatility in the earnings of insurance industry participants.

Risks Related to Taxation

We and our Bermuda insurance subsidiaries may become subject to taxes in Bermuda after March 28, 2016, which may have a material adverse effect on our financial condition, results of operations and your investment.

We and our Bermuda insurance subsidiaries have 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 so as to prevent the application of any tax or duty to such persons as are ordinarily resident in Bermuda (we and our Bermuda insurance subsidiaries 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 or otherwise payable in relation to the land leased to us and our Bermuda insurance subsidiaries. We, as a permit company under The Companies Act 1981 of Bermuda, have received similar exemptions, which are effective until March 28, 2016. We and our Bermuda insurance subsidiaries are required to pay certain annual Bermuda government fees and certain business fees as an insurer under The Insurance Act 1978 of Bermuda. Currently there is no Bermuda withholding tax on dividends paid by our Bermuda insurance subsidiaries to us. Given the limited duration of the Ministry of Finance s assurance, we cannot be certain that we or our Bermuda insurance subsidiaries will not be subject to any Bermuda tax after March 28, 2016. Such taxation could have a material adverse effect on our financial condition, results of operations and the price of our ordinary shares.

We may become subject to taxes in the Cayman Islands after June 2, 2018, which may have a material adverse effect on our results of operations and your investment.

Under current Cayman Islands law, we are not obligated to pay any taxes in the Cayman Islands on our income or gains. We have 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 us and (ii) no such tax and no tax in the nature of an estate duty or an inheritance tax shall be payable on any of our ordinary shares, debentures or other obligations. Under current law, no tax will be payable on the transfer or other disposition of our ordinary shares. The Cayman Islands currently impose stamp duties on certain categories of documents; however, our current operations do not involve the payment of stamp duties in any material amount. The Cayman Islands also currently impose an annual corporate fee upon all exempted companies incorporated in the Cayman Islands. Given the limited duration of the undertaking from the Governor-in-Council of the Cayman Islands, we cannot be certain that we will not be subject to any Cayman Islands tax after June 2, 2018. Such taxation could have a material adverse effect on our financial condition, results of operations and your investment.

We and our Bermuda insurance subsidiaries may become subject to U.S. tax, which may have a material adverse effect on our results of operations and your investment.

We take the position that neither we nor any of our Bermuda insurance subsidiaries are engaged in a U.S. trade or business through a U.S. permanent establishment. Accordingly, we take the position that none of our Bermuda insurance subsidiaries should be subject to U.S. tax (other than U.S. excise tax on insurance and reinsurance premium income attributable to insuring or reinsuring U.S. risks and U.S. withholding tax on some types of U.S. source investment income). However, because there is considerable uncertainty as to the activities that constitute being engaged in a trade or business within the United States, we cannot be certain that the U.S. Internal Revenue Service (the IRS) will not contend successfully that we or any of our Bermuda insurance subsidiaries are engaged in a trade or business in the United States. If we or any of our Bermuda insurance subsidiaries were considered to be engaged in a trade or business in the United States, any such entity could be subject to U.S. corporate income and additional branch profits taxes on the portion of its earnings effectively connected to such U.S. business, in which case our financial condition and results of operations could be materially adversely affected. See Certain Tax Considerations Taxation of XL Capital and XL United States.

The Organisation for Economic Co-operation and Development is considering measures that might change the manner in which we are taxed.

On July 17, 2008, the Organisation for Economic Co-operation and Development (the OECD) issued the final version of its Report on the Attribution of Profits to Permanent Establishments (the Report). The Report is the final report on the OECD s project to establish a broad consensus regarding the interpretation and practical application of Article 7 of the OECD Model Tax Convention on Income and on Capital (Article 7). Article 7 sets forth international tax principles for attributing profits to a permanent establishment and forms the basis of an extensive network of bilateral income tax treaties between OECD member countries and between many OECD member and non-member countries. Part IV of the Report addresses the attribution of profits to a permanent establishment of an enterprise that conducts insurance activities.

The OECD has undertaken to implement the conclusions of the Report in two phases. First, to provide improved certainty for the interpretation of existing treaties based on the current text of Article 7, the OECD has revised the commentary to the current version of Article 7 to take into account the conclusions of the Report that do not conflict with the existing interpretation of Article 7 reflected in the previous commentary. Second, to reflect the full conclusions of the Report, the OECD intends to issue a new version of Article 7 and related commentary to be used in the negotiation of new treaties and amendments to existing treaties. A discussion draft of the new Article 7 and related commentary was released on July 7, 2008, and the final version of this new Article 7 is expected to be released in 2010. The final version of new Article 7 might include provisions that could change the manner in which we are taxed.

If an investor acquires 10% or more of our ordinary shares, it may be subject to taxation under the controlled foreign corporation (the CFC) rules.

Under certain circumstances, a U.S. person who owns 10% or more of the voting power of a foreign corporation that is a CFC (a foreign corporation in which 10% U.S. shareholders own more than 50% of the voting power of the foreign corporation or more than 25% of a foreign insurance company) for an uninterrupted period of 30 days or more during a taxable year must include in gross income for U.S. federal income tax purposes such 10% U.S. Shareholder s pro rata share of the CFC s subpart F income, even if the subpart F income is not distributed to such 10% U.S. Shareholder, if such 10% U.S. Shareholder owns (directly or indirectly through foreign entities) any shares of the foreign corporation on the last day of the corporation s taxable year. Subpart F income of a foreign insurance corporation typically includes foreign personal holding company income (such as interest, dividends and other types of passive income), as well as insurance and reinsurance income (including underwriting and investment income) attributable to the insurance of risks situated outside the CFC s country of incorporation. Ownership of the units being issued in these offerings (or ownership of the 7.00% Equity Security Units we issued in 2005) by a U.S. person may cause such person to be treated for U.S. federal income tax purposes as the owner of our ordinary shares prior to the purchase contract settlement date. For purposes of interpreting the voting restrictions in our Articles of Association, we intend to treat the ordinary shares issuable upon settlement of a purchase contract underlying a unit as currently owned by the holder of that unit. See Certain Tax Considerations Taxation of Shareholders Ownership and Disposition of Ordinary Shares Classification as a Controlled Foreign Corporation.

We believe that because of the dispersion of our share ownership, provisions in our organizational documents that limit voting power and other factors, no U.S. person or U.S. partnership that acquires our shares directly or indirectly through one or more foreign entities should be required to include its subpart F income in income under the CFC rules of the Code. See Description of XL Capital Ordinary Shares in the accompanying prospectus for a description of these provisions. It is possible, however, that the IRS could challenge the effectiveness of these provisions and that a court could sustain such a challenge, in which case an investor s investment could be materially adversely affected, if the investor is considered to own 10% or more of our shares.

U.S. Persons who hold shares will be subject to adverse tax consequences if we are considered to be a Passive Foreign Investment Company (a PFIC) for U.S. federal income tax purposes.

If we are considered a PFIC for U.S. federal income tax purposes, a U.S. person who owns any of our shares will be subject to adverse tax consequences, including a greater tax liability than might otherwise apply and tax on amounts in advance of when tax would otherwise be imposed, in which case an investor s investment could be materially adversely affected. In addition, if we were considered a PFIC, upon the death of any U.S. individual owning shares, such individual s heirs or estate would not be entitled to a step-up in the basis of the shares which might otherwise be available under U.S. federal income tax laws. We believe that we are not, have not been, and currently do not expect to become, a PFIC for U.S. federal income tax purposes. We cannot provide absolute assurance, however, that we will not be deemed a PFIC by the IRS. If we were considered a PFIC, it could have material adverse tax consequences for an investor that is subject to U.S. federal income taxation. There are currently no regulations regarding the application of the PFIC provisions to an insurance company. New regulations or pronouncements interpreting or clarifying these rules may be forthcoming. We cannot predict what impact, if any, such guidance would have on an investor that is subject to U.S. federal income taxation. See Certain Tax Considerations Taxation of Shareholders United States Taxation of U.S. Holders of Ordinary Shares Ownership and Dispositions of Ordinary Shares Passive Foreign Investment Companies.

There is U.S income tax risk associated with reinsurance between U.S. insurance companies and their Bermuda affiliates.

Congress has periodically considered legislation intended to eliminate certain perceived tax advantages of Bermuda insurance companies and U.S. insurance companies with Bermuda affiliates, including perceived tax benefits resulting principally from reinsurance between or among U.S. insurance companies and their Bermuda affiliates. In this regard, 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 only covered source and character). If the IRS were to successfully challenge our reinsurance arrangements under section 845, our financial condition and results of operations could be materially adversely affected and the price of our ordinary shares could be adversely affected.

There are U.S. income tax risks associated with the related person insurance income of our non-U.S. insurance subsidiaries.

If (i) the related person insurance income, which we refer to as RPII, of any one of our non-U.S. insurance subsidiaries were to equal or exceed 20% of that subsidiary s gross insurance income in any taxable year and (ii) U.S. persons were treated as owning 25% or more of the subsidiary s stock (by vote or value), a U.S. person who owns any ordinary shares, directly or indirectly, on the last day of such taxable year on which the 25% threshold is met would be required to include in its income for U.S. federal income tax purposes that person s ratable share of that subsidiary s RPII for the taxable year, determined as if that RPII were distributed proportionately only to U.S. holders at that date, regardless of whether that income is distributed. The amount of RPII earned by a subsidiary (generally premium and related investment income from the direct or indirect insurance or reinsurance of any direct or indirect U.S. holder of shares of that subsidiary or any person related to that holder) would depend on a number of factors, including the identity of persons directly or indirectly insured or reinsured by that subsidiary. Although we do not believe that the 20% threshold will be met in respect of any of our non-U.S. insurance subsidiaries, some of the factors that may affect the result in any period may be beyond our control. Consequently, we cannot provide absolute assurance that we will not exceed the RPII threshold in any taxable year.

The RPII rules provide that if a holder who is a U.S. person disposes of shares in a non-U.S. insurance corporation that had RPII (even if the 20% gross income threshold was not met) and met the 25% ownership threshold at any time during the five-year period ending on the date of disposition, and the holder owned any stock at such time, any gain from the disposition will generally be treated as a dividend to the extent of the holder s share (taking into account certain rules for determining a U.S. holder s share of RPII) of the corporation s undistributed earnings and profits that were accumulated during the period that the holder owned the shares (possibly whether or not those earnings and profits are attributable to RPII). In addition, such a shareholder will be required to comply with specified reporting requirements, regardless of the amount of shares owned. We believe that these rules should not apply to dispositions of our ordinary shares because XL Capital is not itself directly engaged in the insurance business. We cannot provide absolute assurance, however, that the IRS will not successfully assert that these rules apply to dispositions of our ordinary shares. See Certain Tax Considerations Taxation of Shareholders United States Taxation of U.S. Holders of Ordinary Shares Ownership and Dispositions of Ordinary Shares Related Person Insurance Income.

Changes in U.S. tax law might adversely affect an investment in our shares.

The tax treatment of non-U.S. companies and their U.S. and non-U.S. insurance subsidiaries has been the subject of Congressional discussion and legislative proposals. For example, 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. We cannot assure you that future legislative action will not increase the amount of U.S. tax payable by us. If this happens, our financial condition and results of operations could be materially adversely affected.

Additionally, the U.S. federal income tax laws and interpretations, including those regarding whether a company is engaged in a trade or business (or has a permanent establishment) within the United States or is a PFIC, or whether U.S. holders would be required to include in their gross income subpart F income or the RPII of a CFC, are subject to change, possibly on a retroactive basis. There are currently no regulations regarding the application of the PFIC rules to insurance companies and the regulations regarding RPII are still in proposed form. New regulations or pronouncements interpreting or clarifying such rules may be forthcoming. We cannot be certain if, when or in what form such regulations or pronouncements may be provided and whether such guidance will have a retroactive effect.

Risks Related to our Ordinary Shares

Provisions in our Articles of Association may reduce the voting rights of our ordinary shares.

Our Articles of Association generally provide that shareholders have one vote for each ordinary share held by them and are entitled to vote, on a non-cumulative basis, at all meetings of shareholders. However, the voting rights exercisable by a shareholder may be limited so that certain persons or groups are not deemed to hold 10% or more of the voting power conferred by our ordinary shares. Under these limitations, some shareholders may have less than one vote for each ordinary share held by them. Moreover, these limitations could have the effect of reducing the voting power of some shareholders who would not otherwise be subject to such limitations by virtue of their direct share ownership. See Description of XL Capital Ordinary Shares in the accompanying prospectus.

Provisions in our Articles of Association may restrict the ownership and transfer of our ordinary shares.

Our Articles of Association provide that our Board of Directors shall decline to register a transfer of shares if it appears to our Board of 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 more of any class of voting shares, the total issued shares of XL Capital Ltd or the voting power of XL Capital Ltd. In addition, our Articles of Association also provide that if, and for so long as, the votes conferred on any person by the ownership or control of our shares (including any preference ordinary shares) constitute 10% or more of the votes conferred by our issued shares, each such share held by such person shall confer only a fraction of the vote that would otherwise be conferred, as determined by the formula described in our Articles of Association, and such voting rights will continue to be readjusted until no shareholder s voting rights exceed this limitation as a result of such reduction. Notwithstanding the foregoing, our Board of Directors may make such final adjustments to the aggregate number of votes conferred on any person by the ownership or control of shares that they consider fair and reasonable, in the light of all applicable circumstances, to ensure that such votes represent less than 10% of the aggregate voting power of the votes conferred by all our issued shares. See Description of XL Capital Ordinary Shares in the accompanying prospectus. For these purposes, references to ownership or control of our shares mean ownership within the meaning of Section 958 of the Code and Section 13(d)(3) of the Securities Exchange Act of 1934, as amended.

