XL CAPITAL LTD
Form 10-Q/A
November 09, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
(Amendment No. 1)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2006

OR

[   ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF**

THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-10804

XL CAPITAL LTD
(Exact name of registrant as specified in its charter)

CAYMAN ISLANDS	98-0191089
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

XL House, One Bermudiana Road, Hamilton, Bermuda HM 11
(Address of principal executive offices and zip code)

(441) 292-8515
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer __X__ Accelerated filer _____ Non-accelerated filer _____

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

As of May 1, 2006, there were 180,293,805 outstanding Class A Ordinary Shares, $0.01 par value per share, of the registrant.

XL CAPITAL LTD

INDEX TO FORM 10-Q

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (this Amendment) amends the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006 filed on May 5, 2006 (the Original Filing). XL Capital Ltd has filed this Amendment to correct certain errors in the Unaudited Consolidated Statement of Cash Flows as described in Note 11, *Restatement of Consolidated Statements of Cash Flows,* as well as to make corresponding textual changes in Item 2, Managements Discussion and Analysis of Financial Condition and Results of Operations and to add related information in Item 4, Controls and Procedures. Other information contained herein has not been updated. Therefore, you should read this Amendment together with other documents and reports that we have filed with the Securities and Exchange Commission subsequent to the filing of the Original Filing. Information in such documents and reports updates and supersedes certain information contained in this Amendment. More current information with respect to XL Capital Ltd. is contained within its Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, and other filings with the Securities and Exchange Commission.

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

XL CAPITAL LTD
CONSOLIDATED BALANCE SHEETS
(U.S. dollars in thousands, except share amounts)

	(Unaudited) March 31, 2006	December 31, 2005
ASSETS		
Investments:		
Fixed maturities at fair value (amortized cost: 2006, $33,283,814; 2005, $31,984,076)	$ 33,134,263	$ 32,309,565
Equity securities, at fair value (cost: 2006, $764,267; 2005, $696,858)	959,989	868,801
Short-term investments, at fair value (amortized cost: 2006, $2,686,404; 2005, $2,552,589)	2,677,741	2,546,073
Total investments available for sale	36,771,993	35,724,439
Investments in affiliates	1,887,228	2,046,721
Other investments	452,263	399,417
Total investments	39,111,484	38,170,577
Cash and cash equivalents	2,262,824	3,693,475
Accrued investment income	375,068	391,660
Deferred acquisition costs.	955,284	866,200
Prepaid reinsurance premiums	1,231,940	1,067,556
Premiums receivable.	4,485,444	3,799,041
Reinsurance balances receivable	1,175,467	1,043,013
Unpaid losses and loss expenses recoverable	6,322,630	6,441,522
Goodwill and other intangible assets	1,806,425	1,814,544
Deferred tax asset, net	297,181	318,399
Other assets	732,072	848,914
Total assets	$ 58,755,819	$ 58,454,901
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Unpaid losses and loss expenses	$ 23,733,585	$ 23,767,672
Deposit liabilities	7,987,272	8,240,987
Future policy benefit reserves	5,674,221	5,606,461
Unearned premiums	6,392,319	5,388,996
Notes payable and debt	3,367,646	3,412,698
Reinsurance balances payable	1,271,488	1,414,752
Net payable for investments purchased	269,167	639,034
Other liabilities.	1,512,857	1,438,234
Minority interest.	56,684	74,256

Total liabilities	$ 50,265,239	$ 49,983,090

See accompanying Notes to Unaudited Consolidated Financial Statements

XL CAPITAL LTD
CONSOLIDATED BALANCE SHEETS
(U.S. dollars in thousands, except share amounts)

	(Unaudited) March 31, 2006	December 31, 2005
Commitments and Contingencies		
Shareholders Equity:		
Series A preference ordinary shares, 9,200,000 authorized, par value $0.01 Issued and outstanding: 2006 and 2005, 9,200,000	$ 92	$ 92
Series B preference ordinary shares, 11,500,000 authorized, par value $0.01 Issued and outstanding: 2006 and 2005, 11,500,000;	115	115
Series C preference ordinary shares, 20,000,000 authorized, par value $0.01 Issued and outstanding 2006 and 2005, nil		
Class A ordinary shares, 999,990,000 authorized, par value $0.01 Issued and outstanding: 2006, 180,284,555; 2005, 179,528,593	1,803	1,795
Additional paid in capital	6,397,208	6,472,839
Accumulated other comprehensive (loss) income	(122,113)	268,243
Deferred compensation		(95,464)
Retained earnings	2,213,475	1,824,191
Total shareholders equity	$ 8,490,580	$ 8,471,811
Total liabilities and shareholders equity	$ 58,755,819	$ 58,454,901

See accompanying Notes to Unaudited Consolidated Financial Statements

XL CAPITAL LTD
CONSOLIDATED STATEMENTS OF INCOME
(U.S. dollars and shares in thousands, except per share amounts)

	(Unaudited) Three Months Ended March 31, 2006	(Unaudited) Three Months Ended March 31, 2005
Revenues:		
Net premiums earned	$ 1,818,549	$ 1,899,435
Net investment income	463,742	308,205
Net realized gains on investments	22,765	60,671
Net realized and unrealized gains on derivative instruments	48,851	45,178
Net income from investment affiliates	106,393	70,512
Fee income and other	12,962	17,160
Total revenues	$ 2,473,262	$ 2,401,161
Expenses:		
Net losses and loss expenses incurred	$ 1,097,124	$ 1,143,061
Claims and policy benefits	142,880	125,627
Acquisition costs	267,087	294,394
Operating expenses	261,561	247,156
Exchange losses	30,749	10,922
Interest expense	127,869	88,286
Amortization of intangible assets	1,095	2,793
Total expenses	$ 1,928,365	$ 1,912,239
Income before minority interest in net income of subsidiary, income tax (benefit) charge and net (income) from operating affiliates	$ 544,897	$ 488,922
Minority interest in net income of subsidiary	2,258	2,275
Income tax (benefit) charge	66,636	52,874
Net loss (income) from operating affiliates	7,420	(19,252)
Net income	468,583	453,025
Preference share dividends	(10,080)	(10,080)
Net income available to ordinary shareholders	$ 458,503	$ 442,945
Weighted average ordinary shares and ordinary share equivalents outstanding basic	178,424	138,035
Weighted average ordinary shares and ordinary share equivalents outstanding diluted	179,158	139,147

Earnings per ordinary share and ordinary share equivalent basic	$ 2.57	$ 3.21
Earnings per ordinary share and ordinary share equivalent diluted	$ 2.56	$ 3.18

See accompanying Notes to Unaudited Consolidated Financial Statements

XL CAPITAL LTD
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(U.S. dollars in thousands)

	(Unaudited) Three Months Ended March 31, 2006	(Unaudited) Three Months Ended March 31, 2005
Net income.	$ 468,583	$ 453,025
Change in net unrealized (depreciation) appreciation of investments, net of tax	(399,238)	(344,140)
Foreign currency translation adjustments, net	11,236	18,070
Net unrealized gain (loss) on future policy benefit reserves	(2,509)	3,082
Amortization of loss on cash flow hedge	155	156
Comprehensive income	$ 78,227	$ 130,193

See accompanying Notes to Unaudited Consolidated Financial Statements

XL CAPITAL LTD
CONSOLIDATED STATEMENTS OF SHAREHOLDERS’ EQUITY
(U.S. dollars in thousands)

	(Unaudited) Three Months Ended March 31,	
	2006	**2005**
Series A and B Preference Ordinary Shares:		
Balance — beginning of year	$ 207	$ 207
Issue of shares	—	—
Balance — end of period	$ 207	$ 207
Class A Ordinary Shares:		
Balance-beginning of year	$ 1,795	$ 1,389
Issue of ordinary shares	8	8
Exercise of stock options	1	4
Repurchase of ordinary shares	(1)	(1)
Balance — end of period	$ 1,803	$ 1,400
Additional Paid in Capital:		
Balance — beginning of year	$ 6,472,839	$ 3,950,175
Issue of ordinary shares	49,769	61,629
Repurchase of ordinary shares	(1,715)	(3,837)
Exercise of stock options	3,027	16,238
Stock option expense	5,335	4,177
Equity reclassification impact of adopting FAS 123 (r)	(95,464)	—
Net change in deferred compensation	(36,583)	—
Balance — end of period	$ 6,397,208	$ 4,028,382
Accumulated Other Comprehensive Income:		
Balance — beginning of year	$ 268,243	$ 460,273
Net change in unrealized (losses) on investment portfolio, net of tax	(416,805)	(347,320)
Net change in unrealized gains (losses) on investment portfolio of affiliates	17,567	3,180
Amortization of loss on cash flow hedge	155	156
Net unrealized gain or loss on future policy benefit reserves	(2,509)	3,082
Currency translation adjustments	11,236	18,070
Balance — end of period	$ (122,113)	$ 137,441
Deferred Compensation:		
Balance — beginning of year	$ (95,464)	$ (69,988)
Net issue of restricted shares	—	(62,031)

Amortization		9,131
Equity reclassification impact of adopting FAS 123 (r)	95,464	
Balance end of period	$	$ (122,888)
Retained Earnings:		
Balance beginning of year	$ 1,824,191	$ 3,396,639
Net income	468,583	453,025
Dividends on Series A and B preference ordinary shares	(10,080)	(10,080)
Dividends on Class A ordinary shares.	(67,418)	(69,057)
Repurchase of ordinary shares	(1,801)	
Balance end of period	$ 2,213,475	$ 3,770,527
Total Shareholders Equity	$ 8,490,580	$ 7,815,069

See accompanying Notes to Unaudited Consolidated Financial Statements

XL CAPITAL LTD
CONSOLIDATED STATEMENTS OF CASH FLOWS
(U.S. dollars in thousands)

	(Unaudited) Three Months Ended March 31,	
	2006 (as restated)	**2005** (as restated)
Cash flows provided by operating activities:		
Net income	$ 468,583	$ 453,025
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Net realized (gains) on investments.	(22,765)	(60,671)
Net realized and unrealized (gains) on derivative instruments	(48,851)	(45,178)
Amortization of premiums on fixed maturities	5,394	17,191
Equity in net (income) from investment, insurance and financial affiliates	(98,973)	(89,764)
Amortization of deferred compensation	18,975	9,131
Accretion of debt	239	241
Accretion of deposit liabilities	79,329	46,327
Unpaid losses and loss expenses	(110,333)	303,165
Future policy benefit reserves	2,422	8,908
Unearned premiums	988,516	1,172,582
Premiums receivable.	(664,996)	(1,135,110)
Unpaid losses and loss expenses recoverable	136,994	143,029
Prepaid reinsurance premiums	(161,462)	(121,712)
Reinsurance balances receivable	(124,829)	(139,699)
Deferred acquisition costs.	(86,325)	(166,999)
Reinsurance balances payable	(152,546)	63,697
Deferred tax asset	25,888	42,871
Other	234,943	44,402
Total adjustments	$ 21,620	$ 92,411
Net cash provided by operating activities	$ 490,203	$ 545,436
Cash flows used in investing activities:		
Proceeds from sales of fixed maturities and short-term investments	$ 5,261,030	$ 5,209,091
Proceeds from redemptions of fixed maturities and short-term investments	423,270	391,707
Proceeds from sales of equity securities	320,399	264,389
Purchases of fixed maturities and short-term investments	(7,376,452)	(6,450,796)
Purchases of equity securities	(344,557)	(243,823)
Investments in affiliates, net of dividends received	255,465	18,120
Other investments	(40,027)	17,889

Acquisition of subsidiary, net of cash acquired	(12,600)	—
Other assets	4,097	—
Net cash used in investing activities	$ (1,509,375)	$ (793,423)
Cash flows provided by financing activities:		
Proceeds from exercise of stock options and issuance of common shares	$ 2,546	$ 16,242
Repurchase of shares	(3,516)	(3,837)
Dividends paid	(77,498)	(79,137)
Repayment of loans	(45,291)	—
Deposit liabilities	(302,377)	381,227
Net cash flow from securities lending	9,780	(69,725)
Net cash (used in) provided by financing activities	$ (416,356)	$ 244,770
Effects of exchange rate changes on foreign currency cash	4,877	(14,133)
Decrease in cash and cash equivalents	$ (1,430,651)	$ (17,350)
Cash and cash equivalents — beginning of period	3,693,475	2,203,726
Cash and cash equivalents — end of period	$ 2,262,824	$ 2,186,376

See accompanying Notes to Unaudited Consolidated Financial Statements

XL CAPITAL LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Preparation and Consolidation

These unaudited consolidated financial statements include the accounts of the Company and all of its subsidiaries and have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, these unaudited financial statements reflect all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the financial position and results of operations as at the end of and for the periods presented. The results of operations for any interim period are not necessarily indicative of the results for a full year. All significant inter-company accounts and transactions have been eliminated. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from these estimates.

To facilitate period-to-period comparisons, certain reclassifications have been made to prior period consolidated financial statement amounts to conform to current period presentation. There was no effect on net income from this change in presentation.

Unless the context otherwise indicates, references herein to the Company include XL Capital Ltd and its consolidated subsidiaries.

2. Significant Accounting Policies

(a) Stock-based compensation

Effective January 1, 2003, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards (FAS) No. 123, *Accounting for Stock-Based Compensation* (FAS 123), as amended by FAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure* (FAS 148), under the prospective method for options granted subsequent to January 1, 2003. Prior to 2003, the Company accounted for options under the disclosure-only provisions of FAS 123 and no stock-based employee compensation cost was included in net income as all options granted had an exercise price equal to the market value of the Companys ordinary shares on the date of the grant. At March 31, 2006, the Company has several stock based Performance Incentive Programs, which are described more fully in Note 19 to the consolidated financial statements filed on Form 10-K/A for the year ended December 31, 2005. Stock based compensation issued under these plans generally have a life of not longer than ten years and vest as set forth at the time of grant. Options currently vest annually over three or four years from the date of grant.

In 2004, the FASB issued SFAS No.123 (revised 2004) (FAS 123(r)), Share-Based Payment, which is a revision of SFAS 123. SFAS 123(r) superseded FAS 123, APB 25 and amended SFAS 95, Statement of Cash Flows. Generally, the approach to accounting for share-based payments in FAS 123(r) is similar to the approach described in FAS 123, which, the Company adopted on a prospective basis in 2003. However, FAS 123(r) requires all share-based payments to employees, including grants of employee stock options (for all grant years), to be recognized in the financial statements over the vesting period based on their grant date fair values.

The Company adopted FAS 123(r) effective January 1, 2006 using the modified-prospective method to account for share-based payments made to employees. The modified-prospective method is similar to the modified-prospective method described in SFAS 148. Under this method, compensation cost is recognized beginning with the effective date (a) based on the requirements of FAS 123(r) for all share-based payments granted after the effective date and (b) based on the requirements of FAS 123(r) for all awards granted to employees prior to the effective date of FAS 123(r) that remain unvested on the effective date.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

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XL CAPITAL LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Significant Accounting Policies (Continued)

	2006	2005
Dividend yield	2.10%	2.6%
Risk free interest rate	4.70%	4.00%
Expected volatility	25.0%	25.0%
Expected lives	5.5 years	5.5 years

In first quarter 2006 and 2005, the Company granted 155,300 and 1,852,500 options, respectively, of its common stock to directors and employees related to incentive compensation plans, with a weighted average grant-date fair value of $17.39 and $17.06, respectively. During the three-month periods ended March 31, 2006 and 2005, The Company recognized $4.6 million and $4.2 million, respectively, of compensation expense, net of tax, related to its stock option plans. Total intrinsic value of stock options exercised during the three-month periods ended March 31, 2006 and 2005 was $1.3 million and $6.4 million, respectively.

The following is a summary of stock options as of March 31, 2006 and related activity for the three months ended March 31, 2006:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (000s)
Outstanding beginning of period	12,745,290	75.35	6.0 years	
Granted	155,300	67.97		
Exercised	(60,319)	45.99		
Cancelled	(70,626)	78.59		
Outstanding end of period	12,769,645	75.39	5.8 years	$ 26,357
Options exercisable	10,174,402		5.1 years	$ 26,357
Options available for grant	12,769,789*			

* Available for grant includes shares that may be granted as either stock options or restricted stock.

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between XLs closing stock price on the last trading day of the first quarter of fiscal 2006 and the exercise price, multiplied by the number of in-the-money-options) that would have been received by the option holders had all option holders exercised their options on March 31, 2006. Total unrecognized stock based compensation expense related to non-vested stock options was approximately $42.3 million as of the end of March 31, 2006, related to approximately 12.8 million options, which is expected to be recognized over a weighted-average period of 1.8 years.

In the first quarter of 2006, the Company incurred no additional stock based compensation due to the adoption of FAS 123(r) related to the vesting in 2006 of options granted prior to January 1, 2003, as all options granted prior to that date had been fully vested by March 31, 2006.

For all periods presented prior to 2006, and for all options granted prior to January 1, 2003, the Company accounted for stock option grants under the recognition and measurement principles of APB 25 and related interpretations and accordingly, recognized no compensation expense for these stock options granted to employees. The following table illustrates the effect on earnings per share for the three-month period ended March 31, 2005, if the Company had applied the fair value recognition provisions of SFAS 123 to all of its stock-based employee compensation:

XL CAPITAL LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Significant Accounting Policies (Continued)

(U.S. dollars in thousands, except per share amounts)	(Unaudited) Three Months Ended March 31, 2005
Net income available to ordinary shareholders — as reported	$ 442,945
Add: Stock based employee compensation expense included in reported net income, net of related tax	4,177
Deduct: Total stock based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(8,129)
Pro forma net income available to ordinary shareholders	$ 438,993
Earnings per share:	
Basic — as reported	$3.21
Basic — pro forma	$3.18
Diluted — as reported	$3.18
Diluted — pro forma	$3.15

Restricted stock awards issued under the 1991 Performance Incentive Program vest as set forth in the applicable award agreements. These shares contained certain restrictions prior to vesting, relating to, among other things, forfeiture in the event of termination of employment and transferability.

In first quarter 2006 and 2005, the Company granted 750,112 and 815,550 shares, respectively, of its restricted common stock to its directors and employees related to incentive compensation plans, with a weighted average grant date fair value per share of $66.60 and $75.48, respectively. During the three-month periods ended March 31, 2006 and 2005, $19.0 million and $9.1 million, respectively, was charged to compensation expense related to restricted stock awards. Total unrecognized stock based compensation expense related to non-vested restricted stock awards was approximately $132.0 million as of the end of March 31, 2006, dated to approximately 2.0 million restricted stock awards which is expected to be recognized over 3.0 years. Non-vested restricted stock awards as of March 31, 2006 and for the three months then ended were as follows:

	Number of shares (thousands)	Weighted-Average Grant Date Fair Value
Unvested at December 31, 2005	1,529	$62.43
Granted	750	$66.60
Vested	(277)	$75.40
Forfeited	(3)	$74.12
Unvested at March 31, 2006	1,999	$66.03

FAS 123(r) requires that compensation costs be recognized for unvested stock based compensation awards over the period through the date that the employee is no longer required to provide future services to earn the award, rather than over the explicit service period. Accordingly, the Company has adopted this policy of recognizing compensation cost to coincide with the date that the employee is eligible to retire, rather than the actual retirement date, for all options granted. In the first quarter of 2006, the Company incurred $6.4 million of additional stock based compensation expense due to the adoption of FAS 123(r) related to this treatment of retirement eligible employees as compared to the previous attribution methodology.

XL CAPITAL LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Recent Accounting Pronouncements

In February 2006, the FASB issued FAS 155, *Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140*. This standard permits fair value re-measurement of an entire hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; narrows the scope exemption applicable to interest-only strips and principal-only strips from FAS 133, and clarifies that only the simplest separations of interest payments and principal payments qualify as not being subject to the requirements of FAS 133; establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and amends FAS140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This statement is intended to require more consistent accounting that eliminates exemptions and provides a means to simplify the accounting for hybrid financial instruments. This statement is effective for all financial instruments acquired or issued after January 1, 2007 and is not expected to have a material impact on the Companys financial condition or results of operations.

4. Segment Information

The Company is organized into four operating segments Insurance, General Reinsurance, Life and Annuity Reinsurance and Financial Products and Services in addition to a Corporate segment that includes the general investment and financing operations of the Company. Following changes in executive management responsibilities the Company now considers the Life and Annuity Reinsurance business as a separate operating segment. General operations include property and casualty lines of business.

The Company evaluates the performance of each segment based on underwriting results for general operations, net income from life and annuity operations and contribution from financial operations. Other items of revenue and expenditure of the Company are not evaluated at the segment level. In addition, the Company does not allocate assets by segment for its general operations. Investment assets related to the Companys life and annuity and financial operations are held in separately identified portfolios. Net investment income from these assets is included in net income from life and annuity operations and contribution from financial operations, respectively.

Following changes in certain executive management responsibilities in January 2005, the Company changed the reporting segments under which certain business units are reported in order to reflect these changes in responsibilities.

- Results of business structured by XL Financial Solutions Ltd (XLFS) are now included entirely within the Financial Products and Services segment whereas previously this unit was reported in all three segments, depending on the nature of individual contracts.
- Certain blocks of U.S.-based term life mortality reinsurance business previously included in the Financial Products and Services segment are now included in the Reinsurance segment as management of these contracts was transferred to the life reinsurance business units in order to centralize the Companys management of traditional mortality-based reinsurance business.
- Political risk insurance business units now report to executive management of the Financial Products and Services segment and, as such, earnings from this business are no longer reported in the Insurance segment but included with financial operations.
- All operations of business units within the Financial Products and Services segment, including municipal reinvestment contracts and funding agreements, are now reported under financial operations in order to consolidate businesses with similar operating characteristics and risks.

- Net investment income and net income from affiliates generated by assets and interest expense incurred on liabilities of the business units within the Financial Products and Services segment is reported under financial operations. This income and expense is included in financial operations as it relates to interest on portfolios of separately identified and managed assets and deposit liabilities.

XL CAPITAL LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Segment Information (Continued)

Prior period comparative information has been re-presented to conform to the above noted changes. There was no change in net income as a result of this change in presentation.

The following is an analysis of results by segment together with a reconciliation to net income:

Three months ended March 31, 2006:
(U.S. dollars in thousands)
(Unaudited)

	Insurance	Reinsurance	Financial Products and Services	Total
General Operations:				
Net premiums earned	$ 1,031,297	$ 635,127	$ —	$ 1,666,424
Fee income and other	7,395	2,926	—	10,321
Net losses and loss expenses	677,507	387,088	—	1,064,595
Acquisition costs	127,694	123,039	—	250,733
Operating expenses (1)	138,078	39,576	—	177,654
Exchange losses	30,711	3,414	—	34,125
Underwriting profit	$ 64,702	$ 84,936	$ —	$ 149,638
Life and Annuity Operations:				
Life premiums earned	$ —	$ 90,665	$ —	$ 90,665
Fee income and other	—	66	—	66
Claims and policy benefits	—	142,880	—	142,880
Acquisition costs	—	9,275	—	9,275
Operating expenses (1)	—	6,478	—	6,478
Exchange (gains)	—	(3,374)	—	(3,374)
Net investment income	—	78,623	—	78,623
Net income from life and annuity operations	$ —	$ 14,095	$ —	$ 14,095
Financial Operations:				
Net premiums earned			$ 61,460	$ 61,460
Fee income and other			2,575	2,575
Net losses and loss expenses			32,529	32,529
Acquisition costs			7,079	7,079
Operating expenses (1)			18,283	18,283
Exchange (gains)			(2)	(2)
Underwriting profit			$ 6,146	$ 6,146
			$ 17,077	$ 17,077

Net investment income financial guarantee		
Net investment income structured products	105,675	105,675
Interest expense structured products	77,519	77,519
Operating expenses structured products (1)	10,004	10,004
Net income from financial and investment affiliates	6,449	6,449
Minority interest	2,258	2,258
Net results from derivatives (2)	18,928	18,928
Contribution from financial operations	$ 64,494	$ 64,494

See footnotes on following page

XL CAPITAL LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Segment Information (continued)

Three months ended March 31, 2006: (continued)
(U.S. dollars in thousands, except ratios)
(Unaudited)

	Insurance	Reinsurance	Financial Products and Services	Total
Net investment income general operations				$ 262,367
Net realized and unrealized gains on investments and derivative instruments (3)				52,688
Net income from investment and operating affiliates				92,524
Interest expense (4)				50,350
Amortization of intangible assets				1,095
Corporate operating expenses				49,142
Income tax				66,636
Net Income				$ 468,583
General Operations:				
Loss and loss expense ratio (5)	65.7%	60.9%		63.9%
Underwriting expense ratio (5)	25.8%	25.7%		25.7%
Combined ratio (5)	91.5%	86.6%		89.6%

(1) Operating expenses exclude corporate operating expenses, shown separately.
(2) Includes net realized and unrealized losses on credit derivatives of $1.2 million and on structured financial derivatives of $0.8 million and gains on weather and energy derivatives of $21.0 million.
(3) This includes net realized gains on investments of $22.8 million and net realized and unrealized gains on investment derivatives of $29.9 million, but does not include unrealized appreciation or depreciation on investments, which are included in accumulated other comprehensive income.
(4) Interest expense excludes interest expense related to life and annuity and financial operations, shown separately.
(5) Ratios are based on net premiums earned from general operations. The underwriting expense ratio excludes exchange gains and losses.

See footnotes on following page

XL CAPITAL LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Segment Information (continued)

The following is an analysis of results by segment together with a reconciliation to net income:

Three months ended March 31, 2005:
(U.S. dollars in thousands)
(Unaudited)

	Insurance	Reinsurance	Financial Products and Services	Total
General Operations:				
Net premiums earned	$ 1,082,518	$ 683,751	$ —	$ 1,766,269
Fee income and other	3,927	17	—	3,944
Net losses and loss expenses	725,515	410,350	—	1,135,865
Acquisition costs	138,743	142,190	—	280,933
Operating expenses (1)	125,868	41,406	—	167,274
Exchange losses (gains)	14,315	(3,614)	—	10,701
Underwriting profit	$ 82,004	$ 93,436	$ —	$ 175,440
Life and Annuity Operations:				
Life premiums earned	$ —	$ 81,471	$ —	$ 81,471
Fee income and other	—	65	—	65
Claims and policy benefits	—	125,627	—	125,627
Acquisition costs	—	6,351	—	6,351
Operating expenses (1)	—	4,183	—	4,183
Exchange losses	—	270	—	270
Net investment income	—	59,903	—	59,903
Interest expense	—	—	—	—
Net income from life and annuity operations	$ —	$ 5,008	$ —	$ 5,008
Financial Operations:				
Net premiums earned			$ 51,695	$ 51,695
Fee income and other			13,151	13,151
Net losses and loss expenses			7,196	7,196
Acquisition costs			7,110	7,110
Operating expenses (1)			17,556	17,556
Exchange gains			(49)	(49)
Underwriting profit			$ 33,033	$ 33,033

Net investment income financial guarantee	$ 14,518	$ 14,518
Net investment income structured products	61,854	61,854
Interest expense structured products	42,410	42,410
Operating expenses structured products (1)	9,758	9,758
Net income from financial and investment affiliates	6,628	6,628
Minority interest	2,275	2,275
Net results from derivatives (2)	16,078	16,078
Contribution from financial operations	$ 77,668	$ 77,668

See footnotes on following page

XL CAPITAL LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Segment Information (continued)

Three months ended March 31, 2005: (continued)
(U.S. dollars in thousands, except ratios)
(Unaudited)

	Insurance	Reinsurance	Financial Products and Services	Total
Net investment income general operations				$ 171,930
Net realized and unrealized gains on investments and derivative instruments (3)				89,771
Net income from investment and operating affiliates				83,136
Interest expense (4)				45,876
Amortization of intangible assets				2,793
Corporate operating expenses				48,385
Income tax expense				52,874
Net Income				$ 453,025
General Operations:				
Loss and loss expense ratio (5)	67.0%	60.0%		64.3%
Underwriting expense ratio (5)	24.5%	26.9%		25.4%
Combined ratio (5)	91.5%	86.9%		89.7%

(1) Operating expenses exclude corporate operating expenses, shown separately.
(2) Includes net realized and unrealized gains on credit derivatives of $10.3 million, losses on structured financial derivatives of $0.2 million and gains on weather and energy derivatives of $6.0 million.
(3) This includes net realized gains on investments of $60.7 million and net realized and unrealized gains on investment derivatives of $29.1 million, but does not include unrealized appreciation or depreciation on investments, which are included in accumulated other comprehensive income.
(4) Interest expense excludes interest expense related to life and annuity and financial operations, shown separately.
(5) Ratios are based on net premiums earned from general operations. The underwriting expense ratio excludes exchange gains and losses.