Certain provisions in our charter documents and Rights Agreement could, among other things, impede an attempt to replace our directors or to effect a change of control, which could diminish the value of our ordinary shares.

Our articles of association contain provisions that may make it more difficult for shareholders to replace directors and could delay or prevent a change of control that a shareholder might consider favorable. These provisions include a staggered board of directors, limitations on the ability of shareholders to remove directors, limitations on voting rights and certain transfer restrictions on our ordinary shares. In addition, certain provisions in our Rights Agreement could delay or prevent a change of control that a shareholder might consider favorable. These provisions may prevent a shareholder from receiving the benefit of any premium over the market price of our ordinary shares offered by a bidder in connection with a potential takeover. Even in the absence of a takeover attempt or an attempt to effect a change in management, these provisions may adversely affect the prevailing market price of our ordinary shares if they are viewed as discouraging takeover attempts in the future. See Description of XL Capital Ordinary Shares in the accompanying prospectus and Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities in our Annual Report filed on Form 10-K for the year ended December 31, 2007, which is incorporated by reference in this prospectus supplement and the accompanying prospectus. In addition, insurance regulations in certain jurisdictions may also delay or prevent a change of control or limit the ability of a shareholder to acquire in excess of specified amounts of our ordinary shares.

It may be difficult to enforce judgments against XL Capital Ltd or its directors and executive officers.

XL Capital Ltd is incorporated pursuant to the laws of the Cayman Islands and our principal executive offices are in Bermuda. In addition, certain of our directors and officers reside outside the United States and a substantial portion of our assets and the assets of such directors and officers are located outside the United States. As such, it may be difficult or impossible to effect service of process within the United States upon those persons or to recover on judgments of U.S. courts against us or our directors and officers, including judgments predicated upon civil liability provisions of U.S. federal securities laws. We have been advised by our Cayman counsel that there is doubt as to whether the courts of the Cayman Islands would enforce:

judgments of U.S. courts based upon the civil liability provisions of U.S. federal securities laws obtained in actions against XL Capital Ltd or its directors and officers who reside outside the United States; or

original actions brought in the Cayman Islands against these persons or XL Capital Ltd predicated solely upon U.S. federal securities laws.

We have also been advised that there is no treaty in effect between the United States and the Cayman Islands providing for such enforcement and there are grounds upon which Cayman Islands courts may not enforce judgments of United States courts. Some remedies available under the laws of U.S. jurisdictions, including some remedies available under U.S. federal securities laws, may not be allowed in Cayman Islands courts as contrary to public policy.

U.S. persons who own our ordinary shares may have more difficulty protecting their interests than U.S. persons who are shareholders of a U.S. corporation.

The law applicable to companies established in the Cayman Islands, under which we are governed, differs in certain material respects from laws generally applicable to U.S. corporations and their shareholders. These differences include the manner in which directors must disclose transactions in which they have an interest and their ability to vote notwithstanding a conflict of interest, the rights of shareholders to bring class action and derivative lawsuits and the scope of indemnification available to directors and officers.

Future sales of shares of our ordinary shares, including ordinary shares held by our insiders or shares issued to SCA in connection with the SCA Agreement, may depress the price of our ordinary shares.

Any sales of a substantial number of ordinary shares, or the perception that those sales might occur, may cause the market price of our ordinary shares to decline.

Although SCA has agreed not to sell the 8,000,000 newly issued ordinary shares it will receive as part of the SCA Agreement prior to the expiration of the 180-day lock up period, the lock-up agreement is only a contractual agreement, which could be waived by us and Goldman, Sachs & Co. and UBS Securities LLC at an earlier time without prior public notice or announcement and allow SCA to sell ordinary shares prior to the expiration of such period. In addition, certain of our executive officers and directors have entered into a lock-up agreement with the underwriters not to sell ordinary shares for a period of 90 days, but those lock-up agreements are subject to certain exceptions and could be waived by the underwriters at an earlier time, allowing our executive officers or directors to sell ordinary shares prior to the expiration of the 90-day lock up period. Any such sales prior to or following the expiration of the applicable lock-up periods, if significant, could reduce the market price for our ordinary shares. For a more detailed description of the lock-up agreements, see Underwriting.

Risks Related to the Units

You will bear the entire risk of a decline in the price of our ordinary shares.

If you purchase units, you will have an obligation to buy our ordinary shares pursuant to the purchase contract at a fixed price. The market value of the ordinary shares you will purchase on the stock purchase date may be materially lower than the price per share that the purchase contract requires you to pay. If the average of the closing price per ordinary share over the 20 trading-day period ending on the third trading day immediately preceding the stock purchase date is less than $ per share, on the stock purchase date, you will be required to purchase ordinary shares at a price per share of $. Accordingly, a holder of units assumes the entire risk that the market value of our ordinary shares may decline and that the decline could be substantial.

You will receive only a portion of any appreciation in our ordinary share price.

Assuming we have not previously fixed the settlement rate as set forth under Description of the Equity Security Units Fixed Settlement Rate Option Upon an Accounting Event, the aggregate market value of the ordinary shares you will receive upon settlement of a purchase contract generally will exceed the stated amount of $25 only if the average of the closing price per ordinary share over the 20 trading-day period ending on the third trading day immediately preceding the stock purchase date equals or exceeds $, which we refer to as the threshold appreciation price. The threshold appreciation price represents an appreciation of % over $. If the applicable average closing price exceeds $, which we refer to as the reference price, but falls below the threshold appreciation price, you will realize no equity appreciation on the ordinary shares for the period during which you own a unit.

Furthermore, if the applicable average closing price exceeds the threshold appreciation price, the value of our ordinary shares that you will receive under the purchase contract will be approximately % of the value of the ordinary shares that you could have purchased with $25 at the time of the offering. During the period prior to settlement, an investment in the units affords less opportunity for equity appreciation than a direct investment in our ordinary shares.

You may suffer dilution of the ordinary shares issuable upon settlement of your purchase contract.

The number of ordinary shares issuable upon settlement of your purchase contract is subject to adjustment only for stock splits and combinations, stock dividends and specified other transactions that significantly modify our capital structure. The number of ordinary shares issuable upon settlement of each purchase contract is not subject to adjustment for other events, including employee stock option grants, ordinary dividends other than in excess of a threshold amount, offerings of ordinary shares for cash or in connection with acquisitions, the issuance of ordinary shares to SCA as part of the SCA Agreement or other transactions that may adversely affect the price of our ordinary shares. The terms of the units do not restrict our ability to offer ordinary shares in the future or to engage in other transactions that could dilute the ordinary shares. We have no obligation to consider the interests of the holders of the units in engaging in any such offering or transaction. If we issue additional ordinary shares, such issuance may materially and adversely affect the price of our ordinary shares and, because of the relationship of the number of ordinary shares holders are to receive on the stock purchase date to the price of our ordinary shares, such other events may adversely affect the trading price of the units.

You will have no rights as holders of our ordinary shares but will be subject to all changes with respect to our ordinary shares.

Until you acquire ordinary shares upon settlement of your purchase contract, you will have no rights with respect to our ordinary shares, including voting rights, rights to respond to tender offers and rights to receive any dividends or other distributions on our ordinary shares. The declaration and payment of future dividends by us will be at the discretion of our board of directors and will depend upon many factors, including our earnings, financial condition, business needs, capital and surplus requirements of our operating subsidiaries and contractual and regulatory restrictions. Only holders of our ordinary shares, not holders of units, will receive such dividends. Upon settlement of your purchase contract, you will be entitled to exercise the rights of a holder of our ordinary shares only as to actions for which the record date occurs after the settlement date. For example, in the event that an amendment is proposed to our memorandum and articles of association requiring shareholder approval and the record date for determining the shareholders of record entitled to vote on the amendment occurs prior to delivery of the ordinary shares, you will not be entitled to vote on the amendment, although you will nevertheless be subject to any changes in the powers, preferences or special rights of our ordinary shares.

We have the right to fix the settlement rate prior to the stock purchase date if an accounting event occurs and is continuing.

If an accounting event occurs and is continuing at any time prior to the earlier of a successful remarketing of the senior notes or the stock purchase date, we may elect to fix the settlement rate according to a formula based on the Black-Scholes option pricing model, which is a function of several variables, including the market price of our ordinary shares, our dividend yield, the remaining maturity of the purchase contract, the risk-free rate and the volatility of our ordinary shares. Once we have fixed the settlement rate, the number of shares that you are required to purchase upon settlement of the purchase contract no longer will depend on the price of our ordinary shares. Accordingly, even if the price of our ordinary shares subsequently declines, you will be required to purchase a number of ordinary shares equal to the fixed accounting event settlement rate. In no event will the fixed accounting event settlement rate be greater than shares, subject to adjustment as described in Description of the Equity Security Units Anti-dilution Adjustments.

Your pledged securities will be encumbered.

Although holders of units will hold beneficial ownership interests in the underlying pledged senior notes or treasury securities, such holders will pledge those securities with the collateral agent to secure their obligations under the related purchase contracts. Therefore, for so long as the purchase contracts remain in effect, holders will not be allowed to withdraw their ownership interest in the pledged senior notes or treasury securities from this pledge arrangement, except upon substitution of other securities as described in this prospectus supplement.

The purchase contract agreement will not be qualified under the Trust Indenture Act. The obligations of the purchase contract agent will be limited.

The purchase contract agreement relating to the units will not be qualified under the Trust Indenture Act. The purchase contract agent under the purchase contract agreement, who will act as the agent and the attorney-in-fact for the holders of the units, will not be qualified as a trustee

under the Trust Indenture Act. Accordingly, holders of the units will not have the benefits of the protections of the Trust Indenture Act other than to the extent applicable to a senior note included in a unit (which includes those protections identified below) or as specified in the purchase contract agreement. Under the terms of the purchase contract agreement, the purchase contract agent will have only limited obligations to the holders of the units.

If a security is issued under an indenture, you as a holder would generally have the following additional protections: (1) provisions that obligate an indenture trustee, within 90 days of ascertaining that it has a conflicting interest, to either eliminate the conflicting interest or resign; (2) provisions that prevent an indenture trustee that is also a creditor of the issuer from improving its own credit position at the expense of you as the security holder immediately before or after an indenture default; and (3) the requirement that the indenture trustee deliver reports at least once a year with respect to the indenture trustee and the securities issued under the indenture.

The secondary market for the units may be illiquid.

We are unable to predict how the units will trade in the secondary market or whether that market will be liquid or illiquid. There is currently no secondary market for the units. Although we have applied to list the normal units on the New York Stock Exchange, we have no obligation or current intention to apply for any separate listing of the stripped units or the senior notes on any stock exchange; however, in the event that either of these securities is separately traded to a sufficient extent that applicable exchange listing requirements are met, we will attempt to cause those securities to be listed on the exchange on which the normal units are then listed. We can give you no assurance as to the liquidity of any market that may develop for the normal units, the stripped units or the senior notes, your ability to sell such securities or whether a trading market, if it develops, will continue. In addition, in the event that sufficient numbers of normal units are converted to stripped units, the liquidity of normal units could decrease. It is possible that the normal units, and the stripped units or senior notes if they are ever listed, could be delisted from the New York Stock Exchange or that trading in the normal units, stripped units or senior notes could be suspended as a result of elections to create stripped units or recreate normal units through the substitution of collateral that causes the number of these securities to fall below the applicable requirements for listed securities on the New York Stock Exchange.

Holders of senior notes have only limited rights of acceleration.

Holders of senior notes may accelerate payment of the principal and accrued and unpaid interest on the senior notes only upon the occurrence and continuation of an event of default. An event of default is generally limited to payment defaults, breaches of specific covenants and specific events of bankruptcy, certain cross-acceleration with respect to our other indebtedness, insolvency and reorganization relating to us.

Delivery of securities is subject to potential delay if we become subject to a bankruptcy proceeding.

Notwithstanding the automatic termination of the purchase contracts, if we become the subject of a case under the U.S. Bankruptcy Code, the imposition of an automatic stay under Section 362 of the Bankruptcy Code, if applicable, or any court ordered stay, may delay the delivery to you of your securities being held as collateral under the pledge arrangement and such delay may continue until the automatic stay or other stay has been lifted. The automatic stay or other stay will not be lifted until such time as the relevant bankruptcy judge agrees to lift it and return the collateral to you.

Upon a successful remarketing of the senior notes, the terms of your senior notes may be modified even if you elect not to participate in the remarketing.