XL CAPITAL LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Segment Information (continued)

The following tables summarize the Company's net premiums earned by line of business:

Three months ended March 31, 2006:
(U.S. dollars in thousands)
(Unaudited)

	Insurance	Reinsurance	Financial Products and Services	Total
General Operations:				
Professional liability	$ 367,294	$ 82,368	$ —	$ 449,662
Casualty	241,254	178,334	—	419,588
Property catastrophe	19,463	54,044	—	73,507
Other property	175,348	184,456	—	359,804
Marine, energy, aviation and satellite	172,642	35,430	—	208,072
Accident and health	(12)	6,909	—	6,897
Other (1)	55,308	93,586	—	148,894
Total general operations	$ 1,031,297	$ 635,127	$ —	$ 1,666,424
Life and annuity operations	—	$ 90,665	—	$ 90,665
Financial operations	—	—	$ 61,460	$ 61,460
Total	**$ 1,031,297**	**$ 725,792**	**$ 61,460**	**$ 1,818,549**

(1) Other includes surety, bonding, warranty and other lines.

XL CAPITAL LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Segment Information (Continued)

Three months ended March 31, 2005:
(U.S. dollars in thousands)
(Unaudited)

	Insurance	Reinsurance	Financial Products and Services	Total
General Operations:				
Professional liability	$ 365,268	$ 90,593	$ —	$ 455,861
Casualty	285,655	225,983	—	511,638
Property catastrophe	19,880	65,963	—	85,843
Other property	161,608	183,110	—	344,718
Marine, energy, aviation and satellite	206,865	41,275	—	248,140
Accident and health	58	9,053	—	9,111
Other (1)	43,184	67,774	—	110,958
Total general operations	$ 1,082,518	$ 683,751	$ —	$ 1,766,269
Life and annuity operations	$ —	$ 81,471	$ —	$ 81,471
Financial operations	$ —	$ —	$ 51,695	$ 51,695
Total	**$ 1,082,518**	**$ 765,222**	**$ 51,695**	**$ 1,899,435**

(1) Other includes surety, bonding, warranty and other lines.

5. Notes Payable and Debt and Financing Arrangements

The Company replaced its letter of credit facility utilized to support the capital requirements of its syndicates at Lloyd’s of London (“Lloyd’s”), with a new £500 million credit facility that closed on March 14, 2006. Commitments from the participating banks expire on November 30, 2007, which will enable the Company to use this facility to meet its letter of credit needs for the 2008 year of account at Lloyd’s.

The Company is negotiating a new $500 million syndicated letter of credit facility. The new facility will have a tenor of 364-days and is expected to close in early May 2006.

6. Exposures under Guaranties

The Company provides financial guaranty insurance and reinsurance to support public and private borrowing arrangements. Financial guaranty insurance guarantees the timely payment of principal and interest on insured obligations to third party holders of such obligations in the event of default by an issuer. The Company’s potential liability in the event of non-payment by the issuer of an insured or reinsured obligation represents the aggregate outstanding principal insured or reinsured under its policies and contracts and related interest payable at the date of default. In addition, the Company provides credit protection on specific referenced credits or on pools of specific referenced credits through the issuance of credit default swaps. Under the terms of credit default swaps, the seller of credit protection makes a specified payment to the buyer of credit protection upon the occurrence of one or more specified credit events with respect to a reference obligation or entity. The Company’s potential liability under credit default swaps represents the notional amount of such swaps.

At March 31, 2006, the Company's net outstanding par exposure under its in-force financial guaranty insurance and reinsurance policies and contracts aggregated to $96.4 billion and net reserves for losses and loss adjustment expenses relating to such exposures was $165.6 million at such date. In addition, at March 31, 2006, the Company's notional exposure under credit default swaps aggregated to $16.2 billion and the net liability for these credit default swaps reflected in the Company's balance sheet at March 31, 2006 was $21.4 million.

XL CAPITAL LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Derivative Instruments

The Company enters into investment, structured financial and weather and energy derivative instruments for both risk management and trading purposes. The Company also enters into credit derivatives in connection with its Financial Products and Services business. The Company is exposed to potential loss from various market risks and manages its market risks based on guidelines established by senior management. All of these derivative instruments are carried at fair value.

The following table summarizes the net realized and unrealized gains (losses) on derivative instruments included in net income:

(U.S. dollars in thousands)	(Unaudited) Three Months Ended March 31, 2006	(Unaudited) Three Months Ended March 31, 2005
Credit derivatives	$ (1,262)	$ 10,249
Weather and energy risk management derivatives	20,988	6,054
Other non-investment derivatives	(798)	(225)
Net results from derivatives financial operations	$ 18,928	$ 16,078
Investment derivatives	29,923	29,100
Net realized and unrealized gains on derivative instruments	$ 48,851	$ 45,178

The Company records premiums received from sales of investment grade credit derivatives in gross written premiums and establishes loss reserves for this derivative business. These loss reserves represent the Company's best estimate of the probable losses expected under these contracts. Net realized and unrealized gains and losses on credit derivative instruments are computed as the difference between fair value and the net of unpaid losses and loss expenses and unpaid losses and loss expenses recoverable. Changes in unrealized gains and losses on credit derivative instruments are reflected in the consolidated statements of income. Cumulative unrealized gains and losses are reflected as assets and liabilities, respectively, in the Company's consolidated balance sheet. Net realized and unrealized gains and losses resulting from changes in the fair value of derivatives occur because of changes in interest rates, credit spreads, recovery rates, the credit ratings of the referenced entities and other market factors.

The following table summarizes the reporting of investment grade credit default swap derivative instruments excluding gains and losses on credit default swaps within the investment portfolio.

(U.S. dollars in thousands)	(Unaudited) Three Months Ended March 31, 2006	(Unaudited) Three Months Ended March 31, 2005
Statement of Income:		
Net earned premiums	$ 5,798	$ 8,177

Net losses and loss expenses	$ 112	$ 2,126
Net realized and unrealized (losses) gains on credit derivatives	$ (1,262)	$ 10,249

	(Unaudited) As at March 31,	As at December 31,
(U.S. dollars in thousands)	**2006**	**2005**
Balance Sheet:		
Unpaid losses and loss expenses recoverable	$ 863	$ 787
Other assets	$ 14,601	$ 15,768
Unpaid losses and loss expenses	$ 15,894	$ 27,562
Other liabilities	$ 20,965	$ 20,347

XL CAPITAL LTD
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. XL Capital Finance (Europe) plc

XL Capital Finance (Europe) plc (XLFE) is a wholly owned finance subsidiary of XL Capital Ltd. In January 2002, XLFE issued $600.0 million par value 6.5% Guaranteed Senior Notes due January 2012. XLFEs notes are fully and unconditionally guaranteed by XL Capital Ltd. XL Capital Ltds ability to obtain funds from its subsidiaries is subject to certain contractual restrictions, applicable laws and statutory requirements of the various countries in which the Company operates including Bermuda, the U.S. and the U.K., among others. Required statutory capital and surplus for the principal operating subsidiaries of the Company was $4.1 billion as of December 31, 2005.

9. Computation of Earnings Per Ordinary Share and Ordinary Share Equivalent

(U.S. dollars and shares in thousands, except per share amounts)	(Unaudited) Three Months Ended March 31, 2006	(Unaudited) Three Months Ended March 31, 2005
Basic earnings per ordinary share:		
Net income	$ 468,583	$ 453,025
Less: preference share dividends	(10,080)	(10,080)
Net income available to ordinary shareholders	$ 458,503	$ 442,945
Weighted average ordinary shares outstanding	178,424	138,035
Basic earnings per ordinary share	$ 2.57	$ 3.21
Diluted earnings per ordinary share:		
Net income.	$ 468,583	$ 453,025
Less: preference share dividends	(10,080)	(10,080)
Net income available to ordinary shareholders	$ 458,503	$ 442,945
Weighted average ordinary shares outstanding basic	178,424	138,035
Average stock options outstanding (1) (2)	734	1,112
Weighted average ordinary shares outstanding diluted	179,158	139,147
Diluted earnings per ordinary share	$ 2.56	$ 3.18
Dividends per ordinary share	$ 0.38	$ 0.50

(1) Net of shares repurchased under the treasury stock method.
(2) Average stock options outstanding excluded where anti-dilutive to the loss per ordinary share.

10. Subsequent Events

On April 7, 2006, Security Capital Assurance Ltd ("SCA") filed a registration statement on Form S-1 for an initial public offering. SCA is a wholly owned subsidiary of the Company, formed to hold the Company's financial guarantee insurance and reinsurance businesses conducted through XL Capital Assurance Inc ("XLCA") and XL Financial Assurance Ltd. ("XLFA"). Under the registration statement, a portion of SCA's shares will be issued and sold by SCA and a portion will be sold by XL Insurance (Bermuda) Ltd, as selling shareholder. After the consummation of the offering, the Company will beneficially own approximately 65% of SCA's outstanding common shares which will be reduced if the underwriters' option to purchase additional common shares is exercised.

11. Restatement of Unaudited Consolidated Statements of Cash Flows

The Unaudited Consolidated Statements of Cash Flows for the three-month periods ended March 31, 2006 and 2005 have been restated. The Company had incorrectly included the impact of foreign exchange rate changes on Cash flows provided by operating activities, Cash flows used in investing activities, Cash Flows provided by financing activities and Effects of exchange rate changes on foreign currency cash in the Company s Consolidated Statements of Cash Flows and, therefore, a restatement was required to eliminate the impact of those rate changes on balances held in certain foreign currency denominated subsidiaries from those financial statements

The following Condensed Statements of Consolidated Cash Flows for the three month periods ended March 31, 2006 and 2005 set forth the effects of these restatements:

	Three Months Ended March 31, 2006		
	As Previously Reported	Adjustments	As Restated
Net cash provided by operating activities	$ 555,007	$ (64,804)	$ 490,203
Net cash used in investing activities	(1,568,685)	59,310	(1,509,375)
Net cash provided by financing activities	(415,764)	(592)	(416,356)
Effects of exchange rate changes on foreign currency cash	(1,209)	6,086	4,877
Net change in cash and cash equivalents	$ (1,430,651)	$ —	$ (1,430,651)
Cash and cash equivalents at the beginning of period	$ 3,693,475	$ —	$ 3,693,475
Cash and cash equivalents at the end of period	$ 2,262,824	$ —	$ 2,262,824

	Three Months Ended March 31, 2005		
	As Previously Reported	Adjustments	As Restated
Net cash provided by operating activities	$ 270,569	$ 274,867	$ 545,436
Net cash used in investing activities	(529,529)	(263,894)	(793,423)
Net cash provided by financing activities	243,092	1,678	244,770
Effects of exchange rate changes on foreign currency cash	(1,482)	(12,651)	(14,133)
Net change in cash and cash equivalents	$ (17,350)	$ —	$ (17,350)
Cash and cash equivalents at the beginning of period	$ 2,203,726	$ —	$ 2,203,726

Cash and cash equivalents at the end of period	$ 2,186,376	$ —	$ 2,186,376

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

The following is a discussion of the Company's financial condition and liquidity and results of operations. Certain aspects of the Company's business have loss experience characterized as low frequency and high severity. This may result in volatility in both the Company's and an individual segment's results of operations and financial condition.

This "Management's Discussion and Analysis of Financial Condition and Results of Operations" contains forward-looking statements that involve inherent risks and uncertainties. Statements that are not historical facts, including statements about the Company's beliefs and expectations, are forward-looking statements. These statements are based upon current plans, estimates and projections. Actual results may differ materially from those included in such forward-looking statements and, therefore, undue reliance should not be placed on them. See "Cautionary Note Regarding Forward-Looking Statements" below for a list of factors that could cause actual results to differ materially from those contained in any forward-looking statement.

Restatements

As further described in Note 11 to the Unaudited Consolidated Financial Statements, the Company has determined that certain adjustments are required to restate the Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004 and 2003 and the three and six month periods ended March 31, and June 30, 2006, respectively. On November 5, 2006, management of XL Capital Ltd (the "Company") determined that the Company had incorrectly included the impact of foreign exchange rate changes on "Cash flows provided by operating activities," "Cash flows used in investing activities," "Cash Flows provided by financing activities" and "Effects of exchange rate changes on foreign currency cash" in the Company's Consolidated Statements of Cash Flows and, therefore, a restatement is required to eliminate the impact of those rate changes on balances held in certain foreign currency denominated subsidiaries from those financial statements.

As a result of the restatement, "Net cash provided by operating activities" for the three months ended March 31 ,2006 has been reduced to $490.2 million (from $555.0 million previously reported), and for the first three months of 2005 has been increased to $545.4 million (from $270.6 million previously reported). No change will occur with respect to "Cash and cash equivalents" at the end of any period, and no restatement of the income statements or balance sheets is required.

The re-presentation of the Company's Consolidated Statements of Cash Flows will not impact the Company's previously reported Consolidated Statements of Income or Consolidated Balance Sheets and, in particular, "Cash and cash equivalents" reported at the end of any period in the Company's Consolidated Statements of Cash Flows remains unchanged.

This discussion and analysis should be read in conjunction with the "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited Consolidated Financial Statements and notes thereto, presented under Item 1A, Item 7 and Item 8, respectively, of the Company's Form 10-K/A for the year ended December 31, 2005.

Executive Overview

See "Executive Overview" in Item 7 of the Company's Form 10-K/A for the year ended December 31, 2005.

Results of Operations

The following table presents an analysis of the Company's net income available to ordinary shareholders and other financial measures (described below):

(U.S. dollars and shares in thousands, except per share amounts)

	(Unaudited) Three Months Ended March 31, 2006	2005
Net income available to ordinary shareholders	$ 458,503	$ 442,945
Earnings per ordinary share basic	$ 2.57	$ 3.21
Earnings per ordinary share diluted	$ 2.56	$ 3.18
Weighted average number of ordinary shares and ordinary share equivalents basic	178,424	138,035
Weighted average number of ordinary shares and ordinary share equivalents diluted	179,158	139,147

The Companys net income and other financial measures for the three months ended March 31, 2006 have been affected by, among other things, the following significant items:

1) Underwriting environment and risk management initiatives; and

2) Growing asset base, higher investment yields and positive performance from investment affiliates.

1. Underwriting environment and risk management initiatives

Overall market conditions have emerged in line with the Companys expectations and remain attractive across most property and casualty lines. The Company continues to decrease capacity in areas where the Company believes that risk assumption is not being adequately rewarded such as U.K. motor lines. Given the differing dynamics of the markets in which the Company operates, moderation of pricing is taking place at different paces in different markets. As an example, the European property business, which largely renews in January, continued to see rate decreases while U.S. property catastrophe rates have continued to increase following the impact of the 2005 hurricanes.

The Company's results have also been impacted during the first quarter of 2006 by the overall risk management initiatives put in place to reduce catastrophe exposure to property and marine and offshore energy lines of business. The Company has reduced its aggregate catastrophe exposure in the three months ended March 31, 2006 through selective underwriting in areas such as the Gulf of Mexico and the exclusion of certain risks where possible. The Company has also generally made higher reinsurance cessions on most short tail lines, in particular to Cyrus Reinsurance Limited, which covers property catastrophe reinsurance and retrocessional business. The impact of these initiatives was most notable in net premiums written in the first quarter of 2006 and it is expected to be earned over the balance of the year.

2. Growing asset base, higher investment yields and positive performance from investment affiliates.

Net investment income was $463.7 million for the three months ended March 31, 2006, compared to $308.2 million, for the same period in 2005. This increase resulted from a larger investment base combined with higher investment yields primarily due to increases in U.S. short-term and intermediate-term interest rates. The increase in the size of the investment portfolio resulted from equity raised in the fourth quarter of 2005, growth in structured and spread balances and positive cash flows from operations.

Net income from investment affiliates was $106.4 million for the three months ended March 31, 2006, compared to $70.5 million for the same period in 2005. These results reflect strong returns from the Company's alternative fund investments during the first quarter of 2006, as well as strong results from certain private equity investments.

Financial Measures

The following are some of the financial measures management considers important in evaluating the Company's operating performance:

(U.S. dollars in thousands, except ratios and per share amounts)

	(Unaudited) Three Months Ended March 31,	
	2006	**2005**
Underwriting profit general operations	$ 149,638	$ 175,440
Combined ratio general operations	89.6%	89.7%
Investment income general operations	$ 262,367	$ 171,930
Annualized return on average ordinary shareholders' equity	23.0%	24.4%
Book value per ordinary share	$ 44.23	$ 52.13

Underwriting (loss) profit general operations

One way the Company evaluates the performance of its property and casualty insurance and reinsurance general operations is the underwriting profit or loss. The Company does not measure performance based on the amount of gross premiums written. Underwriting profit or loss is calculated from premiums earned and fee income, less net losses incurred and expenses related to the underwriting activities. Underwriting profit in the three months ended March 31, 2006 is primarily reflective of a lower earned premium base combined with the same factors that impact the combined ratio discussed below as a well as the impact of adverse foreign exchange movements.

Combined ratio general operations

The combined ratio for general operations is used by the Company, and many other property and casualty insurance and reinsurance companies, as another measure of underwriting profitability. The combined ratio is calculated from the net losses incurred and underwriting expenses as a ratio of the net premiums earned for the Companys general insurance and reinsurance operations. A combined ratio of less than 100% indicates an underwriting profit and greater than 100% reflects an underwriting loss. The small decrease in the Companys combined ratio for the three months ended March 31, 2006, compared to the same period in the previous year, was primarily a result of a lower loss and loss expense ratio partially offset by a higher underwriting expense ratio. The decrease in the loss and loss expense ratio was primarily due to lower net prior year loss development, and the mix of business written.

Net investment income general operations

Net investment income from the Companys general operations is an important measure that affects the Companys overall profitability. The largest liability of the Company relates to its unpaid loss reserves, and the Companys investment portfolio provides liquidity for claims settlements of these reserves as they become due and thus a significant part of the portfolio is in fixed income securities. Net investment income is affected by the size of the portfolio and also overall market interest rates. The average size of the investment portfolio outstanding during the three months ended March 31, 2006 increased as compared to the same period in 2005 due to the issuance of ordinary shares and equity units in the fourth quarter of 2005 and the positive operating cash flow. Total investments as at March 31, 2006 were $39.1 billion as compared to $30.6 billion as at March 31, 2005. Interest rates in the United States have risen since the first quarter of 2005, which has also contributed to the increase in investment income.

Book value per ordinary share

Management also views the Companys book value per ordinary share as an additional measure of the Companys performance. Book value per ordinary share is calculated by dividing ordinary shareholders equity by the number of outstanding ordinary shares at any period end. Book value per ordinary share is affected primarily by the Companys net income (loss) and also by any changes in the net unrealized gains and losses on its investment portfolio. Book value per ordinary share has decreased by $0.08 over the first three months of 2006 and $7.90 since the same time in 2005. The factors noted above created $458.5 million in net income for the three months ended March 31, 2006, which increases book value, however, the net unrealized gains associated with the Companys investment portfolio have decreased by $401.0 million net of tax for the first three months of 2006. These changes in net unrealized portfolio gains were driven primarily by increasing interest rates in the U.S., U.K. and the Euro zone. While these items create a net positive impact on book value, the average number of shares outstanding has increased significantly after the common share offering in the fourth quarter of 2005, thereby reducing the book value per share.

Annualized return on average ordinary shareholders equity

Annualized return on average ordinary shareholders equity (ROE) is a widely used measure of a companys profitability. It is calculated by dividing the net income for any period by the average of the opening and closing ordinary shareholders equity. The Company establishes target ROEs for its total operations, segments and lines of business. If the Companys ROE return targets are not met with respect to any line of business over time, the Company seeks to re-evaluate these lines. In addition, the Companys compensation of its senior officers is significantly dependent on the achievement of the Companys performance goals to enhance shareholder value, including ROE. The decline in this financial measure in the first three months of 2006 as compared to the same period in 2005 was due to the issuance of ordinary shares and equity security units in the fourth quarter of 2005 and the increase in average outstanding common shareholders equity as a result of such issuance.

Other Key Focuses of Management

See the discussion of the “Other Key Focuses of Management” in Item 7 of the Company’s Form 10-K/A for the year ended December 31, 2005. That discussion is updated with the disclosures set forth below.

Ratings and Capital Management

The Company’s ability to underwrite business is dependent upon the quality of its claims paying and financial strength ratings as evaluated by independent rating agencies. As a result, in the event that the Company’s financial strength rating was downgraded, its ability to write business may be adversely affected. Such a downgrade would also adversely affect the Company’s financial guaranty lines of business.

In the normal course of business, the Company evaluates its capital needs to support the volume of business written in order to maintain its claims paying and financial strength ratings. The Company is actively working to address these needs with several key business initiatives.

To address these needs, management entered into a strategic initiative intended to augment the Company’s overall underwriting capacity to take advantage of opportunities in certain catastrophe exposed lines of business. Management has entered into a quota share reinsurance treaty with Cyrus Reinsurance Limited. Under this agreement, the Company cedes specified portions of the Company’s property catastrophe reinsurance and retrocessional lines of business to this new company.

Initial Public Offering of Financial Guarantee Business

On April 7, 2006, Security Capital Assurance Ltd (“SCA”) filed a registration statement on Form S-1 for an initial public offering. SCA is a wholly owned subsidiary of the Company formed to hold The Company’s financial guarantee insurance and reinsurance businesses conducted through XL Capital Assurance Inc. (“XLCA”) and XL Financial Assurance Ltd. (“XLFA”). Under the registration statement, a portion of SCA’s shares will be issued and sold by SCA and a portion will be sold by XL Insurance (Bermuda) Ltd, as selling shareholder. After the consummation of the offering, the Company will beneficially own approximately 65% of SCA’s outstanding common shares, which will be reduced if the underwriters’ option to purchase additional common shares is exercised.

Critical Accounting Policies and Estimates

See the discussion of the Company’s “Critical Accounting Policies and Estimates” in Item 7 of the Company’s Form 10-K/A for the year ended December 31, 2005.

Variable Interest Entities and Other Off-Balance Sheet Arrangements

See the discussion of the Company’s variable interest entities and other off-balance sheet arrangements in Item 7 of the Company’s Form 10-K/A for the year ended December 31, 2005.

Segment Results for the three months ended March 31, 2006 compared to the three months ended March 31, 2005

The Company operates through four business segments: Insurance, General Reinsurance, Life and Annuity Reinsurance and Financial Products and Services. These business segments were determined in accordance with FAS No. 131, *Disclosures about Segments of an Enterprise and Related Information.*

Insurance

General insurance business written includes risk management and specialty lines. Risk management products are comprised of global property and casualty insurance programs for large multinational companies, including umbrella liability, integrated risk and primary master property and liability coverages. Specialty lines products include directors

and officers liability, environmental liability, professional liability, aviation and satellite, employment practices liability, marine, equine and certain other insurance coverages including program business.

A large portion of the Companys insurance business written has loss experience that is characterized as low frequency and high severity. As a result, large losses, though infrequent, can have a significant impact on the Companys results of operations, financial condition and liquidity. The Company attempts to mitigate this risk by using strict underwriting guidelines and various reinsurance arrangements.

The following table summarizes the underwriting results for this segment:

(U.S. dollars in thousands)	**(Unaudited) Three Months Ended March 31,**		
	2006	**2005**	**% Change**
Gross premiums written	$ 1,558,823	$ 1,677,775	(7.1)%
Net premiums written	1,153,163	1,280,150	(9.9)%
Net premiums earned	1,031,297	1,082,518	(4.7)%
Fee income and other	7,395	3,927	88.3%
Net losses and loss expenses	677,507	725,515	(6.6)%
Acquisition costs	127,694	138,743	(8.0)%
Operating expenses	138,078	125,868	9.7%
Exchange losses	30,711	14,315	114.5%
Underwriting profit	$ 64,702	$ 82,004	(21.1)%

* NM Not Meaningful

Gross and net premiums written decreased by 7.1% and 9.9%, respectively, in the three months ended March 31, 2006 compared with the three months ended March 31, 2005. The decrease in gross premiums written was primarily due to fewer multi-year contracts, foreign exchange movements and the discontinuation of the segments surety business. In addition, the majority of the January 1 property renewals relate to European business, where rates have decreased more than in other regions, which had a disproportionate impact on premiums written in the quarter. The decrease in net premiums written both in total and as a percentage of gross premiums written compared to the same period in 2005 was primarily a combined result of lower gross premiums written in global risk and lower net retentions in specialty and professional lines.

Net premiums earned decreased by 4.7% in the three months ended March 31, 2006 compared with the three months ended March 31, 2005. This decrease was due to the factors affecting net premiums written, noted above.

Exchange losses in the three months ended March 31, 2006 were primarily due to the impact of the weakening of the U.S. dollar against the U.K. sterling, Swiss franc and the Euro during the quarter in operations with U.S. dollars as a functional currency and exposure to foreign currency denominated liabilities.

The following table presents the ratios for this segment:

(Unaudited)
Three Months Ended
March 31,

	2006	2005
Loss and loss expense ratio	65.7%	67.0%
Underwriting expense ratio	25.8%	24.5%
Combined ratio	91.5%	91.5%

The loss and loss expense ratio includes net losses incurred for both the current period and any adverse or favorable prior period development of loss and loss expense reserves held at the beginning of the period. The loss and loss expense ratio for the three months ended March 31, 2006 decreased compared with the three months ended March 31, 2005, primarily as a result of higher net adverse development in the same period of the prior year. Prior year net adverse development totaled $12.0 million in the first quarter of 2006 related to strengthening of the 2005 hurricane reserves. Adverse development during the first quarter of 2005 was $43.0 million.

The underwriting expense ratio for the three months ended March 31, 2006 increased compared with the same period in 2005. An increase in the operating expense ratio of 1.7 percentage points (13.4% as compared to 11.7%) was due primarily to compensation costs associated with certain restructuring activities in the segment and also as a result of reduced compensation related accruals and a relatively flat acquisition expense ratio in 2005.

General Reinsurance Operations

General reinsurance business written includes casualty, property, marine, aviation and other specialty reinsurance on a global basis. The Company's property reinsurance business generally has loss experience characterized as low frequency and high severity. As a result, large losses, though infrequent, can have a significant impact on the Company's results of operations, financial condition and liquidity. The Company endeavors to manage its exposures to catastrophic events by limiting the amount of its exposure in each geographic zone worldwide and requiring that its property catastrophe contracts provide for aggregate limits and varying attachment points.

The following table summarizes the underwriting results for the general operations of this segment:

(U.S. dollars in thousands)	**(Unaudited) Three Months Ended March 31,**		
	2006	**2005**	**% Change**
Gross premiums written	$ 1,482,555	$ 1,694,202	(12.5)%
Net premiums written	1,288,999	1,567,870	(17.8)%
Net premiums earned	635,127	683,751	(7.1)%
Fee income and other	2,926	17	NM
Net losses and loss expenses	387,088	410,350	(5.7)%
Acquisition costs	123,039	142,190	(13.5)%
Operating expenses	39,576	41,406	(4.4)%
Exchange losses (gains)	3,414	(3,614)	NM
Underwriting profit	$ 84,936	$ 93,436	(9.1)%

* NM Not Meaningful

Gross and net premiums written decreased by 12.5% and 17.8%, respectively, in the first quarter of 2006 as compared to the first quarter of 2005. This decrease related primarily to the net reduction in catastrophe exposure and restructuring of the Company's marine and energy exposures as a part of the Company's aggregate risk reduction initiatives. Additionally, selective underwriting in certain motor and casualty lines contributed to the decrease. On a net premiums written basis, the decrease largely reflected the significant new catastrophe quota share reinsurance agreement with Cyrus Reinsurance Limited.

Net premiums earned in the first quarter of 2006 decreased 7.1% compared to the first quarter of 2005. This decrease is a reflection of the impact of the items noted above and continued pricing pressures over the last 24 months.

The following table presents the ratios for this segment:

	(Unaudited) Three Months Ended March 31,	
	2006	2005
Loss and loss expense ratio	60.9%	60.0%
Underwriting expense ratio	25.7%	26.9%
Combined ratio.	86.6%	86.9%

The loss and loss expense ratio includes net losses incurred for both the current year and any adverse or favorable prior year development of loss reserves held at the beginning of the year. The segment loss and loss expense ratio in the three months ended March 31, 2006 was impacted by a single large property loss in Latin America of $23.5 million combined with limited net adverse development on prior year reserves. The quarter ended March 31, 2005 included $44.0 million of net losses related to Windstorm Erwin. Adverse development on the 2005 hurricanes of $22.3 million was partially offset by $15.6 million of favorable development in the remainder of the portfolio for a net adverse impact of $6.7 million in the first quarter of 2006. This compares to $20.0 million in net favorable development in the same period in 2005.