When we attempt to remarket the senior notes, the remarketing agent will agree to use its reasonable best efforts to sell the senior notes included in the remarketing. In connection with the remarketing, we and the remarketing agent may materially change the terms of the senior notes, including their interest rate, maturity date and optional redemption provisions. See Description of the Senior Notes Remarketing. If the remarketing is successful, the modified terms will apply to all the senior notes, even if they were not included in the remarketing. However, holders of the senior notes must elect to participate in the remarketing before knowing what the modified terms of the senior notes will be. You may determine that the revised terms, to which all holders of senior notes will be subject, are not as favorable to you as you would deem appropriate.

We may redeem the senior notes upon the occurrence of a special event.

We have the option to redeem the senior notes on not less than 30 days or more than 60 days prior written notice, in whole but not in part, at any time that a special event has occurred and is continuing under the circumstances described in this prospectus supplement. See Description of the Senior Notes Special Event Redemption. If we exercise this option to redeem, the senior notes will be redeemed at the redemption price described later in this prospectus supplement. If the senior notes are redeemed, we will pay the redemption price in cash to the holders of ownership interests in the senior notes. If the special event redemption occurs prior to the stock purchase date, the redemption price payable to you as a holder of the normal units will be distributed to the collateral agent, who in turn will apply an amount equal to the redemption price to purchase a portfolio of zero-coupon U.S. treasury securities on your behalf and will remit the remainder of the redemption price, if any, to you, and these treasury securities will be substituted for the senior notes as collateral to secure your obligations under the purchase contracts related to the normal units held by you. If your senior notes are not components of normal units, you, rather than the collateral agent, will receive the related redemption payments. We can give you no assurance as to the effect on the market prices for the normal units if we substitute the treasury securities as collateral in place of any senior notes so redeemed. A special event redemption will be a taxable event to the holders of the senior notes.

The delivery of shares at the fundamental change early settlement rate upon a fundamental change early settlement may not adequately compensate you.

If a fundamental change (as defined below under Description of the Equity Security Units Early Settlement upon Fundamental Change) occurs and you exercise your fundamental change early settlement right, you will be entitled to additional value through an increase in the settlement rate unless the stock price (as defined below under Description of the Equity Security Units Early Settlement upon Fundamental Change) is greater than $ per share (subject to adjustment) or less than $ per share (subject to adjustment), as described under Description of the Equity Security Units Early Settlement upon Fundamental Change. Although the increased settlement rate is designed to compensate you for the lost value of your units as a result of the fundamental change, this feature may not adequately compensate you for such loss.

Because we are a holding company and substantially all of our obligations are conducted by our subsidiaries, our obligations under the senior notes and the purchase contracts are effectively subordinated to the obligations of our subsidiaries.

We currently conduct substantially all of our operations through our subsidiaries and our subsidiaries generate substantially all of our operating income and cash flow. Our ability to pay our obligations under the purchase contracts and senior notes (and our ability to pay dividends on our ordinary shares) depends on our ability to obtain cash dividends or other cash payments or obtain

loans from our subsidiaries, which are separate and distinct legal entities that will have no obligation to pay any dividends or to lend or advance us funds and which may be restricted from doing so by contract, including other financing arrangements, charter provisions or applicable legal or regulatory requirements and may also depend on the financial condition of our subsidiaries. See Risks Related to the Company Because we are a holding company, if our subsidiaries do not make dividend and other payments to us, we may not be able to pay dividends or make payments on our debt securities and other obligations.

In addition, because we are a holding company, except to the extent that we have priority or equal claims against our subsidiaries as a creditor, our obligations under the senior notes and the purchase contracts will be effectively subordinated to the obligations of our subsidiaries.

Our obligations with respect to the contract adjustment payments will be subordinate and junior in right of payment to our obligations under our senior indebtedness as described under Description of the Equity Security Units Current Payments.

As of June 30, 2008, the aggregate amount of our outstanding consolidated indebtedness for money borrowed was approximately $2.9 billion. All such outstanding indebtedness is unsecured and unsubordinated. As of June 30, 2008, the aggregate amount of outstanding indebtedness for money borrowed of our subsidiaries (other than XL Capital Finance (Europe) plc) that would effectively rank senior to the senior debt issued under the senior debt indenture was approximately $255 million. The senior notes would also be structurally subordinated to losses and loss expenses and other obligations of our subsidiaries.

Any deterioration in our financial condition could make it more difficult to remarket the senior notes successfully. Unless the purchase contracts are terminated because of our bankruptcy, insolvency or reorganization, on the stock purchase date we will issue the required number of ordinary shares notwithstanding any decline in value of the senior notes included in the normal units. Nevertheless, any deterioration in our financial condition would have an adverse impact on the value of separate notes.

We may defer contract adjustment payments.

We have the option to defer the payment of all or part of the contract adjustment payments on the purchase contracts forming a part of the units until no later than the stock purchase date. However, deferred contract adjustment payments will accrue additional contract adjustment payments at the rate of % per year (compounded quarterly) until paid. If the purchase contracts are terminated due to our bankruptcy, insolvency or reorganization or are settled early, the right to receive contract adjustment payments and deferred contract adjustment payments, if any, will also terminate and, except in the case of a merger early settlement, you will not receive any accrued and unpaid contract adjustment payments.

The U.S. federal income tax consequences of the purchase, ownership and disposition of the units are unclear.

There is only one published revenue ruling addressing the treatment of instruments similar to the units. No other statutory, judicial or administrative authority directly addresses the treatment of the units or instruments similar to the units for U.S. federal income tax purposes. As a result, the U.S. federal income tax consequences of the purchase, ownership and disposition of the units are unclear. You are urged to consult your tax advisor concerning the tax consequences of an investment in the units.

You may have to pay U.S. federal income taxes with respect to deemed distributions that you do not receive.

As discussed in Price Range of Ordinary Shares and Dividends, the payment of future dividends on our ordinary shares is subject to the discretion of our board of directors. If we pay dividends with respect to our ordinary shares in an aggregate amount in excess of $0.19 per share in any quarter, we will adjust the settlement rate with respect to your purchase contract to account for such dividends. Upon such an adjustment, you may be required to include an amount in income for federal income tax purposes, notwithstanding that you do not receive any cash or other property with respect to such dividends. For further details, see Certain Tax Considerations.

The trading price of the senior notes may not fully reflect the value of their accrued but unpaid interest.

The senior notes may trade at a price that does not fully reflect the value of their accrued but unpaid interest. If you dispose of your senior notes between record dates for interest payments, you will be required to include in gross income for U.S. federal income tax purposes accrued interest through the date of disposition as ordinary income.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 (PSLRA) provides a safe harbor for forward-looking statements. Any prospectus, prospectus supplement, our Annual Report to ordinary shareholders, any proxy statement, any Form 10-K, Form 10-Q or Form 8-K of our 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 to the insurance and reinsurance sectors in particular (both as to underwriting and investment matters). Statements that include the words expect, intend, plan, believe, project, anticipate, will, may and similar statements of a future or forward 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:

- changes in ratings, rating agency policies or practices;
- the risk of volatility in our income and earnings;
- loss of business and/or decline in market position;
- acceptance of our products and services, including new products and services;
- changes in capital requirements whether resulting from downgrades in our insured portfolio or changes in rating agencies ratings criteria or other reasons;

changes to the size and frequency of our claims relating to natural and man-made disasters;

greater frequency or severity of claims and loss activity, including as a result of natural or man-made catastrophic events, than our underwriting, reserving or investment practices anticipate based on historical experience or industry data;

the effects of business disruption or economic contraction due to war, terrorism or other hostilities;

failure of our underwriting and risk management strategies;

actual claims in excess of our loss reserves;

greater risk of loss in connection with obligations guaranteed by certain of our insurance company operating affiliates due to recent deterioration in the credit markets stemming from the poor performance of sub-prime residential mortgage loans and from developments in bankruptcy proceedings of companies insofar as they affect property and casualty insurance and reinsurance coverages or claims that we may have as a counterparty;

risks related to any potential challenge to the enforceability of the SCA Agreement and the related commutations and releases or related litigation;

the timing of claims payments being faster or the receipt of reinsurance recoverables being slower than anticipated by us;

the risk that we may be required to raise additional capital, and the potential dilutive effect such activity may have on our outstanding equity capital and/or future earnings;

the projected amount of ceded reinsurance recoverables and the ratings and creditworthiness of reinsurers may change;

the timely and full recoverability of reinsurance placed by us with third parties, or other amounts due to us;

changes in the availability, cost or quality of reinsurance;

default by one or more of our portfolio investments, insured issuers, counterparties or reinsurers;

credit risk throughout our business generally;

change in our investment performance;

developments in the world s financial and capital markets that adversely affect the performance of our investments and our access to such markets, including, but not limited to, further market developments relating to sub-prime and residential mortgages;

availability of borrowings and letters of credit under our credit facilities and availability of additional capital;

the potential impact of variable interest entities or other off-balance sheet arrangements on us;

changes in general economic conditions, including inflation, foreign currency exchange rates, interest rates in the United States and abroad, the credit environment and other factors;

the risk of litigation and regulatory inquiries or investigations, and the risk of adverse outcomes in connection therewith;

loss of key personnel;

increased competition on the basis of pricing, capacity, coverage terms or other factors;

trends in rates for property and casualty insurance and reinsurance;

consolidation in the insurance industry;

changes in the distribution or placement of risks due to increased consolidation of insurance and reinsurance brokers;

changes in accounting policies or practices or the application thereof;

legal, legislative or regulatory developments;

the potential impact on us from government-mandated insurance coverage for acts of terrorism;

changes in regulation or tax laws applicable to us or our subsidiaries, brokers or customers; and

- the other factors set forth in our other documents on file with the SEC.

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 herein or elsewhere. We undertake no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

USE OF PROCEEDS

We estimate our net proceeds from the offering of ordinary shares, assuming no exercise of the overallotment option, after deducing underwriting discounts and commissions and estimated offering expenses, to be approximately $ billion.

We estimate our net proceeds from the offering of units, assuming no exercise of the overallotment option, after deducting underwriting discounts and commissions and estimated offering expenses, to be approximately $ million.

We expect that the aggregate proceeds from both offerings will be approximately $2.5 billion. We intend to use the net proceeds from the offerings, together with the approximately $500 million of net proceeds from the Put Option Exercise, to pay $1.775 billion to SCA as part of the SCA Agreement and to pay approximately $283 million for the X.L. America Notes Redemption, with the remainder of the net proceeds being used for general corporate purposes, including, without limitation, capital funding of certain of our subsidiaries.

We currently intend to use the proceeds from the settlement of the purchase contracts to repay other debt as soon as practicable following such settlement, and we have agreed not to use such proceeds to repurchase ordinary shares. The X.L. America Notes mature on April 12, 2011 and have an interest rate of 6.58%.

CAPITALIZATION

The following table sets forth the consolidated capitalization of XL Capital as of June 30, 2008, on an actual basis and as adjusted to give effect to:

- The issuance of the ordinary shares in this offering, assuming no exercise of the underwriters option to purchase additional ordinary shares;
- The issuance of the units in this offering, assuming no exercise of the underwriters option to purchase additional units;
- The Put Option Exercise (including the related issuance of 20,000,000 Series C Preference Ordinary Shares);
- The payment of $1.775 billion as part of the SCA

Agreement;

The issuance of 8,000,000 newly issued restricted ordinary shares to SCA as part of the SCA Agreement; and

The X.L. America Notes Redemption.

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-Q for the quarterly period ended June 30, 2008, which is incorporated by reference in this prospectus supplement and the accompanying prospectus.

	(Unaudited) As of June 30, 2008	
	Actual	**As Adjusted (1)**
	(U.S. dollars in thousands, except share and per share amounts)	
Cash and Cash Equivalents	$ 3,704,249	$ 4,558,276
Debt:		
Five-year revolvers (2)	$	$
5.25% Senior Notes due 2011 (3)	745,000	745,000
6.58% Guaranteed Senior Notes due 2011	255,000	
6.50% Guaranteed Senior Notes due 2012	598,872	598,872
5.25% Senior Notes due 2014	595,955	595,955
6.375% Senior Notes due 2024	350,000	350,000
6.25% Senior Notes due 2027	324,403	324,403
% Senior Notes due 2021 (4)		500,000
Total debt	$ 2,869,230	$ 3,114,230

	(Unaudited) As of June 30, 2008			
	Actual		As Adjusted (1)	
	(U.S. dollars in thousands, except share and per share amounts)			
Shareholders Equity:				
Series C Preference Ordinary Shares; $0.01 par value per share, no shares issued and outstanding (actual); 20,000,000 shares issued and outstanding (as adjusted)	$		$	200 (5)
Series E Preference Ordinary Shares; $0.01 par value per share, 1,000,000 shares issued and outstanding (actual and as adjusted)		10		10
Class A Ordinary Shares; $0.01 par value per share, 179,051,979 shares issued and outstanding (actual); 293,604,989 shares issued and outstanding (as adjusted)		1,791		2,937 (6)
Additional paid in capital		7,391,966		9,993,074 (7)
Accumulated other comprehensive (loss) income		(1,516,825)		(1,516,825)
Retained earnings		2,892,251		1,436,021 (8)
Total shareholders equity	$	8,769,193	$	9,915,416
Total capitalization	$	11,638,423	$	13,029,646

(1) As adjusted data assumes gross proceeds of $2.0 billion from the ordinary shares and $500 million from the units and a price per ordinary share of $18.77, the closing price on July 25, 2008. The actual number of ordinary shares (as well

as the price per ordinary share) and units offered may vary and will be determined at the pricing of the offerings.

(2) Revolving credit facilities of $1.1 billion in aggregate. The 2010 and 2012 5-year revolving credit facilities share a $1.0 billion revolving credit sublimit. At June 30, 2008, we also had six letter of credit facilities in place with total availability of $7.3 billion (which includes $1.0 billion under the revolving credit facilities), of which $3.1 billion was utilized. Outstanding letters of credit are not reflected in total debt in the above capitalization table.

(3) These securities are a

component of 7.00% Equity Security Units (the 7.00% Units) that are publicly traded. In addition to the coupon paid on the senior notes, contract adjustment payments of 1.75% per annum are paid on forward purchase contracts for our ordinary shares for a total distribution of 7.00% per annum. The purchase contracts mature in 2009, and the senior notes mature in 2011. In February 2009, the senior notes will be remarketed whereby the interest rate will be reset in order to generate sufficient remarketing proceeds to satisfy the 7.00% Unit holders obligations under the purchase contracts.

(4) The % Senior Notes due 2021 are a component of the % Equity Security Units offered hereby.

(5) Reflects 20,000,000 shares to be issued in connection with the Put Option Exercise.

(6) Includes 8,000,000 newly issued restricted ordinary shares to be issued to SCA in connection with the SCA Agreement and shares to be issued in connection with the offering of ordinary shares offered hereunder. The 8,000,000 restricted ordinary shares issued to SCA will be subject to a 180-day lock up agreement. No adjustment is made for ordinary shares issuable upon settlement of the purchase

contracts that are components of the units offered hereby.

(7) Includes an adjustment of $20 million, which represents the assumed present value of the contract adjustment payments payable in connection with the forward purchase contracts contained in the units issued in this offering.

(8) As adjusted retained earnings as of June 30, 2008 is further adjusted for an approximately $1.45 billion charge in respect of the SCA Agreement and an approximately $21.8 million charge in respect of the X.L. America Notes Redemption, each of which we expect to take in the quarter ending

September 30, 2008.

DESCRIPTION OF THE SCA AGREEMENT

Background and Prior Relationship with SCA

On August 4, 2006, we completed the sale of approximately 37% of our financial guarantee reinsurance and insurance businesses through an initial public offering (IPO) of 23.4 million common shares of SCA for proceeds of approximately $446.9 million. On June 6, 2007, we completed the sale of a portion of SCA s common shares still owned by us through a secondary offering and thereby reduced our ownership of SCA s outstanding common shares further from approximately 63% to approximately 46%. In connection with the IPO, we entered into a series of service agreements under which our subsidiaries provided services to SCA and its subsidiaries or received certain services from SCA subsidiaries for a period of time after the IPO.

We have historically provided certain reinsurance protections (the Reinsurance Agreements) with respect to adverse development on certain transactions as well as indemnification under specific facultative and excess of loss coverages for subsidiaries of SCA: XL Financial Assurance Ltd (XLFA) and XL Capital Assurance Inc. (XLCA). The adverse development cover related to a specific project financing transaction while the facultative coverages generally reinsured certain policies up to the amount necessary for XLCA and XLFA to comply with certain regulatory and risk limits. The excess of loss reinsurance provided indemnification for the portion of any individual paid loss covered by XLFA in excess of 10% of XLFA s surplus, up to an aggregate amount of $500 million, and excluded coverage for liabilities arising other than pursuant to the terms of the underlying policies. As of June 30, 2008, our total net exposure under facultative agreements with SCA subsidiaries was approximately $6.4 billion of net par outstanding. There is a dispute between us and XLFA over the proper attachment point and our termination rights under the excess of loss agreement with XLFA that we expect to resolve upon the closing of the transactions contemplated by the SCA Agreement.

In addition, through one or more of our subsidiaries, we entered into certain agreements with subsidiaries of SCA pursuant to which we guaranteed (the Guarantee Agreements): (i) XLCA for the full and complete performance when due of all of XLFA s obligations under its facultative quota share reinsurance agreement with XLCA pursuant to the XLFA Guarantee, (ii) the full and complete payment when due of XLCA s obligations under certain financial guarantees (the EIB Policies) issued by XLCA and arranged by XL Capital Assurance (U.K.) Limited (XLCAUK) (the EIB Guarantees) for the benefit of European Investment Bank and (iii) Financial Security Assurance, Inc. (Financial Security) for the full and complete performance of XLFA s obligations under a Financial Security Master Facultative Agreement (the Financial Security Guarantee). The Guarantee Agreements (other than the EIB Guarantees) terminated with respect to any new business produced through the underlying agreements after the effective date of the SCA IPO, but the agreements remained in effect with respect to cessions or guarantees written under these agreements prior to the IPO. As of June 30, 2008, the total net par outstanding covered by the Guarantee Agreements was approximately $59.3 billion.

As of December 31, 2007, we had approximately $4.0 billion of deposit liabilities associated with guaranteed investment contracts (GICs) for which credit enhancement was provided by XLCA. We settled all of these GIC liabilities in the first six months of 2008. For more information on our relationship with SCA, see notes 4 and 12 to our consolidated financial statements and our Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Agreement with SCA with Respect to Pre-IPO Guarantee and Reinsurance Agreements in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2008, which is incorporated herein by reference.

Description of SCA Agreement

The following summary of the SCA Agreement is qualified in its entirety by reference to the SCA Agreement, which is incorporated herein by reference (as an exhibit to our Current Report on Form 8-K dated July 28, 2008).

General Terms

On July 28, 2008, XL Capital, XLIB, XLRA, X.L. Global Services, Inc., XL Services (Bermuda) Ltd and X.L. America Inc. (XLA) (collectively, the XL Parties), SCA and certain of SCA s subsidiaries (together with SCA, the SCA Parties), and certain CDS Counterparties entered into the SCA Agreement. Other CDS Counterparties may become parties (up to and including the closing under the SCA Agreement) to the SCA Agreement.

Pursuant to the terms of the SCA Agreement:

the Third Amended and Restated Facultative Quota Share Reinsurance Treaty, dated as of July 1, 2006 between XLFA and XLCA (the XLFA/XLCA Quota Share Treaty), and all individual risk cessions thereunder, will be commuted, as a result of which, the guarantee by XLIB of XLFA s obligations to XLCA thereunder will no longer have any force or effect;

the Excess of Loss Reinsurance Agreement executed on October 3, 2001, as amended, pursuant to which XLIB agreed to reinsure certain liabilities of XLFA will be commuted;

the Second Amended and Restated Facultative Master Certificate, effective March 1, 2007, pursuant to which XLRA agreed to reinsure certain liabilities of XLCA, and all individual risk cessions thereunder, will be commuted;

the Facultative Quota Share Reinsurance Agreement, effective August 17, 2001, as amended, pursuant to which XLIB agreed to reinsure certain liabilities of XLFA, and all individual risk cessions thereunder, will be commuted;

the Adverse Development Reinsurance Agreement, dated as of August 4, 2006, pursuant to which XLRA agreed to reinsure certain liabilities of XLCA will be commuted;

the Indemnification Agreement, dated as of August 4, 2006, pursuant to which XLIB agreed to indemnify XLFA for certain liabilities will be terminated;

as a condition to closing, the Amended and Restated Master Facultative Reinsurance Agreement, dated November 3, 1998, between Financial Security and XLFA (the Financial Security Agreement), and all individual risk cessions thereunder, will be commuted, as a result of which, our guarantee of XLFA s obligations thereunder (as evidenced by the Financial Security Guarantee) will no longer have any force or effect;

substantially all additional non-material indemnification and service agreements between the XL Parties and the SCA Parties will be terminated; and

the parties to the SCA Agreement will release each other from all claims related to any of the commuted or terminated agreements and related actions.

In consideration of the above commutations, terminations and releases, we are obligated to:

pay to SCA $1.775 billion in cash;

issue to XLFA eight million shares of our newly-issued Class A Ordinary Shares; and

transfer our 46% ownership in SCA (the SCA Shares). It is expected that the SCA Shares will be transferred at closing of the SCA

Agreement into a trust for the benefit of XLFA and/or XLCA until such time as an agreement between XLCA and the CDS Counterparties is reached, and thereafter the trust will act for the benefit of the CDS Counterparties. To the extent that the required regulatory approvals for the transfer are not received prior to such closing, the SCA Shares will be deposited into escrow pending the transfer. Upon any such deposit into escrow, we will irrevocably disclaim any and all voting, economic or other rights with respect to the SCA Shares.

Effects of the SCA Agreement

Following the closing of the transactions under the SCA Agreement, we will be released and discharged from all material insurance, reinsurance and contractual obligations to SCA; the Reinsurance Agreements will be commuted and/or terminated, and the effect of the transactions is that the Guarantee Agreements (other than the EIB Guarantee), will no longer have any force or effect.

Specifically, after giving effect to the closing of the transactions under the SCA Agreement, at least $64.6 billion of our total net exposure (which was $65.7 billion as at June 30, 2008) under reinsurance agreements and guarantees with SCA subsidiaries will be eliminated. To the extent the EIB Policies are not commuted on or prior to closing, the remaining exposure will be under the EIB Guarantees. Pursuant to the terms of the SCA Agreement, SCA and its applicable subsidiaries will be required to use commercially reasonable efforts to commute the EIB Policies, provided that SCA shall not have to pay to commute such EIB Policies an amount greater than a prescribed cap. See Covenants EIB Policies below.

After consummation of these transactions, however, we will still continue to have some outstanding contractual relationships with SCA. With the exception of the EIB Guarantees, these remaining agreements primarily consist of residual indemnity provisions relating to GICs, which have been fully paid, underwritten offerings, various services agreements that run in our favor and certain total return swaps and payment undertakings in which XLFA reinsures or wraps our policies.

Under the SCA Agreement, the total value of the consideration to be paid by us to the SCA Parties significantly exceeds the carried net liabilities of approximately $490.7 million related to the applicable reinsurances and guarantees as at June 30, 2008. We consider the execution of the SCA Agreement as the event giving rise to the additional liability. As such, we expect to record a charge of approximately $1.4 billion to $1.5 billion in respect of the SCA Agreement during the quarter ending September 30, 2008.

Closing Conditions

It is expected that the closing of the transactions under the SCA Agreement will occur immediately following the closing of the offerings. The closing of the transactions contemplated by the SCA Agreement is subject to the following conditions:

Regulatory Approvals. The closing is conditioned upon the receipt of all required regulatory or governmental approvals. Such required approvals include the approval of the New York State Insurance Department (NYID), the BMA, the U.K. Financial Services Authority (U.K. FSA) and the Delaware Insurance Department. The most significant of the required approvals is from the NYID. The NYID was consulted during all stages of negotiations of the SCA Agreement to ensure that the SCA Agreement and the transactions contemplated thereby would meet all legal standards for approval by the NYID. The New York Superintendent of Insurance issued an approval letter to XLCA under Section 1505 of the New York Insurance Law (which requires that the terms of a transaction between a New York domiciled insurer and one or more of its affiliates be fair and equitable) stating that the terms of the SCA Agreement and each of the commutations to which XLCA or XLRA is a party are fair and equitable and do not adversely affect policyholders of XLCA or XLRA. SCA has also obtained all applicable regulatory and governmental approval from the U.K. FSA; the BMA and the Delaware Insurance Department, except with respect to the transfer of the SCA Shares (as discussed above). No additional regulatory or governmental approvals will be required to consummate the transactions contemplated by the SCA Agreement to be completed on the closing date, however a condition to closing is that no such approvals have been withdrawn, rescinded or amended.

Financial Security Commutation. As mentioned above, it is a condition to closing that the Financial Security Agreement has been commuted by the closing date. On July 28, 2008, SCA announced that it had entered into an agreement with Financial Security to commute such agreement simultaneously with the closing of the SCA Agreement.

XL Public Offering. The closing is conditioned upon the completion of a public offering of our ordinary shares and equity security units. The closing of these offerings will satisfy this closing condition.

MLI CDS Agreements. The closing is conditioned upon the termination of the eight Merrill Lynch International (Merrill Lynch) asset backed security collateralized debt obligation credit default swaps entered into between Merrill Lynch and certain SCA Parties. On July 28, 2008, SCA announced that it had entered into an agreement with Merrill Lynch to terminate such agreements simultaneously with the closing of the SCA Agreement.

Board Resignations. All four members of the SCA Board of Directors who have been nominated by us shall have tendered their resignations effective at closing.

Outside Date. The SCA Agreement provides that the closing cannot occur until 10:00 a.m., New York Time, on August 5, 2008. It is expected that the closing of the offerings will occur immediately before the closing of the SCA Agreement.

No Proceeding or Litigation. There shall not be any action by a governmental authority seeking to restrain or materially and adversely alter the contemplated transactions that is likely to render it impossible or unlawful to consummate the contemplated transactions.

Representations, Warranties and Covenants. The representations and warranties of each of the parties in the SCA Agreement shall be true and correct, subject to certain materiality qualifications, and each of the parties to the SCA Agreement shall have complied, in all material respects, with all of their covenants and agreements set forth in the SCA Agreement.