The small decrease in the underwriting expense ratio in the three months ended March 31, 2006, as compared with the three months ended March 31, 2005, was due to a decrease in the acquisition expense ratio from 20.8% to 19.4% for the three months ended March 31, 2005 and 2006, respectively, offset by a small increase in the operating expense ratio from 6.1% to 6.2% for the three months ended March 31, 2005 and 2006, respectively. The decrease in the acquisition expense ratio was due to the impact of commissions received on the Cyrus Reinsurance Limited quota share reinsurance agreement. The operating expense ratio increase was primarily due to lower earned premium levels.

Exchange losses in the three months ended March 31, 2006 were mainly attributable to an overall weakening, during that period, in the value of the U.S. dollar against U.K. Sterling, Swiss Franc and the Euro in those operations with the U.S. dollar as their functional currency and net U.K. Sterling and Euro liabilities.

Life and Annuity Reinsurance Operations

Life and annuity reinsurance business written is primarily European life reinsurance. This includes term assurance, group life, critical illness cover, immediate annuities and disability income business. Due to the nature of these contracts, premium volume may vary significantly from period to period. In addition, certain closed block U.S. life and annuity reinsurance contracts previously included in the Financial Products and Services segment were transferred to the Reinsurance segment in the first quarter of 2005, as management of these contracts was transferred to the traditional life reinsurance business units in order to centralize management of mortality based life and annuity reinsurance business.

The following summarizes net income from life and annuity operations:

(U.S. dollars in thousands)	(Unaudited) Three Months Ended March 31,		
	2006	2005	% Change

Gross premiums written	$ 99,642	$ 91,009	9.5%
Net premiums written	90,468	81,256	11.3%
Net premiums earned	90,665	81,471	11.3%
Fee income and other	66	65	1.5%
Claims and policy benefits	142,880	125,627	13.7%
Acquisition costs	9,275	6,351	46.0%
Operating expenses	6,478	4,183	54.9%
Net investment income	78,623	59,903	31.3%
Exchange (gains) losses	(3,374)	270	NM
Net income	$ 14,095	$ 5,008	181.4%

* NM Not Meaningful

Gross premiums written increased in the first quarter of 2006 as compared to the first quarter of 2005. This increase was primarily a result of the growing portfolio of regular renewal premium business partially offset by unfavorable exchange rate impacts.

Claims and policy benefits also increased in the first quarter of 2006 compared to the first quarter of 2005 in line with the growth in the underlying business. Changes in claims and policy benefits also include the movement in policy benefit reserves related to contracts where investment assets were acquired with the assumption of the policy benefit reserves at the inception of the contract.

Acquisition costs increased in the first quarter of 2006, as compared to the first quarter of 2005, due to the mix of business earning in the period as newer blocks of term life business have had higher acquisition costs. Operating expenses increased in the first quarter of 2006 compared to the same period in 2005, reflecting the build up of the new life operations in the U.S.

Net investment income is included in the calculation of net income from life and annuity reinsurance operations, as it relates to income earned on portfolios of separately identified, managed life investment assets and other allocated assets. Several new large annuity contracts have been written since March 31, 2005, which have significantly increased the invested assets relating to these operations, together with an increase in yields.

Financial Products and Services

The Financial Products and Services segment provides (i) financial guaranty insurance and reinsurance, (ii) a wide range of structured financial and alternative risk transfer products, (iii) municipal investment and funding agreements, (iv) political risk insurance and (v) weather and energy risk management products. Many of the products offered by the Financial Products and Services segment are unique and tailored to the specific needs of the insured or user.

Financial guaranty insurance and reinsurance generally guarantees the timely payment of interest and principal on an issuer's obligations when due. Obligations guaranteed or enhanced by the Company range in duration and premiums are received either on an installment basis or upfront. Guaranties written in credit default swap form provide coverage for losses upon the occurrence of specified credit events set forth in the swap documentation.

Structured financial and alternative risk transfer products cover complex financial risks, including property, casualty, mortality insurance and reinsurance and business enterprise risk management products.

Municipal investment contracts and funding agreements provide users guaranteed rates of interest on amounts deposited with the Company. The Company has investment risk related to its ability to generate sufficient investment income to enable the total invested assets to cover the payment of its estimated ultimate liability on such agreements.

Political risk insurance generally covers risks arising from expropriation, currency inconvertibility, contract frustration, non-payment and war on land or political violence (including terrorism) in developing regions of the world. Political risk insurance is typically provided to financial institutions, equity investors, exporters, importers, export credit agencies and multilateral agencies in connection with investments and contracts in emerging market countries.

The Company's weather and energy risk management products are customized solutions designed to assist corporate customers, primarily energy companies and utilities, in managing their financial exposure to variations in weather conditions and related energy markets.

The following table summarizes the contribution for this segment:

(U.S. dollars in thousands)	(Unaudited) Three Months Ended March 31,		
	2006	2005	% Change
Gross premiums written	$ 101,493	$ 60,947	66.5%
Net premiums written	96,306	52,629	83.0%
Net premiums earned	61,460	51,695	18.9%
Fee income and other	2,575	13,151	(80.4)%
Net losses and loss expenses	32,529	7,196	NM
Acquisition costs	7,079	7,110	(0.4)%
Operating expenses	18,283	17,556	4.1%
Exchange (gains)	(2)	(49)	NM
Underwriting profit	$ 6,146	$ 33,033	(81.4)%
Net investment income — financial guarantee	$ 17,077	$ 14,518	17.6%
Net investment income — structured products	105,675	61,854	70.8%
Interest expense — structured products	77,519	42,410	82.8%
Operating expenses — structured products	10,004	9,758	2.5%
Net income from financial and investment affiliates	6,449	6,628	(2.7)%
Minority interest	2,258	2,275	(0.7)%
Net results from derivatives	18,928	16,078	17.7%
Contribution from financial operations	$ 64,494	$ 77,668	(17.0)%

* NM — Not Meaningful

Gross and net premiums written relating to the financial guaranty line of business reflect premiums received and accrued for the three months ended March 31, 2006 and do not include the present value of future cash receipts expected from installment premium policies and contracts written in the period. In addition to the financial guaranty premiums, segment premiums also include amounts received from political risk and other structured property and casualty business lines. Increases in gross and net premiums written of 66.5% and 83.0%, respectively, in the first quarter of 2006, as compared to the same period in 2005, were primarily due to the growth in in-force installment business and several large upfront public finance policies written during the first quarter of 2006, as compared to the same period in 2005. In addition, several new structured property and casualty policies and weather and energy insurance policies were bound in the quarter.

Net premiums earned increased 18.9% in the first quarter of 2006 as compared to the same period in 2005. This increase related primarily to the continued growth in financial guaranty in force business.

The following table provides a line of business breakdown of the Financial Products and Services segment’s net premiums earned:

(U.S. dollars in thousands)	(Unaudited) Three Months Ended March 31,

	2006	2005	% Change
Financial Guaranty	$46,013	$39,607	16.2%
Political Risk	6,029	7,051	(14.5)%
Other (1)	9,418	5,037	87.0%

(1) Other includes structured financial and alternative risk transfer products and weather and energy risk management products.

Net losses and loss expenses include first quarter 2006 net losses incurred and adverse or favorable development of prior years net losses and loss expense reserves. Net losses and loss expenses for the three months ended March 31, 2006 increased compared to the same period in 2005 primarily due to a loss reserve of $21.5 million established in respect of a structured finance transaction policy.

Operating expenses for the segment have increased for the three months ended March 31, 2006 compared to the same period in 2005 due to increased compensation costs.

Net investment income related to the financial guaranty business increased by 17.6% in the three months ended March 31, 2006 compared to the same period in 2005, due primarily to higher average invested assets resulting from net cash inflows from operations combined with improved yields during the three months ended March 31, 2005.

Net investment income related to structured products increased by 70.8% in the three months ended March 31, 2006, as compared to the same period in 2005, primarily as a result of significant increases in the combined average funding agreement and guaranteed investment contract balances from $3.7 billion to $6.0 billion for the three months ended March 31, 2005 and 2006, respectively, together with increased yields.

Interest expense on structured products relates to deposit liabilities associated with funding agreements, guaranteed investment contracts and certain structured property and casualty contracts. The increase in interest expense during the three months ended March 31, 2006 as compared to the same period in 2005 related primarily to the increase in the combined average funding agreement and guaranteed investment contract balances for the three months ended March 31, 2006, as compared to the same period in 2005, off-set by reduced interest expense during the three months ended March 31, 2006 on certain structured property and casualty contracts resulting from a change in the timing of estimated cash outflows from such contracts.

Net income from financial and investment affiliates includes earnings on the Company's investment in Primus Guaranty, Ltd ("Primus") and certain of the Company's investment affiliates, which are accounted for under the equity method. During the first quarter of 2006, earnings from the Company's investment in Primus decreased, as compared to the same period in 2005, while investment affiliate performance was stronger in the first quarter of 2006. The decrease in earnings from Primus relates to a negative mark to market in their credit derivative portfolio during the first quarter of 2006, as compared to the same period in 2005.

Net results from derivatives represent changes in the market value of the Company's insured credit derivative portfolio, weather and energy derivative instruments and certain structured derivatives. The net results from derivatives for the three months ended March 31, 2006 included realized gains from European frost day weather derivative contracts for the 2005/2006 winter, partially offset by negative movements in certain investment grade credit derivative exposures and the amortization of prior mark-to-market gains.

Investment Activities

The following table illustrates the change in net investment income from general operations, net income from investment affiliates, net realized gains on investments and net realized and unrealized gains on investment derivative instruments:

(U.S. dollars in thousands)	**(Unaudited) Three Months Ended March 31,**		
	2006	**2005**	**% Change**
Net investment income – general operations	$262,367	$171,930	52.6%
Net income from investment affiliates – general operations	99,974	67,914	47.2%
Net realized gains on investments	22,765	60,671	(62.5)%
Net realized and unrealized gains on investment derivative instruments – general operations	29,923	29,100	2.8%

Net investment income related to general operations increased in the first quarter of 2006 as compared to the first quarter of 2005 due primarily to a higher investment base as well as increases in the yield of the portfolio. The growth in the investment base reflected the issuance of ordinary shares and equity units in the fourth quarter of 2005 and the Company's cash flow from operations. The market yield to maturity on the fixed income portfolio was 5.1% at March 31, 2006, as compared to 4.3% at March 31, 2005 due primarily to higher interest rates in the U.S.

Net income from investment affiliates increased in the first quarter of 2006 compared to the first quarter of 2005 due primarily to stronger performance in alternative fund affiliates and private equity fund affiliates.

The Company manages its investment grade fixed income securities using an asset/liability management framework. Due to the unique nature of the underlying liabilities, customized benchmarks are used to measure investment performance and comparison to standard market indices is not meaningful. Investment performance is not monitored for certain assets primarily consisting of operating cash and special regulatory deposits. The following is a summary of the investment portfolio returns for the asset/liability portfolios and risk asset portfolios:

	(Unaudited) Three Months Ended March 31, 2006 (1)	**(Unaudited) Three Months Ended March 31, 2005 (1)**
Asset/Liability portfolios		
USD fixed income portfolio	0.2%	(0.2)%
Non USD fixed income portfolio	(0.9)%	(0.1)%
Risk Asset portfolios		
Alternative portfolio (2)	4.3%	2.9%
Equity portfolio	8.6%	(0.7)%
High-Yield fixed income portfolio	2.0%	(1.4)%

(1) Portfolio returns are calculated by dividing the sum of net investment income or net income from investment affiliates, realized gains (losses) and unrealized gains (losses) by the weighted average market value of each portfolio. Non U.S. dollar fixed income performance is measured in either the underlying currency or in U.S. dollars

(2) Performance on the alternative portfolio reflects the three months ended February 28, 2006 and February 28, 2005, respectively.

Net Realized Gains and Losses and Other Than Temporary Declines in the Value of Investments

Net realized gains on investments in the first quarter of 2006 included net realized gains of $33.5 million from sales of investments and net realized losses of approximately $10.7 million related to the write-down of certain of the Company's fixed income, equity and other investments where the Company determined that there was an other than temporary decline in the value of these investments.

Net realized gains on investments in the first quarter of 2005 included net realized gains of $83.9 million from sales of investments and net realized losses of approximately $23.2 million related to the write-down of certain of the Company's fixed income, equity and other investments where the Company determined that there was an other than temporary decline in the value of those investments.

The Company's process for identifying declines in the fair value of investments that are other than temporary involves consideration of several factors. These factors include: (i) the time period during which there has been a significant decline in value; (ii) an analysis of the liquidity, business prospects and financial condition of the issuer; (iii) the significance of the decline; (iv) an analysis of the collateral structure and other credit support, as applicable, of the securities in question; and (v) the Company's intent and ability to hold the investment for a sufficient period of time for the value to recover. Where the Company's analysis of the above factors results in the

Company's conclusion that declines in fair values are other than temporary, the cost of the security is written down to fair value and the previously unrealized loss is therefore realized in the period such determination is made.

Net realized and unrealized gains on investment derivatives for the three months ended March 31, 2006 resulted from the Company's investment strategy to hedge certain interest, credit and foreign exchange risks within the investment portfolio.

Net Unrealized Gains and Losses on Investments

At March 31, 2006, the Company had net unrealized losses on fixed income and short term securities of $158.2 million and net unrealized gains on equities of $195.7 million. Of these amounts, gross unrealized losses on fixed income and short term securities and equities were $550.5 million and $8.8 million, respectively. The information presented below for the gross unrealized losses on the Company's investments at March 31, 2006 shows the potential effect upon future earnings and financial position should management later conclude that some of the current declines in the fair value of these investments are other than temporary. U.S., U.K. and the Euro zone interest rates increased during the quarter, which was the primary reason for the decline in net unrealized gains on fixed income securities.

At March 31, 2006, approximately 11,100 fixed income securities out of a total of approximately 17,300 securities were in an unrealized loss position. The largest single unrealized loss in the fixed income portfolio was $4.5 million. Approximately 300 equity securities out of a total of approximately 1,800 securities were in an unrealized loss position at March 31, 2006 with the largest individual loss being $1.1 million.