Closing Deliveries. The closing is conditioned upon the execution and delivery by the parties of various agreements, including: (1) subscription agreements for our new eight million ordinary shares being issued to SCA, (2) a stock resale and registration rights agreement governing the terms of these newly issued shares, (3) a registration rights agreement governing the terms of the SCA shares being transferred by us, (4) commutation agreements with respect to each of the reinsurance agreements being commuted and (5) an amendment to the Transition Agreement dated as of August 4, 2006, as amended, among XL Capital, XLIB, XLA and SCA. The form of each of these agreements has been agreed to by all of the parties to the SCA Agreement. In addition, each of the parties to the SCA Agreement is required to deliver an officer s certificate certifying as to various of the closing conditions.

CDS Counterparties

The CDS Counterparties are certain of the counterparties to financial guarantee insurance issued by XLCA in credit default swap agreement form. Certain of the underlying XLCA financial guarantee insurance policies in respect of such credit default swaps are reinsured by XLFA under the XLFA/XLCA Quota Share Treaty. We expect that additional counterparties will execute joinders pursuant to which they will become parties to the SCA Agreement, however, it is not a condition to closing the SCA Agreement that any additional counterparties join the SCA Agreement. Pursuant to that Agreement and certain ancillary agreements, such counterparties, upon becoming parties to the SCA Agreement, will agree to release the XL Parties at closing from all claims relating to the agreements being terminated or commuted pursuant to the SCA Agreement.

Following the closing, XLCA has agreed to segregate and hold $820 million in cash solely for purposes of (i) commuting, terminating, amending and/or otherwise restructuring, as applicable, existing agreements with the CDS

Counterparties pursuant to restructuring agreements entered into by October 15, 2008 (the CDS Counterparty Restructuring) and (ii) if no such agreements are entered into, the payment after October 15, 2008 of any actual claims or losses on existing agreements and insurance policies issued to or for the benefit of CDS Counterparties. These funds shall not be used for any other purpose except that, in the event that XLCA becomes subject to a rehabilitation or liquidation proceeding, the funds shall no longer be separately held or segregated or limited in use to the purpose stated above and shall be part of the general assets of XLCA. SCA and the CDS Counterparties have agreed to negotiate in good faith to reach an agreement on the restructuring that is fair and equitable to both SCA and the CDS Counterparties. The SCA Agreement does not obligate us to have any involvement in any such post-closing agreements between XLCA and such CDS Counterparties or related transactions.

Affiliates of certain of the underwriters are expected to be CDS Counterparties. See Underwriting.

New XL Shares

As noted above, as part of the consideration under the SCA Agreement, we will issue to the SCA Parties eight million shares of our Class A Ordinary Shares. These shares are being issued in a private placement which is exempt from the registration requirements of the SEC. As a result these shares will be restricted shares within the meaning of the federal securities laws. At closing, we will enter into a registration rights agreement with the SCA Parties whereby we will agree to provide certain registration rights to the SCA Parties with respect to the shares. The registration rights consist of: (1) the right of the SCA Parties to make two registration demands (for a minimum of $35 million each), (2) customary piggyback registration rights and (3) our agreement to file and keep effective a shelf registration statement for resales of the shares. Each of these rights are available to the SCA Parties following the expiration of a lock up period set forth in the registration rights agreement, during which the SCA Parties agree not to transfer any of the shares until the date that is six months following the closing date. In addition, these registration rights will not be available at any time that the shares are eligible to be sold to the public without volume limitations pursuant to Rule 144 under the Securities Act. In addition, under the registration rights agreement, we will have a right of first offer with respect to any proposed sale of shares by the SCA Parties. In addition, SCA has entered into a separate lock-up agreement with the underwriters with a concurrent six month term. These lock-ups may only be waived with the prior written consent of us, Goldman, Sachs & Co. and UBS Securities LLC and, with respect to the lock up in the Registration Rights Agreement, us.

Termination Rights

The SCA Agreement may be terminated by us or SCA, or any of the CDS Counterparties may withdraw from the SCA Agreement, if the closing has not occurred on or prior to August 15, 2008. The SCA Agreement may also be terminated by any party if a governmental authority has issued an order, decree or ruling or taken any other action restraining, enjoining or otherwise prohibiting the transactions contemplated by the SCA Agreement and such order, decree, ruling or other action shall have become final and non-appealable. In addition, the SCA Agreement contains other customary termination rights, including as a result of the failure of representations or warranties to be accurate, failure to comply in any material respect with any covenants and the occurrence of certain insolvency events of the XL Parties or the SCA Parties.

Covenants

EIB Policies. Pursuant to the terms of the SCA Agreement, SCA has covenanted to use its commercially reasonable efforts to commute each of the EIB Policies subject to certain limitations. Our aggregate net exposure under the EIB Guarantees as of June 30, 2008 was $1.1 billion. Once each EIB Policy is commuted, our corresponding guarantee of XLCA s obligations thereunder will have no force or effect. Until all of the EIB Policies are commuted, SCA covenants to (i) provide us with monitoring rights related to the EIB Policies and (ii) pay all claims under the EIB Policies as they become due, other that claims reasonably contested by SCA in good faith. Until (i) the EIB Polices are commuted, (ii) EIB provides us with a general release of our obligations under each of our guarantees of each of the EIB Policies, or (iii) SCA secures a guaranty guaranteeing 100% of our obligations under each of our guarantees of each EIB Policy, SCA will refrain from (x) novating or assigning the EIB Policies to any person (however, SCA may reinsure the EIB Policies) or (y) transferring a majority of its assets (excluding its public finance book) to any person unless the EIB Policies are transferred with such assets.

Forbearance. We and the CDS Counterparties have agreed to forbear from exercising any right under any agreement with SCA that is triggered by an XLCA insolvency until the earlier of October 15, 2008 or the termination of the SCA Agreement. Such forbearance does not extend to any such right that would be triggered by a proceeding under any bankruptcy, insolvency or similar law. In addition, such forbearance by the CDS Counterparties may be terminated by a super-majority of the CDS Counterparties if non-consenting counterparties exercise certain termination, acceleration, payment or other similar rights triggered by certain insolvency events. All of the parties to the SCA Agreement have agreed to (i) not make any claim under any of the agreements commuted or terminated subsequent to the date of execution of the SCA Agreement and (ii) cooperate in all third party litigation that does not challenge the validity of the SCA Agreement or transactions contemplated thereby.

Other Covenants. We and SCA have made additional covenants related to (i) public disclosure and confidential information; (ii) obtaining and maintaining regulatory and other required consents and authorizations; (iii) the provision of certain information about the CDS Counterparties that are party to the SCA Agreement; (iv) notice of developments; and (v) information rights related to two insurance policies issued by us and reinsured by XLFA. In addition, SCA has made additional covenants related to (i) compliance with applicable securities law; (ii) the process to update disclosure schedules; (iii) the addition, in certain circumstances, of portfolio trusts affiliated with XLCA as parties to the SCA Agreement; (iv) restrictions on commutations or terminations of other policies not expressly contemplated by the SCA Agreement until October 15, 2008; (v) the contemplated merger of XLFA with and into XLCA; and (vi) and certain additional covenants with the CDS Counterparties (and not us) related to the CDS Counterparty Restructuring, including certain restrictions on the ability of the SCA Parties to transfer or dispose of XLCA s public finance business without the consent of the CDS Counterparties. We also agree to reasonably cooperate with the SCA Parties to obtain insurance issued by us on terms mutually acceptable to us and to SCA replacing one of our policies currently reinsured by XLFA. SCA agrees to give us the right to control any third party litigation against SCA challenging the validity of the SCA Agreement or any of the transactions contemplated thereby. The CDS Counterparties covenant to comply with applicable securities laws and covenant with the SCA Parties to negotiate in good faith with respect to the CDS Counterparty Restructuring.

SELECTED CONSOLIDATED FINANCIAL DATA

Our selected consolidated financial, operating and supplemental data presented below as at and for the years ended December 31, 2007, 2006, 2005, 2004 and 2003 are derived from our audited consolidated financial statements after giving effect to Note 7 below, which have been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm. Our audited consolidated balance sheets as at December 31, 2007 and 2006 and our audited consolidated statements of income and comprehensive income, consolidated statements of shareholders equity and consolidated statements of cash flows for the years ended December 31, 2007, 2006 and 2005 are incorporated by reference in this prospectus supplement and the accompanying prospectus. The summary consolidated financial and operating data presented below for the six month periods ended June 30, 2008 and June 30, 2007 have been derived from our unaudited consolidated financial data as presented in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2008, which is incorporated by reference in this prospectus supplement and the accompanying prospectus and reflect all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of our financial position and results of operations as at the end of and for the periods presented. The results of operations for the first six months of 2008 are not necessarily indicative of the results that may be expected for the full year.

You should read the following selected consolidated financial, operating and supplemental data 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 Annual Report on Form 10-K for the year ended December 31, 2007 and our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2008, which are incorporated by reference in this prospectus supplement and the accompanying prospectus. Certain reclassifications to prior period information have been made to conform to current year presentation.

	(Unaudited) Six Month Period Ended June 30,			Year Ended December 31	
	2008	2007	2007	2006 (7)	2005 (7)
	(U.S. dollars in thousands, except share and per share amounts and ra				
Income Statement Data:					
Net premiums earned	$ 3,394,084	$ 3,721,349	$ 7,205,356	$ 7,569,518	$ 9,365,495
Net investment income	939,581	1,120,307	2,248,807	1,978,184	1,475,039
Net realized (losses) gains on investments	(100,211)	27,588	(603,268)	(116,458)	241,882
Net realized and unrealized gains	52,806	16,929	(55,451)	101,183	28,858

(losses) on derivative instruments					
Net (loss) income from investment fund affiliates (1)	(8,636)	185,979	326,007	269,036	154,844
Fee income and other	21,087	7,986	14,271	31,732	19,297
Net losses and loss expenses incurred (2)	1,939,478	1,936,735	3,841,003	4,201,194	7,434,336
Claims and policy benefits life operations	406,024	467,433	888,658	807,255	2,510,029
Acquisition costs, operating expenses and foreign exchange gains and losses	$ 1,150,337	$ 1,191,196	2,188,889	2,374,358	2,188,357
Interest expense	189,553	307,486	621,905	552,275	403,849
Amortization of intangible assets	840	840	1,680	2,355	10,752
Income (loss) before minority interests, net income from operating affiliates and income tax expense	612,479	1,176,438	1,593,587	1,895,758	(1,261,908)
Net income (loss) from operating affiliates (1)(2)	(48,348)	98,721	(1,059,848)	111,670	67,426

	(Unaudited) Six Month Period Ended June 30,				Year Ende
	2008	2007	2007	2006 (7)	20
			(U.S. dollars in thousands, except share and per share amo		
Preference share dividends	32,500	22,869	69,514	40,322	
Net income (loss) available to ordinary shareholders	449,724	1,094,253	$ 206,375	$ 1,722,445	$ (1
Per Share Data:					
Net income (loss) per ordinary share basic (3)	$ 2.55	$ 6.13	$ 1.16	$ 9.63	$
Net income (loss) per ordinary share diluted (3)	$ 2.54	$ 6.06	$ 1.15	$ 9.60	$
Weighted average ordinary shares outstanding diluted (3)	176,946	180,570	179,693	179,450	
Cash dividends per ordinary share	$ 0.76	$ 0.76	$ 1.52	$ 1.52	$
Balance Sheet Data:					
Total investments available for sale	$ 31,042,720	$ 38,461,012	$ 36,265,803	$ 39,350,983	$ 35
Cash and cash equivalents	3,704,249	2,744,352	3,880,030	2,223,748	3
	2,401,799	3,150,499	2,611,149	2,308,781	2

Investments in affiliates					
Unpaid losses and loss expenses recoverable	4,129,001	4,745,898	4,697,471	5,027,772	6
Premiums receivable	4,121,620	4,236,694	3,637,452	3,591,238	3
Total assets	52,079,962	60,196,683	57,762,264	59,308,870	58
Unpaid losses and loss expenses	22,955,473	22,689,706	23,207,694	22,895,021	23
Future policy benefit reserves	6,904,505	6.700,987	6,772,042	6,476,057	5
Unearned premiums	5,355,644	5,659,415	4,681,989	5,652,897	5
Notes payable and debt	2,869,230	2,868,226	2,868,731	3,368,376	3
Shareholders equity	8,769,193	11,522,046	9,948,142	10,131,166	8
Book value per ordinary share	$ 43.39	$ 55.01	$ 50.30	$ 53.12	$
Operating Ratios:					
Loss and loss expense ratio (4)	63.3 %	59.6 %	59.8 %	62.2 %	
Underwriting expense ratio (5)	29.6 %	28.6 %	29.0 %	27.3 %	
Combined ratio (6)	92.9 %	88.2 %	88.8 %	89.5 %	

(1) We generally record the income related to alternative fund affiliates on a one-month

lag and the private investment fund affiliates on a three month lag in order for us to meet the accelerated filing deadlines. We generally records the income related to operating affiliates on a three-month lag.

(2) In 2007 and the first six months of 2008, $351.0 million and $88.4 million, respectively, of financial guarantee losses related to reinsurance agreements with SCA were recorded within net loss from operating affiliates.

(3) Net income per ordinary share is based on the basic and diluted weighted average number of Class A ordinary shares and share equivalents outstanding for each period. Net loss per ordinary share is based on the basic weighted average number of ordinary

shares outstanding.

(4) The loss and loss expense ratio related to the property and casualty operations is calculated by dividing the losses and loss expenses incurred by the net premiums earned for the Insurance and Reinsurance segments.

(5) The underwriting expense ratio related to the property and casualty operations is the sum of acquisition expenses and operating expenses for the Insurance and Reinsurance segments divided by net premiums earned for the Insurance and Reinsurance segments. See Item 8, Note 4 to the Consolidated Financial Statements, Segment Information, in our Annual Report filed on Form 10-K for

the year ended December 31, 2007, which is incorporated by reference in this prospectus supplement and the accompanying prospectus.

(6) The combined ratio related to the property and casualty operations is the sum of the loss and loss expense ratio and the underwriting expense ratio. A combined ratio under 100% represents an underwriting profit and over 100% represents an underwriting loss.

(7) Certain reclassifications to prior period information have been made to conform to current year presentation.

RATIO OF EARNINGS TO FIXED CHARGES AND RATIO OF EARNINGS TO FIXED CHARGES AND PREFERENCE DIVIDENDS

Our ratio of earnings to fixed charges and our ratio of earnings to combined fixed charges and preference dividends for each of the periods indicated is as follows:

	(Unaudited) Six Months Ended June 30, 2008	Fiscal Year Ended December 31				
		2007	2006	2005 (1)	2004	2003
Ratio of Earnings to Fixed Charges	4.7x	3.1x	4.0x		4.8x	2.8x
Ratio of Earnings to Combined Fixed Charges and Preference Dividends	4.0x	2.8x	3.7x		4.2x	2.4x

(1) For the year ended December 31, 2005, earnings were insufficient to cover fixed charges by $1,383.3 million and insufficient to cover combined fixed charges and preference dividends by $1,423.6 million.

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 dividends. Fixed charges consist of interest expense on all indebtedness (including amortization of deferred financing costs), the portion of operating lease rental expense that is representative of the interest factor (deemed to be 30% of operating lease rentals) and accretion of deposit liability transactions. We have calculated the foregoing ratios on the basis of the amount of indebtedness, and preference shares actually outstanding for the periods presented and, as a result, such ratios do not give effect to the issuance of the units in this offering or the Series C Preference Ordinary Shares we will issue in connection with the Put Option Exercise.

PRICE RANGE OF ORDINARY SHARES AND DIVIDENDS

Our ordinary shares are listed and traded on the New York Stock Exchange under the symbol XL. The following table sets forth, for the periods indicated, the high and low sales prices per ordinary share of our ordinary shares as reported on the New York Stock Exchange and the quarterly cash dividends declared per ordinary share.

	High	Low	Dividend
2006			
First Quarter	$ 71.97	$ 63.80	$ 0.38
Second Quarter	$ 67.30	$ 60.67	$ 0.38
Third Quarter	$ 69.33	$ 59.82	$ 0.38
Fourth Quarter	$ 72.90	$ 68.25	$ 0.38
2007			
First Quarter	$ 74.40	$ 66.93	$ 0.38
Second Quarter	$ 84.91	$ 69.44	$ 0.38
Third Quarter	$ 85.67	$ 70.47	$ 0.38
Fourth Quarter	$ 82.10	$ 48.16	$ 0.38
2008			
First Quarter	$ 52.26	$ 27.73	$ 0.38
Second Quarter	$ 38.30	$ 20.33	$ 0.38
Third Quarter (through July 25, 2008)	$ 23.39	$ 14.61	

On July 25, 2008, the last reported sale price for our ordinary shares was $18.77 per ordinary share. As of July 17, 2008, there were 370 holders of record of our Class A Ordinary Shares.

On July 28, 2008, we announced that our Board of Directors had approved a reduction in the quarterly dividend payable on our Class A Ordinary Shares to $0.19 per ordinary share, beginning with the next quarterly dividend. In line with that reduction, the Board of Directors declared a quarterly dividend, effective July 28, 2008, of $0.19 per Ordinary share payable on September 30, 2008 to Ordinary Shareholders of record as of September 12, 2008.

The declaration and payment of future dividends by us will be at the discretion of our board of directors and will depend upon many factors, including our earnings, financial condition, business needs, capital and surplus requirements of our operating subsidiaries and regulatory and contractual restrictions (including, under certain circumstances, restrictions in our preference ordinary shares and equity security units). As a holding company, our principal source of income is dividends or other statutorily permissible payments from our subsidiaries. The ability to pay such dividends is limited by the laws of Bermuda, the Cayman Islands, the U.K., Ireland and certain insurance statutes of various states in the United States in which our insurance and reinsurance subsidiaries are licensed to transact business and certain contractual provisions. See Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 8, Note 25 to the Consolidated Financial Statements, in each case, in our Annual Report on Form 10-K for the year ended December 31, 2007, which is incorporated by reference in this prospectus supplement and the accompanying prospectus.

DESCRIPTION OF THE EQUITY SECURITY UNITS

We summarize below the principal terms of the equity security units, which we refer to as the units, and the purchase contracts and senior notes that comprise the units. The following description is not complete, and we refer you to the agreements that will govern your rights as a holder of units. See Where You Can Find More Information in the accompanying prospectus. The units are a series of ordinary share purchase units, and this summary supplements the description of ordinary share purchase units in the accompanying prospectus and, to the extent inconsistent, replaces the description in the accompanying prospectus.

Overview

Each unit will have a stated amount of $25. Each unit will initially consist of and represent:

(1) a purchase contract pursuant to which:

you will agree to purchase, and we will agree to sell, for $25, our ordinary shares on the stock purchase date, the number of which will be determined by the settlement rate described below, based on the average trading price of the ordinary shares for a 20 trading-day period ending on the third trading day immediately preceding the stock purchase date, calculated in the manner described below or, if we have previously fixed the settlement rate as a result of an accounting event, the fixed number of shares to be determined as described below; and

we will pay you contract adjustment payments on a quarterly basis at the annual rate of % of the stated amount of $25, subject to our right to defer such payments as specified below; and

(2) a 1/40, or 2.5%, ownership interest in a senior note due August 15, 2021 (which maturity may

be shortened to any date on or after August 15, 2013 in the case of a successful remarketing of the senior notes) of XL Capital, with a principal amount of $1,000, on which we will pay interest at the initial annual rate of % until the settlement date of a successful remarketing of the senior notes and at the reset rate (as described below) thereafter. Interest will be payable quarterly in arrears on and prior to the stock purchase date and semi-annually in arrears thereafter.

You will own the ownership interests in senior notes that are a component of your units, but initially you will pledge them to the collateral agent for our benefit to secure your obligations under the related purchase contracts. Each holder of normal units may elect at any time on or before the thirteenth business day prior to the stock purchase date to withdraw from the pledge the pledged senior notes or, after a special event redemption described below, the pledged treasury securities underlying the normal units by substituting, as pledged securities, specifically identified treasury securities that will pay at maturity an amount equal to the aggregate principal amount of the senior notes or treasury securities, as the case may be, for which substitution is being made. Upon such substitution, the pledged senior notes or pledged treasury securities, as the case may be, will be released from the pledge and delivered to the holder. The normal units would then become stripped units. Holders of stripped units may recreate normal units by re-substituting senior notes or, after a special event redemption, the applicable specified treasury securities, for the treasury securities underlying the stripped units.

We will enter into:

- a purchase contract agreement with The Bank of New York Mellon, as purchase contract agent, governing the appointment of the purchase contract agent as the agent and attorney-in-fact for the holders of the units, the purchase contracts, the transfer, exchange or replacement of certificates representing the units and certain other matters relating to the units; and

- a pledge agreement with The Bank of New York Mellon, as collateral agent, custodial agent and securities intermediary, creating a pledge and security interest for our benefit to secure the obligations of holders of units under the purchase contracts.

As a beneficial owner of the units, you will be deemed to have:

- irrevocably agreed to be bound by the terms of the purchase contract agreement, the pledge agreement and your purchase contract for so long as you remain a beneficial owner of such units; and
- appointed the purchase contract agent under the purchase contract agreement as your agent and

attorney-in-fact to enter into and perform the purchase contract and pledge agreement on your behalf and in your name, including the making of the representations of the holders and the agreement to be bound by the covenants therein (it being understood that the purchase contract agent shall not be liable for any representation or covenant made by or on behalf of any holder of the units).

In addition, as a beneficial owner of the units, you will be deemed by your acceptance of the units to have agreed, for all tax purposes, to treat yourself as the owner of the related interests in the senior notes or the treasury securities, as the case may be, and to treat your interest in the senior notes as our indebtedness.

We will allocate $25 of the purchase price of each unit to the ownership interest in the related senior note and $0 to the related purchase contract on our consolidated financial statements.

Creating Stripped Units and Recreating Normal Units

Holders of normal units will have the ability to strip those units and take delivery of the pledged senior notes or, after a special event redemption, the pledged treasury securities, creating stripped units, and holders of stripped units will have the ability to recreate normal units from their stripped units by depositing senior notes or, after a special event redemption, the applicable treasury securities as described in more detail below. Holders who elect to create stripped units or recreate normal units will be responsible for any related fees or expenses.

Creating Stripped Units

Each holder of normal units may create stripped units and withdraw the pledged senior notes or, after a special event redemption, the pledged treasury securities underlying the normal units by substituting, as pledged securities, the treasury securities described below in a total principal amount at maturity equal to the aggregate principal amount of the senior notes or treasury securities, as the case may be, for which substitution is being made. Holders of normal units may create stripped units at any time on or before the thirteenth business day prior to the stock purchase date.

Because treasury securities are issued in integral multiples of $1,000, holders of normal units may make the substitution only in integral multiples of 40 normal units. However, after the occurrence of a special event redemption, the holders may make the substitution only in integral multiples of normal units such that both the treasury securities to be deposited and the treasury securities to be released are in integral multiples of $1,000. In order to create 40 stripped units, a normal unit holder must substitute, as pledged securities, zero-coupon U.S. treasury securities (CUSIP No. 912833DA5) which mature on August 15, 2011 and will pay $1,000 at maturity. Upon creation of the stripped units, the treasury securities will be pledged with the collateral agent to secure your obligation to purchase the ordinary shares under your purchase contract, and the pledged senior notes or, after a special event redemption, the pledged treasury securities underlying the normal units will be released to the unit holder.

To create stripped units, you must:

- deposit with the collateral agent the treasury securities described above, which will be substituted for the pledged senior notes or, after a special event redemption, the pledged treasury securities underlying your normal units and pledged to the collateral agent to secure your obligation to purchase our ordinary shares under your purchase contract;
- transfer the normal units to the purchase contract agent; and
- deliver a notice to the purchase contract

agent stating that you have deposited the specified treasury securities with the collateral agent and are requesting that the purchase contract agent instruct the collateral agent to release to you the pledged senior notes or, after a special event redemption, the pledged treasury securities underlying the normal units.

Upon the deposit and the receipt of an instruction from the purchase contract agent, the collateral agent will effect the release to the purchase contract agent of the underlying pledged senior notes or, after a special event redemption, the pledged treasury securities from the pledge under the pledge agreement free and clear of our security interest. The purchase contract agent will:

- cancel the related normal units;
- transfer to you the underlying pledged senior notes or, after a special

event redemption, the pledged treasury securities; and

deliver to you the stripped units.

Any senior notes or treasury securities, as the case may be, released to you will be tradable separately from the resulting stripped units. Interest on the senior notes will continue to be payable in accordance with their terms.

Recreating Normal Units

Each holder of stripped units may recreate normal units by substituting, as pledged securities, senior notes or, after a special event redemption, the applicable treasury securities then constituting a part of the normal units for the treasury securities underlying the stripped units. Holders may recreate normal units at any time on or before the thirteenth business day prior to the stock purchase date.

Upon recreation of normal units, the senior notes or, after a special event redemption, the applicable treasury securities will be pledged with the collateral agent to secure the holder s obligation to purchase ordinary shares under the purchase contract, and the treasury securities underlying the stripped units will be released to the unit holder. Because treasury securities are issued in integral multiples of $1,000, holders of stripped units may make the substitution only in integral multiples of 40 stripped units. If, however, treasury securities have replaced the senior notes as a component of the normal units as the result of a special event redemption, holders of the stripped units may make this substitution using the applicable treasury securities instead of senior notes and only in integral multiples of stripped units such that both the treasury securities to be deposited and the treasury securities to be released are in integral multiples of $1,000.

To recreate normal units from stripped units, you must:

deposit with the collateral agent:

if the substitution occurs prior to the occurrence of a special event redemption, senior notes having an aggregate principal amount equal to the aggregate stated amount of your stripped units; or

if the substitution occurs after the occurrence of a special event redemption, the applicable treasury securities then constituting a part of the normal units;

transfer the stripped units to the purchase contract agent; and

- deliver a notice to the purchase contract agent stating that you have deposited the senior notes or, after a special event redemption, the applicable treasury securities with the collateral agent and are requesting that the purchase contract agent instruct the collateral agent to release to you the pledged treasury securities underlying those stripped units.