The following is an analysis of how long each of those securities with an unrealized loss at March 31, 2006 had been in a continual unrealized loss position:

(U.S. dollars in thousands)

Type of Securities	**Length of time in a continual unrealized loss position**	**(Unaudited) Amount of unrealized loss at March 31, 2006**	**(Unaudited) Fair Value of Securities in unrealized loss position at March 31, 2006**
Fixed Income and Short-Term	Less than six months	$ 161,442	$ 10,821,404
	At least 6 months but less than 12 months	264,139	6,341,075
	At least 12 months but less than 2 years	75,933	5,469,511
	2 years and over	49,021	1,044,738
	Total	$ 550,535	$ 23,676,728
Equities	Less than six months	$ 6,433	$ 135,954
	At least 6 months but less than 12 months	2,392	18,229
	Total	$ 8,825	$ 154,183

At March 31, 2006, the following was the maturity profile of the fixed income securities that were in a gross unrealized loss position:

(U.S. dollars in thousands)

Maturity profile in years of fixed	**(Unaudited) Amount of**	**(Unaudited) Fair value of securities**

income securities in a continual unrealized loss position	unrealized loss at March 31, 2006	in unrealized loss positions at March 31, 2006
Less than 1 year remaining	$ 9,494	$ 1,820,169
At least 1 years but less than 5 years remaining	135,110	4,829,898
At least 5 years but less than 10 years remaining	134,190	4,946,982
At least 10 years but less than 20 years remaining	14,181	853,950
At least 20 years or more remaining	50,724	1,861,195
Mortgage and asset backed securities	206,836	9,364,534
Total	$ 550,535	$ 23,676,728

The Company operates a risk asset portfolio that includes high yield (below investment grade) fixed income securities. These represented approximately 2.3% of the total fixed income portfolio market value at March 31, 2006. Fair values of these securities have a higher volatility than investment grade securities. Of the total gross unrealized losses in the Companys fixed income portfolio as at March 31, 2006, $10.0 million related to securities that were below investment grade or not rated. The following is an analysis of how long each of these below investment grade and unrated securities had been in a continual unrealized loss position at the date indicated:

(U.S. dollars in thousands) Length of time in a continual unrealized loss position	(Unaudited) Amount of unrealized loss at March 31, 2006	(Unaudited) Fair value of securities in unrealized loss position at March 31, 2006
Less than six months	$ 3,687	$ 193,863
At least 6 months but less than 12 months	3,500	186,700
At least 12 months but less than 2 years	804	28,038
2 years and over	2,006	96,054
Total	$ 9,997	$ 504,655

Other Revenues and Expenses

The following table sets forth other revenues and expenses:

(U.S. dollars in thousands)	(Unaudited) Three Months Ended March 31,		
	2006	2005	% Change
Net (loss) income from operating affiliates general operations	$ (7,450)	$ 15,222	NM
Amortization of intangible assets	1,095	2,793	(60.8)%
Corporate operating expenses	49,142	48,385	1.6%
Interest expense	50,350	45,876	9.8%
Income tax expense	66,636	52,874	26.0%

*NM Not Meaningful

Net income from operating affiliates decreased for the three months ended March 31, 2006 as compared to the same period in 2005 primarily as a result of the impairment in value of two operating affiliates as a result of expected restructuring activities.

Corporate operating expenses in the three months ended March 31, 2006 were relatively unchanged compared to the three months ended March 31, 2005.

The increase in interest expense primarily reflected the increase in outstanding debt since March 31, 2005. For more information on the Companys financial structure, see Liquidity and Capital Resources.

The income tax expense reported for the three months ended March 31, 2006 increased principally due to the increased profitability in the Companys U.S. and European operations.

Investments

The primary objectives of the investment strategy are to support the liabilities arising from the operations of the Company, generate stable investment income and to build book value for the Company over the longer term. The strategy strives to maximize investment returns while taking into account market and credit risk. The Companys overall investment portfolio is structured to take into account a number of variables including local regulatory requirements, business needs, collateral management and risk tolerance.

At March 31, 2006 and December 31, 2005, total investments, cash and cash equivalents and net payable for investments purchased were $41.1 billion and $41.2 billion, respectively. The following table summarizes the composition of the Company’s total investments and cash and cash equivalents:

(U.S. dollars in thousands)	(Unaudited) Market Value at March 31, 2006	Percent of Total	Market Value at December 31, 2005	Percent of Total
Cash and cash equivalents	$ 2,262,824	5.5%	$ 3,693,475	9.0%
Net payable for investments purchased	(269,167)	(0.6)%	(639,034)	(1.6)%
Fixed maturities	33,134,263	80.6%	32,309,565	78.4%
Short-term investments	2,677,741	6.5%	2,546,073	6.2%
Equity securities	959,989	2.3%	868,801	2.1%
Investments in affiliates	1,887,228	4.6%	2,046,721	5.0%
Other investments	452,263	1.1%	399,417	0.9%
Total investments and cash and cash equivalents .	$ 41,105,141	100%	$ 41,225,018	100%

The Company reviews, on a regular basis, its corporate debt concentration, credit quality and compliance with established guidelines. At March 31, 2006 and December 31, 2005, the average credit quality of the Company’s total fixed income portfolio was “AA”. Approximately 54.4% of the fixed income portfolio was rated “AAA” by one or more of the principal ratings agencies. Approximately 2.3% was below investment grade or not rated.

Unpaid Losses and Loss Expenses

The Company establishes reserves to provide for estimated claims, the general expenses of administering the claims adjustment process and for losses incurred but not reported. These reserves are calculated using actuarial and other reserving techniques to project the estimated ultimate net liability for losses and loss expenses. The Company’s reserving practices and the establishment of any particular reserve reflects management’s judgment concerning sound financial practice and do not represent any admission of liability with respect to any claims made against the Company.

Unpaid losses and loss expenses relate primarily to the casualty insurance and reinsurance business written by the Company. The balance was $23.7 billion at March 31, 2006, and $23.8 billion at December 31, 2005.

The table below represents a reconciliation of the Company’s general and financial operations net unpaid losses and loss expenses for the year ended March 31, 2006:

(U.S. dollars in thousands)	(Unaudited) Three Months Ended March 31, 2006		
	Gross unpaid losses and loss expenses	Unpaid losses and loss expenses recoverable	Net unpaid losses and loss expenses

Balance as at December 31, 2005	$ 23,767,672	$ (6,412,648)	$ 17,355,024
Losses and loss expenses incurred	1,404,962	(307,837)	1,097,125
Losses and loss expenses paid /recovered	1,397,687	(349,182)	1,048,505
Foreign exchange and other	(41,362)	65,095	23,733
Balance as at March 31, 2006	$ 23,733,585	$ (6,306,208)	$ 17,427,377

While the Company reviews the adequacy of established reserves for unpaid losses and loss expenses regularly, no assurance can be given that actual claims made and payments related thereto will not be in excess of the amounts reserved. In the future, if such reserves develop adversely, such deficiency would have a negative impact on future results of operations. See Unpaid Losses and Loss Expenses in Item 1, Risk Factors in Item 1A, Critical Accounting Policies and Estimates in Item 7 and Item 8, Note 9 to the Consolidated Financial Statements, each in the Companys Form 10-K/A for the year ended December 31, 2005, for further discussion.

Unpaid Losses and Loss Expenses Recoverable and Reinsurance Balances Receivable

In the normal course of business, the Company seeks to reduce the potential amount of loss arising from claims events by reinsuring with other insurers or reinsurers certain levels of risk assumed in various areas of exposure. While reinsurance agreements are designed to limit the Company's losses from large exposures and permit recovery of a portion of direct unpaid losses, reinsurance does not relieve the Company of its ultimate liability to its insureds. Accordingly, the loss and loss expense reserves on the balance sheet represent the Company's total unpaid gross losses. Unpaid losses and loss expenses recoverable relates to estimated reinsurance recoveries on the unpaid loss and loss expense reserves.

Unpaid losses and loss expenses recoverables, net of bad debt reserve, were $6.3 billion at March 31, 2006 and $6.4 billion at December 31, 2005. The table below presents the Company's net reinsurance recoverable:

(U.S. dollars in thousands)	**(Unaudited) As at March 31, 2006**	**As at December 31, 2005**
Reinsurance balances receivable	$ 1,196,819	$ 1,069,402
Reinsurance recoverable on future policy benefits	16,421	28,874
Unpaid losses and loss expenses recoverable	6,536,120	6,646,972
Bad debt reserve on unpaid losses and loss expenses and reinsurance balances receivable	(251,263)	(260,713)
Net paid and unpaid losses and loss expenses recoverable and reinsurance balances receivable	$ 7,498,097	$ 7,484,535

Under the terms of the Sale and Purchase Agreement, as amended, between XL Insurance (Bermuda) Ltd and Winterthur Swiss Insurance Company (the "SPA"), Winterthur Swiss Insurance Company ("WSIC") provides the Company with protection with respect to third party reinsurance receivables and recoverables related to the acquisition of certain Winterthur International insurance operations (the "Winterthur Business"), which were approximately $1.6 billion, in the aggregate, as of March 31, 2006. There are two levels of protection for these balances:

1. At the time of the Winterthur International acquisition, WSIC provided to the Company a liquidity facility. At the time of the payment of the seasoned net reserves amount on December 12, 2005, the Company exercised its right to repay up to the balances outstanding on this facility by assignment to WSIC of an equal amount of receivables relating to reinsurance recoverables selected by the Company. During December 2005, the Company assigned $265.4 million of receivables to WSIC under this arrangement, although WSIC has disputed the assignment of certain of these receivables.

2. Under two retrocession agreements, the Company has reinsurance protection on the reinsurance recoverables with respect to the seasoned net reserves amount determined as of June 30, 2004, to the extent that the Company does not receive payment of such amounts from applicable reinsurers with one agreement providing a limit of $1.3 billion for the insurance written in the period to June 30, 2001, and the other agreement providing a limit of $1.3 billion for the insurance written in the period to December 31, 2000.

At March 31, 2006, certain reinsurers responsible for some portions of the reinsurance of the acquired Winterthur Business have raised issues as to whether amounts claimed are due and discussions are currently ongoing to achieve a resolution.

Liquidity and Capital Resources

As a holding company, the Company's assets consist primarily of its investments in subsidiaries, and the Company's future cash flows depend on the availability of dividends or other statutorily permissible payments from its subsidiaries. The ability to pay such dividends is limited by the applicable laws and regulations of the various countries the Company operates in including, among others, Bermuda, the United States, Ireland, Switzerland and the United Kingdom, and those of the Society of Lloyds and certain contractual provisions. No assurance can be given that the Company or its subsidiaries will be permitted to pay dividends in the future.

The Company and its subsidiaries provide no guarantees or other commitments (express or implied) of financial support to the Companys subsidiaries or affiliates, except for express written financial support provided by XL Insurance (Bermuda) Ltd in connection with the Companys financial guaranty subsidiaries and where other express written guaranty or other financial support arrangements are in place.

Liquidity

Liquidity is a measure of the Companys ability to generate sufficient cash flows to meet the short and long term cash requirements of the Companys business operations.

The Companys operating subsidiaries provide liquidity in that premiums are generally received months or even years before losses are paid under the policies related to such premiums. Historically, cash receipts from operations, consisting of insurance premiums and investment income, have provided more than sufficient funds to pay losses, operating expenses and dividends to the Company.

New cash from operations was approximately $490.2 million in the first three months of 2006 compared with $545.4 million in the same period in 2005. The slight decrease was due primarily to higher paid losses in 2006 stemming from the catastrophes in 2005, partially offset by higher investment income from the growth of the Companys investment portfolio.

Certain business written by the Company has loss experience generally characterized as having low frequency and high severity. This may result in volatility in both the Companys results and operational cash flow. Cash flow for the quarter ended March 31, 2006 included approximately $250 million related to the 2005 hurricanes. The Company has reviewed the anticipated cash flows from these events and believes it has sufficient liquidity to meet its obligations.

Capital Resources

At March 31, 2006, the Company had total shareholders equity of $8.5 billion. In addition to ordinary and preferred share capital, the Company depends on external sources of financing such as debt, credit facilities and contingent capital to support its underwriting activities.

The Company does not intend, subject to the terms and conditions of the Series A or Series B preference ordinary shares as set forth in the relevant prospectus supplements, to redeem either the Series A or Series B preference ordinary shares unless replaced with capital having at least the equivalent credit.

As at March 31, 2006, the Company had revolving loan facilities from a variety of sources, including commercial banks, totaling $4.6 billion of which $3.4 billion in debt was outstanding. In addition, the Company had letters of credit facilities amounting to $5.6 billion of which $4.1 billion was utilized to provide for letters of credit in issue at March 31, 2006, 4.9% of which were collateralized by the Companys investment portfolio. Such letters of credit principally support the Companys U.S. non-admitted business and the Companys capital requirements at Lloyds.

Debt

The following table presents the Companys indebtedness under outstanding debt securities and lenders commitments as at March 31, 2006:

				Payments Due By Period			
Notes Payable and Debt (U.S. dollars in thousands)	**Commitment**	**In Use**	**Year of Expiry**	**Less Than 1 Year**	**1 To 3 Years**	**3 To 5 Years**	**After 5 Years**
364-day revolver	$ 100,000	$	2006	$	$	$	
5 and 3-year revolvers	1,000,000		2007/2010				$
5-year revolver	100,000		2010				
2.53% Senior Notes	825,000	825,000	2009			825,000	
5.25% Senior Notes	745,000	745,000	2011			745,000	
6.58% Guaranteed Senior Notes	255,000	255,000	2011				255,000
6.50% Guaranteed Senior Notes	598,153	598,153	2012				600,000
5.25% Senior Notes	594,493	594,493	2014				600,000
6.375% Senior Notes	350,000	350,000	2024				350,000
Total	$ 4,567,646	$ 3,367,646		$	$	$ 1,570,000	$ 1,805,000

Commitment and In Use data represent March 31, 2006 accreted values. After 5 years data represent ultimate redemption values.

Credit facilities, contingent capital and other sources of collateral.

The Company replaced its letter of credit facility utilized to support the capital requirements of its syndicates at Lloyds of London (Lloyds), with a new £500 million credit facility that closed on March 14, 2006. Commitments from the participating banks expire on November 30, 2007, which will enable the Company to use this facility to meet its letter of credit needs for the 2008 year of account at Lloyds.

The Company is negotiating a new $500 million syndicated letter of credit facility. The new facility will have a tenor of 364-days and is expected to close in early May 2006.

At March 31, 2006, the Company had eight letter of credit facilities in place with total availability of $5.6 billion, of which $4.1 billion was utilized.

				Amount of Commitment Expiration Per Period		
Other Commercial Commitments (U.S. dollars in thousands)	**Commitment**	**In Use**	**Year of Expiry**	**Less Than 1 Year**	**1 To 3 Years**	**3 To 5 Years**
Letter of credit						

facility	$ 200,000	$ 191,178	Continuous	$ 200,000	$ —	$
2 Letter of credit facilities	5,976	5,976	2006	5,976		
Letter of credit facility (1)	100,000	—	2006	100,000	—	
Letter of credit facility	150,000	150,000	2006	150,000	—	
Letter of credit facility	869,500	687,736	2007	—	869,500	
Letter of credit facility (1)	2,000,000	1,187,791	2007	—	2,000,000	
Letter of credit facility (1)	2,250,000	1,833,498	2010	—	—	2,250,000
8 Letter of credit facilities	$ 5,575,476	$ 4,056,179		$ 455,976	$ 2,869,500	$ 2,250,000

(1) Of the total letter of credit facilities above, $1.0 billion is also included in the revolvers under "Notes Payable and Debt".

The Company has several letter of credit facilities provided both on a syndicated and bilateral basis from commercial banks. These facilities are principally utilized to support non-admitted insurance and reinsurance operations in the United States and capital requirements at Lloyd’s. In addition to letters of credit, the Company has established insurance trusts in the U.S. that provide cedants with statutory relief under state insurance regulations in the U.S. It is anticipated that the commercial facilities will be renewed on expiry but such renewals are subject to the availability of credit from banks utilized by the Company. In the event that such credit support is insufficient, the Company could be required to provide alternative security to cedants. This could take the form of additional insurance trusts supported by the Company’s investment portfolio or funds withheld using the Company’s cash resources. The value of letters of credit required is driven by, among other things, loss development of existing reserves, the payment pattern of such reserves, the expansion of business written by the Company and loss experience of such business.

In addition to funded debt transactions, the Company and a majority-owned subsidiary XL Financial Assurance Ltd. (“XLFA”) have entered into contingent capital transactions. No up-front proceeds were received by the Company or XLFA under these transactions, however, in the event that the associated irrevocable put option agreements are exercised, proceeds previously raised from investors from the issuance of pass-through trust securities would be received in return for the issuance of preferred shares by the Company or XLFA, as applicable.

Ratings

The Company’s ability to underwrite business is dependent upon the quality of its claims paying and financial strength ratings as evaluated by independent rating agencies. As a result, in the event that the Company is downgraded, its ability to write business may be adversely affected. In the normal course of business, the Company evaluates its capital needs to support the volume of business written in order to maintain its claims paying and financial strength ratings. The Company regularly provides financial information to rating agencies to both maintain and enhance existing ratings.

The following are the current financial strength and claims paying ratings from internationally recognized rating agencies in relation to the Company’s principal insurance and reinsurance subsidiaries and pools:

Rating agency	Rating
Standard & Poor’s	A+ (Stable)
Fitch	AA- (Stable)
A.M. Best	A+ (Stable)
Moody’s Investor Services	Aa3 (Stable)

The following are the current financial strength ratings from internationally recognized rating agencies in relation to the Company’s principal financial guaranty insurance and reinsurance subsidiaries:

Rating agency	Rating
Standard & Poor’s	AAA
Fitch	AAA
Moody’s Investor Services	Aaa

In addition, XL Capital Ltd had the following long term debt ratings as at March 31, 2006: “a-” (Stable) from A.M. Best, “A-” (Stable) from Standard and Poor’s, “A3” (Stable) from Moody’s and “A” (Stable) from Fitch.

Other

For information regarding cross-default and certain other provisions in the Company’s debt and convertible securities documents, see Item 7 of the Company’s Form 10-K/A for the year ended December 31, 2005.

The Company has had several share repurchase programs in the past as part of its capital management strategy. On January 9, 2000, the Board of Directors authorized a program for the repurchase of shares up to $500.0 million. Under this plan, the Company has purchased 6.6 million shares at an aggregate cost of $364.6 million or an average cost of $55.24 per share. The Company has $135.4 million remaining in its share repurchase authorization. During the three months ended March 31, 2006, no shares were repurchased in the open market. The Company has repurchased shares from employees and directors in relation to withholding tax on restricted stock. See Part II, Item 2 Unregistered Sales of Equity Securities and Use of Proceeds, below.

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, the Companys Annual Report to ordinary shareholders, any proxy statement, any other Form 10-K, Form 10-Q or Form 8-K of the Company or any other written or oral statements made by or on behalf of the Company may include forward-looking statements that reflect the Companys current views with respect to future events and financial performance. Such statements include forward-looking statements both with respect to the Company in general, and to the insurance, reinsurance and financial products and services sectors in particular (both as to underwriting and investment matters). Statements that include the words expect, intend, plan, believe, project, anticipate, will, may, and simil statements of a future or forward-looking nature identify forward-looking statements for purposes of the PSLRA or otherwise.

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in such statements. The Company believes that these factors include, but are not limited to, the following: (i) the adequacy of rates and terms and conditions may not be as sustainable as the Company is currently projecting; (ii) changes to the size of the Companys claims relating to Hurricanes Katrina, Rita and Wilma and other natural catastrophes; (iii) the Companys ability to realize the expected benefits of the collateralized quota share reinsurance treaty that it entered into in the fourth quarter of 2005 with respect to specified portions of its property catastrophe and retrocessional lines of business; (iv) the timely and full recoverability of reinsurance placed by the Company with third parties, or other amounts due to the Company, including, without limitation, amounts due to the Company from WSIC in connection with the Companys acquisition of the Winterthur Business; (v) the projected amount of ceded reinsurance recoverables and the ratings and creditworthiness of reinsurers may change; (vi) the size of the Companys claims relating to the hurricane and tsunami losses described herein may change; (vii) the timing of claims payments being faster or the receipt of reinsurance recoverables being slower than anticipated by the Company; (viii) ineffectiveness or obsolescence of the Companys business strategy due to changes in current or future market conditions; (ix) increased competition on the basis of pricing, capacity, coverage terms or other factors; (x) greater frequency or severity of claims and loss activity, including as a result of natural or man-made catastrophic events, than the Companys underwriting, reserving or investment practices anticipate based on historical experience or industry data; (viii) developments in the worlds financial and capital markets that adversely affect the performance of the Companys investments and the Companys access to such markets; (ix) the potential impact on the Company from government-mandated insurance coverage for acts of terrorism; (x) the potential impact of variable interest entities or other off-balance sheet arrangements on the Company; (xi) developments in bankruptcy proceedings or other developments related to bankruptcies of companies insofar as they affect property and casualty insurance and reinsurance coverages or claims that the Company may have as a counterparty; (xii) availability of borrowings and letters of credit under the Companys credit facilities; (xiii) changes in regulation or tax laws applicable to the Company or its subsidiaries, brokers or customers; (xiv) acceptance of the Companys products and services, including new products and services; (xv) changes in the availability, cost or quality of reinsurance; (xvi) changes in the distribution or placement of risks due to increased consolidation of insurance and reinsurance brokers; (xvii) loss of key personnel; (xviii) the effects of mergers, acquisitions and divestitures; (xix) changes in ratings, rating agency policies or practices; (xx) changes in accounting policies or practices or the application thereof; (xxi) legislative or regulatory developments; (xxii) changes in general economic conditions, including inflation, foreign currency exchange rates and other factors; (xxiii) the effects of business disruption or economic contraction due to war, terrorism or other hostilities; and (xxiv) the other factors set forth in the Companys 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. The Company undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Except as described below, there have been no material changes in the Company's market risk exposures, or how those exposures are managed, since December 31, 2005. The following discussion should be read in conjunction with "Quantitative and Qualitative Disclosures About Market Risk" presented under Item 7A of the Company's Form 10-K/A for the year ended December 31, 2005.

The Company enters into derivatives and other financial instruments primarily for risk management purposes. The Company's derivative transactions can expose the Company to credit default swap risk, weather and energy risk, investment market risk and foreign currency exchange rate risk. The Company attempts to manage these risks based on guidelines established by senior management. Derivative instruments are carried at fair value with resulting changes in fair value recognized in income in the period in which they occur.

Value-at-risk ("VaR") is one of the tools used by management to estimate potential losses in fair values using historical rates, market movements and credit spreads to estimate the volatility and correlation of these factors to calculate the potential loss that could occur over a defined period of time given a certain probability.

This risk management discussion and the estimated amounts generated from the sensitivity and VaR analyses presented in this document are forward-looking statements of market risk assuming certain adverse market conditions occur. Actual results in the future may differ materially from these estimated results due to, among other things, actual developments in the global financial markets. The results of analysis used by the Company to assess and mitigate risk should not be considered projections of future events or losses. See generally "Cautionary Note Regarding Forward-Looking Statements" in Item 2.

Credit Default Swaps

The Company has written certain financial guaranty transactions in derivative or swap form. The Company does not actively trade these transactions and generally issues and holds these contracts to maturity. Changes in fair value can result from changes in market credit spreads, supply and demand for similar type instruments, changes in future loss and/or recovery estimates, interest rates and credit rating upgrades or downgrades. The Company therefore is at risk for changes in fair value due to changes in any of the above factors. In addition, the Company enters into credit default swap transactions as part of its overall investment strategy.

Weather and Energy Market Risk

The Company offers weather and contingent energy risk management products in insurance or derivative form to end-users, while managing the risks in the over-the-counter and exchange traded derivatives markets or through the use of quota share or excess of loss arrangements.

Fair values for the Company's natural gas derivative contracts are determined through the use of quoted market prices. As quoted market prices are not widely available in the weather derivative market, management uses available market data and internal pricing models based upon consistent statistical methodologies to estimate fair values. Estimating fair value of instruments that do not have quoted market prices, requires management's judgment in determining amounts that could reasonably be expected to be received from, or paid to, a third party in respect of the contracts. The amounts could be materially different from the amounts that might be realized in an actual sale transaction. Fair values are subject to change in the near-term and reflect management's best estimate based on various factors including, but not limited to, realized and forecasted weather conditions, changes in interest rates and other market factors.

The following table summarizes the movement in the fair value of weather and energy contracts outstanding during the three months ended March 31, 2006:

(U.S. dollars in thousands)	(Unaudited) Three Months Ended March 31, 2006
Fair value of contracts outstanding, beginning of the year	$ (4,345)
Option premiums received, net of premiums realized (1)	1,172
Reclassification of settled contracts to realized (2)	(2,626)
Other changes in fair value (3)	23,707
Fair value of contracts outstanding, end of period	$ 17,908

(1) For the three months ended March 31, 2006, the Company collected $2.1 million of paid premiums and realized $3.3 million of premiums on expired transactions for a net decrease in the balance sheet derivative liability of $1.2 million.
(2) The Company paid $2.6 million to settle derivative positions during the three months ended March 31, 2006, resulting in a reclassification of this amount from unrealized to realized and a decrease in the balance sheet derivative liability.
(3) This represents the effects of changes in commodity prices, the time value of options, and other valuation adjustments of $23.7 million on the Company's derivative positions.

The change in fair value of contracts outstanding at March 31, 2006, as compared to the beginning of the year was primarily a result of realized gains from European frost day weather derivative contracts for the 2005/2006 winter.

The following table summarizes the maturity of contracts outstanding as of March 31, 2006:

(U.S. dollars in thousands) (Unaudited) Source Of Fair Value	Less Than 1 Year	1-3 Years	3-5 Years	Greater Than 5 Years	Total Fair Value
Prices actively quoted	$ —	$ —	$ —	$—	$ —
Prices based on models and other valuation methods	14,840	1,129	1,939	—	17,908
Total fair value of contracts outstanding	$ 14,840	$ 1,129	$ 1,939	$—	$ 17,908

The Company manages its weather and energy portfolio through the employment of a variety of strategies. These include geographical and directional diversification of risk exposures and direct hedging within the capital and reinsurance markets. Risk management is undertaken on a product portfolio-wide basis, to maintain a portfolio that the Company believes is well diversified and which remains within the aggregate risk tolerance established by the Company's senior management.

The Company's aggregate average, low and high seasonal VaR amounts for its weather risk management portfolio, calculated at a 99% confidence level, during the period ended March 31, 2006 were $40.3 million, $18.8 million and $56.3 million, respectively. The corresponding levels for the weather risk management portfolio during the period ended March 31, 2005 were $108.9 million, $101.5 million and $115.1 million, respectively. The Company calculates its aggregate VaR by summing the VaR amounts for each of its seasonal portfolios. The Company's aggregation methodology yields a conservative aggregate portfolio VaR, given that current weather events and patterns have an immaterial effect on expectations for future seasons and the Company could therefore greatly reduce or eliminate its VaR on future seasons by selling its positions prior to the beginning of a season. At present, the Company's VaR calculation does not exceed $15.0 million in any one season.

Investment Market Risk

The Company's investment portfolio consists of exposures to fixed income securities, equities, alternative investments, derivatives, business and other investments and cash. These securities and investments are denominated in both U.S. dollars and foreign currencies.

Through the structure of the Company's investment portfolio, the Company's earnings and book value are directly affected by changes in the valuations of the securities and investments held in the investment portfolio. These valuation changes reflect changes in interest rates (e.g., changes in the level, slope and curvature of yield curves, volatility of interest rates, mortgage prepayment speeds and credit spreads), credit quality, equity prices (e.g., changes in prices and volatilities of individual securities, equity baskets and equity indices) and foreign currency exchange rates (e.g., changes in spot prices, forward prices and volatilities of currency rates). Market risk therefore arises due to the uncertainty surrounding the future valuations of these different assets, the factors that impact their values and the impact that this could have on the Company's earnings and book value.

The Company seeks to manage the risks of the investment portfolio through a combination of asset class, country, industry and security level diversification and investment manager allocations. These allocation decisions are made relative to the liability profile of the Company and the Company's surplus. Further, individual security and issuer exposures are controlled and monitored at the investment portfolio level, via specific investment constraints outlined in investment guidelines and agreed with the external investment professionals. Additional constraints are generally agreed with the external investment professionals, which may address exposures to eligible securities, prohibited investments/transactions, credit quality and general concentration limits.

The Company's direct use of investment derivatives includes futures, forwards, swaps and option contracts that derive their value from underlying assets, indices, reference rates or a combination of these factors. When investment guidelines allow for the use of derivatives, these can generally only be used for the purposes of managing interest rate risk, foreign exchange risk, credit risk and replicating permitted investments, provided the use of such instruments is incorporated in the overall portfolio duration, spread, convexity and other relevant portfolio metrics. The direct use of derivatives is generally not permitted to economically leverage the portfolio outside of the stated guidelines. Derivatives may also be used to add value to the investment portfolio where market inefficiencies are perceived to exist, to utilize cash holdings to purchase equity indexed derivatives and to adjust the duration of a portfolio of fixed income securities to match the duration of related deposit liabilities.