The senior notes or, after a special event redemption, the applicable treasury securities will be substituted for the pledged treasury securities underlying your stripped units and will be pledged with the collateral agent to secure your obligation to purchase ordinary shares under your purchase contract.

Upon the deposit and receipt of an instruction from the purchase contract agent, the collateral agent will effect the release to the purchase contract agent of the underlying pledged treasury securities from the pledge under the pledge agreement free and clear of our security interest. The purchase contract agent will:

- cancel the related

stripped units;

transfer the underlying treasury securities to you; and

deliver the normal units to you.

Current Payments

If you hold normal units, you will receive payments consisting of:

quarterly contract adjustment payments on the purchase contracts at the annual rate of % of the $25 stated amount, accrued through but excluding the stock purchase date; and

quarterly interest payments on the senior notes pledged in respect of your normal units at the annual rate of % of the principal amount, accrued through but excluding the stock purchase date.

If you hold stripped units and do not separately hold senior notes, you will receive only quarterly contract adjustment payments on the purchase contracts at the annual rate of % of the $25 stated amount, accrued through but excluding the stock purchase date.

We may defer the contract adjustment payments until no later than the stock purchase date as described below. If we defer any of these payments, we will accrue additional payments on the deferred amounts at the annual rate of % until paid. We are not entitled to defer interest payments on the senior notes.

We currently conduct substantially all of our operations through our subsidiaries, and our subsidiaries generate substantially all of our operating income and cash flow. Our ability to pay our obligations under the purchase contracts and senior notes depends on our ability to obtain cash dividends or other cash payments or obtain loans from our subsidiaries, which are separate and distinct legal entities that will have no obligations to pay any dividends or to lend or advance us funds and which may be restricted from doing so by contract, including other financing arrangements, charter provisions or applicable legal or regulatory requirements and may also depend on the financial condition of our subsidiaries. As a result, our obligations under the purchase contracts and the senior notes will be effectively subordinated to all of the obligations of our subsidiaries. For a description of certain regulatory restrictions on the payments of dividends by our subsidiaries, see Note 25 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2007, which is incorporated by reference in this prospectus supplement and the accompanying prospectus.

In addition, because we are a holding company, except to the extent that we have priority or equal claims against our subsidiaries as a creditor, our obligations under the senior notes and the purchase contracts will be effectively subordinated to the obligations of our subsidiaries because, as a shareholder of our subsidiaries, we will be subject to the prior claims of their creditors.

If you hold senior notes separately from the units and do not separately hold stripped units, you will receive only the interest payable on the senior notes. The senior notes, whether held separately from or as part of the units, will pay interest at the initial annual rate of % of the principal amount of $1,000 per senior note until the settlement date of a successful remarketing or, if no remarketing occurs, until maturity. If there is a successful remarketing of the senior notes, the rate of interest payable from the settlement date of the successful remarketing until their maturity will be the reset rate or a floating rate plus the reset spread, which will be a rate or spread established by the remarketing agent that meets the requirements described under Remarketing. However, if a reset rate meeting the requirements described in this prospectus supplement cannot be established during the remarketing period, the interest rate will not be reset on such date and will continue to be the initial annual rate of % until maturity of the senior notes.

Contract adjustment payments and interest payments on the senior notes payable for any period will be computed (1) for any full quarterly period on the basis of a 360-day year consisting of twelve 30-day months and (2) for any period shorter than a full quarterly period, on the basis of a 30-day month and, for periods of less than a month, on the basis of the actual number of days elapsed per 30-day month. Contract adjustment payments and interest on the senior notes will accrue from the date of original issuance and will be payable quarterly in arrears on February 15, May 15, August 15 and November 15 of each year, commencing on November 15, 2008. If the senior notes are successfully remarketed and the interest rate is reset to a fixed rate of interest, following the stock purchase date, interest on the senior notes will be payable semi-annually in arrears on February 15 and August 15 of each year. If the senior notes are successfully remarketed and the interest rate is reset to a floating rate, following the stock purchase date, interest on the senior notes will be payable quarterly in arrears on February 15, May 15, August 15 and November 15 of each year. Contract adjustment payments shall cease accruing on the stock purchase date. However, if the purchase contracts are settled early, at your option, or terminated (upon the occurrence of certain events of bankruptcy, insolvency or reorganization with respect to us), the right to receive contract adjustment payments and deferred contract adjustment payments will also terminate and, except in the case of a merger early settlement, you will not receive any accrued and unpaid contract adjustment payments.

Our obligations with respect to the senior notes will be unsecured and will rank equally with all of our other unsecured and unsubordinated debt. See Description of the Senior Notes below. Our obligations with respect to contract adjustment payments will be subordinate and junior in right of payment to our obligations under our senior indebtedness. Senior indebtedness means any of our indebtedness of any kind unless the instrument under which it is incurred expressly provides that it is in parity or subordinate in right of payment to the contract adjustment payments. We will not be permitted to make any contract adjustment payments if a payment default shall have occurred and be continuing with respect to any of our senior indebtedness or the maturity of any of our senior indebtedness shall have been accelerated because of a default.

Contract adjustment payments and, in the case of holders of normal units, interest payments on the senior notes will be payable to the holders of units as they are registered on the books and records of the purchase contract agent on the relevant record dates. The relevant record dates will be the 15th calendar day prior to the relevant payment dates. Contract adjustment payments will be paid through the purchase contract agent, which will hold amounts received in respect of the contract adjustment payments for the benefit of the holders of the purchase contracts that are a part of such units. Subject to any applicable laws and regulations, each interest payment on the senior notes will be made as described under Book-Entry System below. If any date on which these payments and distributions are to be made is not a business day, then amounts payable on that date will be made on the next day that is a business day (and so long as the payment is made on the next business day, without any interest or other payment on account of any such delay). However, if such business day is in the next calendar year, payment will be made on the prior business day, in each case with the same force and effect as if made on the payment date.

Option to Defer Contract Adjustment Payments

We may, at our option and upon prior written notice to the holders of the units and the purchase contract agent, defer payment of all or part of the contract adjustment payments on the related purchase contracts forming a part of normal units and stripped units until no later than the stock purchase date. However, deferred contract adjustment payments will accrue additional contract adjustment payments at the rate of % per year (compounding on each succeeding payment date) until paid. If you elect to settle your purchase contracts early, or the purchase contracts are terminated upon the occurrence of certain events of bankruptcy, insolvency or reorganization with respect to us, your right to receive contract adjustment payments and deferred contract adjustment payments will also terminate and, except in the case of a fundamental change early settlement, you will not receive any accrued and unpaid contract adjustment payments.

In the event that we elect to defer the payment of contract adjustment payments on the purchase contracts until the stock purchase date, each holder of normal units and stripped units will receive on the stock purchase date in respect of the deferred contract adjustment payments, a cash payment equal to the aggregate amount of deferred contract adjustment payments payable to the holder.

In the event we exercise our option to defer the payment of contract adjustment payments, then until the deferred contract adjustment payments have been paid, we will not, and will not permit any of our subsidiaries to, declare or pay dividends on, make distributions with respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to, our ordinary shares other than:

- repurchases, redemptions or acquisitions of our ordinary shares in connection with any employment contract, benefit plan or other similar arrangement with or for the benefit of employees, officers, directors or agents or a share purchase or dividend reinvestment plan, or our satisfaction of our obligations pursuant to any contract or security outstanding on the date of such event;

as a result of a reclassification of capital stock or the exchange or conversion of one class or series of our capital stock for another class or series of our capital stock;

the purchase of fractional interests in shares of our capital stock pursuant to the conversion or exchange provisions of the capital stock or the security being converted or exchanged;

dividends or distributions in our capital stock (or rights to acquire our capital stock); or

redemptions, exchanges or repurchases of any rights outstanding under a shareholder rights plan on the date of such event or the declaration or payment thereunder of a dividend or distribution of or with respect to rights in the future, or the redemption or repurchase of any rights pursuant thereto.

Our subsidiaries will not be restricted from making any similar payments on their capital stock if we exercise our option to defer payments of any contract adjustment payments.

Description of the Purchase Contracts

Each purchase contract underlying a unit, unless earlier terminated, or earlier settled at your option or upon certain fundamental changes and other transactions described below, will obligate you to purchase, and us to sell, for $25, on the stock purchase date a number of newly issued ordinary shares of XL Capital Ltd equal to the settlement rate.

The settlement rate, subject to adjustment under certain circumstances as described under Anti-dilution Adjustments below, will be as follows:

If the applicable market value of the ordinary shares (which is the average of the closing price per ordinary share on each of the 20 consecutive trading days ending on the third trading day immediately preceding the stock purchase date) is equal to or greater than the

threshold appreciation price of $ (which represents a premium of approximately % over the reference price of $), then the settlement rate (which is equal to $25 divided by $) will be ordinary shares per purchase contract (the minimum settlement rate). Accordingly, if the market price for the ordinary shares increases to an amount that is greater than $ on the settlement date, the aggregate market value of the ordinary shares issued upon settlement of each purchase contract, assuming that this market value is the same as the applicable market value of the ordinary shares, will be greater than $25, and if the market price equals $, the aggregate market value of those shares, assuming that this market value is the same as the applicable market value of the ordinary shares, will equal $25.

If the applicable market value of the ordinary shares is less than $ but greater than $, the settlement rate will be equal to $25 divided by the applicable market value of the ordinary shares per purchase contract. Accordingly, if the market price for the ordinary shares increases but that market price is less than $ on the settlement date, the aggregate market value of the ordinary shares issued upon settlement of each purchase contract, assuming that this market value is the same as the applicable market value of the ordinary shares, will equal $25.

If the applicable market value of the ordinary shares is less than or equal to $, the settlement rate (which is equal to $25 divided by $) will be ordinary shares per purchase contract (the maximum settlement rate). Accordingly, if the market price for the ordinary shares decreases to an amount that is less than $ on the settlement date, the aggregate market value of the ordinary shares issued upon settlement of each purchase contract, assuming that this market value is the same as the applicable market value of the ordinary shares, will be less than $25, and if the market price equals $, the aggregate market value of those shares, assuming that this market value is the same as the applicable market value of the ordinary shares, will equal $25.

We refer to the minimum settlement rate and the maximum settlement rate as the fixed settlement rates.

If an accounting event occurs and is continuing prior to the earlier of a successful remarketing of the senior notes and the stock purchase date, we may, at our option, fix the settlement rate according to a formula based on the Black-Scholes option pricing model, which is a function of several variables, including the market price of our ordinary shares, our dividend yield, the remaining maturity of the purchase contract, the risk-free rate, and the volatility of our ordinary shares. See Fixed Settlement Rate Option upon Accounting Event.

For purposes of determining the applicable market value of the ordinary shares, the closing price of the ordinary shares on any date of determination means the closing sale price or, if no closing sale price is reported, the last reported sale price of the ordinary shares on the New York Stock Exchange on that date. If the ordinary shares are not listed for trading on the New York Stock Exchange on any date, the closing price of the ordinary shares on any date of determination means the closing sale price as reported in the composite transactions for the principal U.S. securities exchange on which the ordinary shares are listed or, if the ordinary shares are not so reported, the last quoted bid price for the ordinary shares in the over-the-counter market as reported by the National Quotation Bureau or similar organization or, if that bid price is not available, the market value of the ordinary shares on that date as determined by a nationally recognized independent investment banking firm we retain for this purpose.

A trading day is a day on which the ordinary shares (1) are not suspended from trading on any national or regional securities exchange or association or over-the-counter market at the close of business and (2) have traded at least once on the national or regional securities exchange or association or over-the-counter market that is the primary market for the trading of the ordinary shares by the close of business on such day.

Fixed Settlement Rate Option upon Accounting Event

If an accounting event occurs and is continuing, we may, at our option, elect to fix the purchase contract settlement rate. If we elect to fix the purchase contract settlement rate, we must provide written notice to the purchase contract agent setting forth our intention to modify the purchase contract settlement rate to be an obligation for you to buy, and us to sell, a fixed number of shares, equal to the purchase contract value divided by the stock price. The purchase contract value will be:

the value of shares;

less the value of call options with an exercise price of $ each;

plus the value of call options with an exercise price of $ each.

The value of the call options will be determined using the Black-Scholes option pricing formula for European call options. The formula for the purchase contract value is subject to anti-dilution adjustments. In no event will the fixed accounting event settlement rate (the purchase contract value divided by the stock price) be greater than shares, subject to any then applicable anti-dilution adjustments.

Accounting event means the receipt, at any time prior to the earlier of the date of any successful remarketing of the senior notes and the stock purchase date, by the audit committee of our Board of Directors of a written report in accordance with Statement on Auditing Standards No. 97, Amendment to Statement of Auditing Standards No. 50, Reports on the Application of Accounting Principles, from our independent auditors, provided at the request of management, to the effect that, as a result of any change in accounting rules or interpretations thereof after the date of this prospectus supplement, we must either (a) account for the purchase contracts as derivatives under Statement of Financial Accounting Standards (FAS) No. 133, Accounting for Derivative Instruments and Hedging Activities (or any successor accounting standard), or (b) account for the units using the if-converted method under FAS No. 128, Earnings per Share (or any successor accounting standard), and that such accounting treatment will cease to apply upon the fixing of the settlement rate on the purchase contracts.

This Black-Scholes option pricing formula is a function of:

our stock price, which

will be calculated as the average closing price per share of our ordinary shares during the 20 consecutive trading day period commencing the third trading day following the date of our notice to the purchase contract agent;

the risk-free rate, defined as the yield to maturity on the treasury security maturing on August 15, 2011 (CUSIP No. 912833DA5), as of 12 noon on the date of our notice;

the volatility of our stock;

time, calculated as the time from our notice to August 15, 2011; and

our dividend yield, calculated as the dividend threshold

amount
($0.19)
adjusted as
described
below under
Anti-dilution
Adjustments,
multiplied by
four, divided
by the stock
price.

The volatility of our ordinary shares for the first call option will be calculated as the annualized standard deviation of the logarithmic daily returns on our ordinary shares over the 260 consecutive trading day period ending on the day of our notice. The volatility of the second call option will be calculated as the volatility of the first call option minus two.

Settlement

Settlement of the purchase contracts will occur on the stock purchase date, unless:

- you have settled the related purchase contract prior to the stock purchase date through the delivery of cash to the purchase contract agent in the manner described in "Early Settlement";
- we are involved in certain fundamental changes, and you have settled the related purchase contract through an early settlement as described in "Early Settlement upon Fundamental Change"; or
- an event described under "Termination of Purchase Contracts" below has occurred.

The settlement of the purchase contracts on the stock purchase date will occur as follows:

- in the case of normal units where there has been a successful remarketing, the proceeds from the remarketing will automatically be applied to satisfy in full the holders obligation to purchase ordinary shares under the related purchase contracts;

- for the stripped units or normal units that include pledged treasury securities, the cash payments on the treasury securities will automatically be applied to satisfy in full your obligation to purchase our ordinary shares under the related purchase contracts;

- for normal units, subject

to certain provisions set forth below in "Notice to Settle with Cash," you may deliver cash on the thirteenth business day prior to the stock purchase date; and

for the normal units in which the related senior notes remain a part of the normal units because of a failed remarketing, we will exercise our rights as a secured party to dispose of the senior notes in accordance with applicable law in order to satisfy in full your obligation to purchase our ordinary shares under the purchase contracts.

In any such event, the ordinary shares will then be issued and delivered to you or your designee, upon payment of the applicable consideration, presentation and surrender of the certificate evidencing the units, if the units are held in certificated form, and payment by you of any transfer or similar taxes payable in connection with the issuance of the ordinary shares to any person other than you.

Prior to the date on which the ordinary shares are issued in settlement of the purchase contracts, the ordinary shares underlying the related purchase contracts will not be deemed to be outstanding for any purpose and you will have no rights with respect to the ordinary shares, including voting rights, rights to respond to tender offers and rights to receive any dividends or other distributions on the ordinary shares, by virtue of holding the purchase contracts.

No fractional ordinary shares will be issued by us pursuant to the purchase contracts. In lieu of fractional shares otherwise issuable, you will be entitled to receive an amount in cash equal to the fraction of an ordinary share, calculated on an aggregate basis in respect of the purchase contracts you are settling, multiplied by the applicable market value.

Remarketing

The senior notes held by each holder of normal units will be remarketed, unless the holder elects not to participate in the remarketing. In the event of a successful remarketing, the proceeds of such remarketing will be used to settle directly the purchase contracts on the stock purchase date.

Unless a holder of normal units delivers the requisite amount of cash and does not otherwise elect not to participate in the remarketing, as described below, the senior notes that are included in the normal units will be remarketed on the remarketing date. The remarketing period will be the seven business day period beginning on the ninth business day prior to the stock purchase date and ending on the third business day prior to the stock purchase date. We anticipate that the settlement date of any successful remarketing will be on or before August 15, 2011.

We will enter into a remarketing agreement with a nationally recognized investment banking firm, pursuant to which that firm will agree, as remarketing agent, to use reasonable best efforts to remarket the senior notes that are included in normal units (or separately held senior notes) that are participating in the remarketing, at a price per senior note that will result in net cash proceeds equal to 100% of the remarketing value.

Prior to any remarketing, we will use commercially reasonable efforts to file and obtain effectiveness of a registration statement with respect to the remarketing if so required under the U.S. federal securities laws at the time.

The remarketing value of a senior note will be equal to the principal amount of the senior note.

The proceeds from such remarketing will be paid in direct settlement of the obligations of the holders of normal units to purchase our ordinary shares. We will separately pay a fee to the remarketing agent. Holders of senior notes that are remarketed will not be responsible for the payment of any remarketing fee in connection with the remarketing.

Alternatively, a holder of normal units may elect not to participate in the remarketing and, instead, retain the senior notes underlying those normal units by delivering, in respect of each senior note to be retained, cash in the amount of $25 for each purchase contract, to the purchase contract agent on or prior to the thirteenth business day prior to the stock purchase date and such cash will be used in settlement of the obligations of such non-participating holder under the related purchase contracts. If the remarketing is successful and the rate is reset, the reset rate or the applicable index plus the reset spread will apply to all outstanding senior notes, whether or not the holders participated in such remarketing, and will become effective on the remarketing settlement date. In addition, upon a successful remarketing, other provisions of the senior notes may be modified as described below under Description of the Senior Notes. Your senior notes will become subject to the modified terms whether or not you participate in the remarketing.

The purchase contract agent will give holders of normal units and separate notes notice of the remarketing, the Remarketing Notice, including the amount of cash that must be delivered by holders that elect not to participate in the remarketing, on or prior to the sixteenth business day prior to the stock purchase date. A holder electing not to participate in the remarketing must notify the purchase contract agent of such election and deliver such cash to the purchase contract agent in accordance with the procedures set forth in the Remarketing Notice. A holder that notifies the purchase contract agent of such election but does not so deliver the requisite amount of cash or a holder that does not notify the purchase contract agent of its intention to make a cash settlement as described in Notice to Settle with Cash below and, in either case, does not otherwise elect not to participate in the remarketing will be deemed to have elected to participate in the remarketing.

In order to facilitate the remarketing of the senior notes at the remarketing value described above, the remarketing agent will reset the rate of interest on the senior notes to a new fixed rate or floating rate equal an applicable index plus a reset spread to be determined in the remarketing (in which case we may also elect to modify the business day and day count convention to conform to market practice for floating rate notes bearing interest at a rate determined by reference to such index) effective from the settlement date of a successful remarketing until their maturity. In addition, in connection with a successful remarketing, we and the remarketing agent may shorten the maturity date or modify the optional redemption provisions. The reset rate or reset spread will be the rate or spread sufficient to cause the then current market value of each senior note to be equal to 100% of the remarketing value. If the remarketing agent cannot establish a reset rate or reset spread meeting such requirements on the ninth business day preceding the stock purchase date and therefore cannot remarket the senior notes participating in the remarketing at a price per senior note equal to 100% of the remarketing value, the remarketing agent will attempt to establish a reset rate or reset spread meeting these requirements on each of the six immediately following business days. Any such remarketing will be at a price per senior note equal to 100% of the remarketing value on the subsequent remarketing date. If the remarketing agent fails to remarket the senior notes at that price by the end of the third business day immediately preceding the stock purchase date, any holder of normal units that has not otherwise settled its purchase contracts in cash will be deemed to have directed us to retain the securities pledged as collateral in satisfaction of such holder s obligations under the related purchase contract, and we will exercise our rights as a secured party with respect to such securities and may, subject to applicable law, retain the securities or sell them in one or more public or private sales to satisfy in full such holder s obligation to purchase the ordinary shares under the related purchase contracts on the stock purchase date. In addition, holders of separate senior notes that remain outstanding will have the right to put their senior notes to us on the date set forth in the Remarketing Notice for $25 per senior note, plus accrued and unpaid interest, by notifying the indenture trustee in accordance with the procedures set forth in the Remarketing Notice.

The obligation of a holder of purchase contracts to pay the purchase price for the ordinary shares under the underlying purchase contracts on the stock purchase date is a non-recourse obligation payable solely out of the proceeds of the senior notes or treasury securities pledged as collateral to secure the purchase obligation. A holder of a stripped unit who receives any payments of principal on account of any pledged treasury securities will be obligated to deliver such payments to us for application to its obligation under the related purchase contracts. In no event will a holder of a purchase contract be liable for any deficiency between such proceeds and the purchase price for the ordinary shares under the purchase contract.

In the event of a failed remarketing, we will cause a notice of failed remarketing to be published by 9:00 a.m. on the day following such failed remarketing. We will also release this information by means of Bloomberg and Reuters (or successor or equivalent) newswire.

Optional Remarketing

On or prior to the fourth business day immediately preceding the first day of the remarketing period, but no earlier than the sixteenth business day prior to the stock purchase date, holders of senior notes that are not included as part of normal units may elect to have their senior notes included in the remarketing by delivering their senior notes along with a notice of this election to the collateral agent. The collateral agent will hold these senior notes in an account separate from the collateral account in which the securities pledged to secure the holders obligations under the purchase contracts will be held. Holders of senior notes electing to have their senior notes remarketed will also have the right to withdraw that election on or prior to the fourth business day immediately preceding the first day of the remarketing period.

On the business day immediately preceding the first day of the remarketing period, the collateral agent, at the written direction of the remarketing agent, will deliver these separate senior notes to the remarketing agent for remarketing. The remarketing agent will use reasonable best efforts to remarket the separately held senior notes included in the remarketing on the remarketing date at a price per senior note equal to 100% of the remarketing value. The remarketing agent will remit to the collateral agent the proceeds for payment to such participating holders. We will separately pay a fee to the remarketing agent. Holders of senior notes that are remarketed will not be responsible for the payment of any remarketing fee in connection with the remarketing.

If, as described above, the remarketing agent cannot remarket the senior notes during a remarketing period, the remarketing agent will promptly return the senior notes to the custodial agent to release to the holders following the conclusion of that period.

Early Settlement

At any time not later than 10:00 a.m., New York City time, on the thirteenth business day prior to August 15, 2011, a holder of units may settle the related purchase contracts by delivering to the purchase contract agent immediately available funds in an amount equal to $25 multiplied by the number of purchase contracts being settled; *provided* that at the time of such early settlement, we have an effective shelf registration statement covering the sale of such ordinary shares, unless we have been advised by counsel that no prospectus is required to be delivered in connection with the sale of such ordinary shares. We may suspend the use of such prospectus up to four times in any 360-day period not to exceed 90 days in any such 360-day period if (i) the prospectus would, in our judgment, contain a material misstatement or omission as a result of an event that has occurred and is continuing or as a result of any proposed or pending material business transaction, event or announcement; and (ii) we reasonably determine that the disclosure of such material non-public information could have a material adverse effect on us and our subsidiaries taken as a whole or could impede the consummation of any proposed or pending material business transaction. Holders may settle the related purchase contracts early only in integral multiples of 40.

No later than the third business day after an early settlement, we will issue and deliver, and the holder will be entitled to receive, ordinary shares for each unit early settled or if we have previously fixed the settlement rate as a result of an accounting event, a number of ordinary shares equal to the fixed settlement rate for each unit early settled, in each case, regardless of the market price of the ordinary shares on the date of early settlement, and in each case subject to adjustment under the circumstances described under Anti-dilution Adjustments below. At that time, the holder s right to receive contract adjustment payments and any deferred contract adjustment payments will terminate. The holder will also receive ownership interests in the senior notes or treasury securities underlying those units.

Notice to Settle with Cash

Unless treasury securities have replaced the ownership interests in the senior notes as a component of normal units as a result of a special event redemption or the purchase contract has been settled early or otherwise terminated, a holder of normal units may settle the related purchase contract with separate cash prior to 5:00 p.m., New York City time, on the thirteenth business day immediately preceding the stock purchase date. A holder of a normal unit wishing to settle the related purchase contract with separate cash must notify the purchase contract agent by presenting and surrendering the normal unit certificate evidencing the normal unit at the offices of the purchase contract agent with the form of Notice to Settle by Separate Cash on the reverse side of the certificate completed and executed as indicated on or prior to 5:00 p.m., New York City time, on the thirteenth business day immediately preceding the stock purchase date. If a holder fails to deliver the requisite amount of cash to the collateral agent prior to 5:00 p.m., New York City time, on the thirteenth business day immediately preceding the stock purchase date, such holder will be deemed to have elected to participate in the remarketing and, if the remarketing fails, directed us to retain the related ownership interests in the senior note in full satisfaction of the holder s obligation to purchase ordinary shares under the related purchase contract.

Early Settlement upon Cash Fundamental Change

If a fundamental change occurs (as defined below) prior to the settlement date, then each holder of a purchase contract will have the right, on the fundamental change early settlement date (as defined below), to accelerate and settle such contract early at the fundamental change early settlement rate described below. We refer to this right as the fundamental change early settlement right.

We will provide each of the holders with a notice of a fundamental change within five business days after its occurrence. The notice will specify a date, which we refer to as the fundamental change early settlement date, which shall be not less than 20 or more than 30 calendar days after the date of the notice, by which each holder s fundamental change early settlement right must be exercised; *provided*, *however*, t