Investment Value-At-Risk

The VaR of the Company's investment portfolio at March 31, 2006, based on a 95% confidence level with a one month holding period, was approximately $529.8 million as compared to $489.0 million as at December 31, 2005. The VaR of all investment related derivatives excluding investments in affiliates and other investments was $18.9 million as at March 31, 2006 as compared to $26.3 million as at December 31, 2005. The Company's investment portfolio VaR as at March 31, 2006 is not necessarily indicative of future VaR levels.

To complement the VaR analysis based on normal market environments, the Company considers the impact on the investment portfolio of several different historical stress periods to analyze the effect of unusual market conditions. The Company establishes certain historical stress test scenarios which are applied to the actual investment portfolio. As these stress tests and estimated gains and losses are based on historical events, they will not necessarily reflect future stress events or gains and losses from such events. The results of the stress test scenarios are reviewed on a regular basis to ensure they are appropriate, based on current shareholders equity, market conditions and the Company's total risk tolerance. Given the investment portfolio allocations as at March 31, 2006, the Company would expect to lose approximately 5.0% of the portfolio if the most damaging event stress tested was repeated, all other things held equal, as compared to 5.2% at December 31, 2005. Given the investment portfolio allocations as at March 31, 2006, the Company would expect to gain approximately 17.6% on the portfolio if the most favorable event stress tested was repeated, all other things held equal, as compared to 17.3% at December 31, 2005. The Company assumes that no action is taken during the stress period to either liquidate or rebalance the portfolio. The Company believes that this fairly reflects the potential decreased liquidity that is often associated with stressed market environments.

Fixed Income Portfolio

The Company's fixed income portfolio is exposed to credit and interest rate risk. The fixed income portfolio includes fixed maturities, short-term investments, cash and cash equivalents and net payable for investments purchased.

As at March 31, 2006, the value of the Company's fixed income portfolio, including cash and cash equivalents and net payable for investments purchased, was approximately $37.8 billion as compared to approximately $37.9 billion as at December 31, 2005. As at March 31, 2006, the fixed income portfolio consisted of approximately 91.1% of the total investment portfolio (including cash and cash equivalents, accrued investment income and net payable for investments purchased) as compared to approximately 91.1% as at December 31, 2005.

The table below shows the Company's fixed income portfolio by credit rating in percentage terms of the Company's total fixed income exposure (including fixed maturities, short-term investments, cash and cash equivalents and net payable for investments purchased) as at March 31, 2006.

	Total
AAA	54.4%
AA	15.2%
A	16.9%
BBB	11.2%
BB & BELOW	2.1%
NR	0.2%
Total	100.0%

At March 31, 2006 and at December 31, 2005, the average credit quality of the Company's total fixed income portfolio was "AA".

As at March 31, 2006, the top 10 corporate holdings, which exclude government guaranteed and government sponsored enterprises, represented approximately 3.8% of the total fixed income portfolio and approximately 11.2% of all corporate holdings. The top 10 corporate holdings listed below represent the direct exposure to the corporations listed, including their subsidiaries, and excludes any securitized, credit enhanced and collateralized asset or mortgage backed securities, cash and cash equivalents, and excludes any reduction to this exposure through credit default swaps, if applicable.

Top 10 Corporate Holdings	Percentage of Total Fixed Income Portfolio (1)
Wells Fargo & Co.	0.4%
Bank of America Corporation	0.4%
Merrill Lynch & Co Inc	0.4%
General Electric Company	0.4%
Citigroup Inc	0.4%
HSBC Holdings plc	0.4%
Lloyds TSB Group plc	0.4%
HBOS plc	0.4%
Royal Bank of Scotland Group plc	0.3%
Banco Santander Central Hispano SA	0.3%

(1) Including fixed maturities, short-term investments, cash and cash equivalents and net payable for investments purchased.

The Company's fixed income portfolio is exposed to interest rate risk. Interest rate risk is the price sensitivity of a fixed income security to changes in interest rates. The hypothetical case of an immediate 100 basis point adverse parallel shift in global bond yield curves as at March 31, 2006 would decrease the fair value of the Company's fixed income portfolio by approximately 3.9% or $1.5 billion. Based on historical observations, it is unlikely that all global bond yield curves would shift uniformly in the same direction and at the same time.

Equity Portfolio

As at March 31, 2006, the Company's equity portfolio, which for financial reporting purposes includes certain fixed income mutual fund investments that do not have the risk characteristics of equity investments, was $960 million as compared to $869 million as at December 31, 2005. As at March 31, 2006, the Company's allocation to equity securities was approximately 2.3% of the total investment portfolio (including cash and cash equivalents, accrued investment income and net payable for investments purchased) as compared to approximately 2.1% as at December 31, 2005.

As at March 31, 2006, approximately 59% of the equity portfolio was invested in U.S. companies as compared to approximately 53% as at December 31, 2005. As at March 31, 2006, the top ten equity holdings represented approximately 5.9% of the Company's total equity portfolio as compared to approximately 5.8% as at December 31, 2005.

The Company's equity portfolio is exposed to price risk. Equity price risk is the potential loss arising from decreases in the market value of equities. An immediate hypothetical 10% change in the value of each equity position would affect the fair value of the portfolio by approximately $96.0 million as at March 31, 2006 as compared to $86.9 million as at December 31, 2005.

Alternative Investment Portfolio

The Company's alternative investment portfolio had approximately 60 separate fund investments at March 31, 2006 with a total exposure of $1.6 billion representing approximately 3.8% of the total investments as compared to December 31, 2005 where the Company had approximately 80 separate fund investments with a total portfolio of $1.7 billion representing approximately 4.1% of the total investment portfolio.

As at March 31, 2006, the alternative investment style allocation was 39% in Directional/tactical strategies, 29% in Event-driven strategies, 22% in Arbitrage strategies, and 10% in Multi-strategy strategies. As at December 31, 2005, the alternative investment style allocation was 43% in Directional/tactical strategies, 31% in Event-driven strategies, 18% in Arbitrage strategies, and 8% in Multi-strategy strategies.

Private Investment Portfolio

As at March 31, 2006, the Company's exposure to private investments was approximately $330.6 million compared to $252.2 million as at December 31, 2005. As at March 31, 2006, the Company's exposure to private investments comprised approximately 0.8% of the total investment portfolio (including cash and cash equivalents, accrued investment income and net payable for investments purchased), as compared to 0.6% as at December 31, 2005.

Bond and Stock Index Futures Exposure

As at March 31, 2006, bond and stock index futures outstanding had a net short position of $104.0 million as compared to a net long position of $46.4 million as at December 31, 2005. A 10% appreciation or depreciation of the underlying exposure to these derivative instruments would have resulted in realized losses or realized gains of $10.4 million as at March 31, 2006 and realized gains or realized losses of $4.6 million as at December 31, 2005, respectively. The Company may reduce its exposure to these futures through offsetting transactions, including options and forwards.

Foreign Currency Exchange Risk

The Company has exposure to foreign currency exchange rate fluctuations through its operations, unpaid losses and loss expenses and in its investment portfolio. The Company's net foreign currency denominated payable on foreign exchange contracts as at March 31, 2006 was $87.2 million as compared to $603.0 million as at December 31, 2005, with a net unrealized loss of $2.7 million as compared to a net unrealized gain of $15.9 million as at December 31, 2005.

Foreign exchange contracts within the investment portfolio are utilized to manage individual portfolio foreign exchange exposures, subject to investment manager guidelines established by management. These contracts are not designated as specific hedges for financial reporting purposes and, therefore, realized and unrealized gains and losses on these contracts are recorded in income in the period in which they occur. These contracts generally have maturities of three months or less.

The Company also attempts to manage the foreign exchange volatility arising on certain transactions denominated in foreign currencies. These include, but are not limited to, premium receivable, reinsurance contracts, claims payable and investments in subsidiaries.

Credit Risk on Forward Contracts

The Company is exposed to credit risk in the event of non-performance by the other parties to the forward contracts, however, the Company does not anticipate non-performance. The difference between the notional principal amounts and the associated market value is the Company's maximum credit exposure.

ITEM 4. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 promulgated under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to provide reasonable assurance that all material information relating to the Company required to be filed in this report has been made known to them in a timely fashion.

Changes in Internal Control Over Financial Reporting

There have been no changes in internal control over financial reporting identified in connection with the Company's evaluation required pursuant to Rules 13a-15 and 15d-15 promulgated under the Securities Exchange Act of 1934, as amended, that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

In November 2006, the Company discovered certain errors in its Consolidated Statements of Cash Flows. These errors resulted from a misapplication of the accounting standards relating to Statements of Cash Flows. The Company brought the errors to the attention of its independent auditor and determined that it would restate its Consolidated Statements of Cash Flows for the periods ending March 31, 2006, June 30, 2006 and the years ended December 31, 2003, 2004, and 2005, respectively. See Note 11 to the Consolidated Financial Statements. Management, and our independent auditors have concluded that the control deficiency that resulted in the restatement of the prior period financial statements was not in itself a material weakness. In addition, the control deficiency that resulted in the restatement when aggregated with other deficiencies did not constitute a material weakness. The Company has taken steps to remediate the significant deficiency in the processes surrounding the preparation of the Consolidated Statements of Cash Flows.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On June 21, 2004, a consolidated and amended class action complaint (the Amended Complaint) was served on the Company and certain of its present and former directors and officers as defendants in a putative class action (Malin et al. v. XL Capital Ltd et al.) filed in United States District Court, District of Connecticut (the Malin Action). The Malin Action purports to be on behalf of purchasers of the Companys common stock between November 1, 2001 and October 16, 2003, and alleges claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder (the Securities Laws). The Amended Complaint alleged that the defendants violated the Securities Laws by, among other things, failing to disclose in various public and shareholder and investor reports and other communications the alleged inadequacy of the Companys loss reserves for its NAC Re subsidiary (now known as XL Reinsurance America, Inc.) and that, as a consequence, the Companys earnings and assets were materially overstated. On August 26, 2005, the Court dismissed the Amended Complaint owing to its failure adequately to allege loss causation, but provided leave for the plaintiffs to file a further amended complaint. The plaintiffs thereafter filed a second amended complaint (the Second Amended Complaint), which is similar to the Amended Complaint in its substantive allegations. On December 31, 2005, the defendants filed a motion to dismiss the Second Amended Complaint. The plaintiffs have opposed the motion. The Company and the defendant present and former officers and directors intend to vigorously defend the claims asserted against them.

On June 17, 2004, William Kronenberg, III, Frank A. Piliero and David M. Rosenberg (together, the Claimants) commenced an arbitration against the Company before the American Arbitration Association (AAA) in New York, New York. The Claimants and the Company were parties to a stock purchase agreement dated June 1, 1999, pursuant to which the Company acquired the outstanding capital stock of ECS, Inc. (the Stock Purchase Agreement). In their AAA arbitration demand, the Claimants asserted claims of fraud and deceitful conduct, negligent misrepresentation, and breach of contract and a covenant of good faith and fair dealing, all relating to the allegation that the Company failed to make certain contingent payments allegedly due to the Claimants under the Stock Purchase Agreement. Claimants sought $85 million (the maximum amount payable under the contingent payment provision at issue), plus punitive damages, interest, costs and attorneys fees. On February 21, 2006, the AAA panel issued a final award in favor of the Company with respect to the major disputes at issue. The AAA panel referred certain remaining accounting issues to additional arbitration proceedings before an independent accounting firm pursuant to rulings of the United States District Court for the Southern District of New York and the United States Court of Appeals for the Second Circuit concerning the scope of the AAA arbitration. The Claimants have not yet taken a position as to the extent of any damages they may still claim in such arbitration in light of the AAA panels award. If the Claimants proceed to arbitration before the accounting firm, the Company will continue to vigorously defend the Claimants claims.

The Company is also subject to litigation and arbitration in the normal course of its business. These lawsuits and arbitrations principally involve claims on policies of insurance and contracts of reinsurance and are typical for the Company and for the property and casualty insurance and reinsurance industry in general. Such legal proceedings are considered in connection with the Companys loss and loss expense reserves. Reserves in varying amounts may or may not be established in respect of particular claims proceedings based on many factors, including the legal merits thereof. In addition to claims litigation, the Company and its subsidiaries are subject to lawsuits in the normal course of business that do not arise from or directly relate to claims on policies of insurance or contracts of reinsurance.

As previously disclosed, in May and June of 2005, the Company received a subpoena from the SEC and a grand jury subpoena from the U.S. Attorneys Office for the Southern District of New York, respectively, in each case for documents and information relating to certain finite-risk and loss mitigation insurance products. The Company is fully cooperating and responding to these requests.

From time to time, the Company has also received and responded to additional requests from Attorneys General and state insurance regulators for information relating to the Companys contingent commission arrangements with brokers and agents and the Companys insurance and reinsurance practices in connection with certain finite-risk and loss mitigation products. Similarly, the Companys affiliates outside the United States have, from time to time, received and responded to requests from regulators relating to the Companys insurance and reinsurance practices regarding contingent commissions or finite-risk and loss mitigation products. The Company is fully cooperating with these regulators in these matters.

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On August 1, 2005, plaintiffs in a proposed class action multi-district lawsuit, captioned *In re Insurance Brokerage Antitrust Litigation,* MDL No. 1663, Civil Action No. 04-5184 (FSH) (the "MDL"), filed a consolidated amended complaint (the "Amended Complaint"), which named as new defendants in the pending action approximately 30 entities, including Greenwich Insurance Company, Indian Harbor Insurance Company and XL Capital Ltd. In the MDL, named plaintiffs have asserted various claims, purportedly on behalf of a class of commercial insureds, against approximately 113 insurance companies and insurance brokers through which the named plaintiffs allegedly purchased insurance. The Amended Complaint alleges that the defendant insurance companies and insurance brokers conspired to manipulate bidding practices for insurance policies in certain insurance lines and failed to disclose certain commission arrangements. The named plaintiffs have asserted statutory claims under the Sherman Act, various state antitrust laws and the Racketeer Influenced and Corrupt Organizations Act, as well as common law claims alleging breach of fiduciary duty, aiding and abetting a breach of fiduciary duty and unjust enrichment. Discovery in the MDL continues. Defendants filed motions to dismiss the Amended Complaint in late November 2005. On February 1, 2006, plaintiffs filed a motion seeking leave to further amend their Amended Complaint to, among other things, add additional defendants, including X.L. America, Inc. and XL Insurance America, Inc. That motion was denied without prejudice. On or about February 13, 2006, plaintiffs filed a motion seeking class certification.

On April 4, 2006 a complaint was filed in the U.S. District Court for the Northern District of Georgia on behalf of New Cingular Wireless Headquarters LLC and 16 other corporations against approximately 100 insurance entity defendants, including insurance brokers Marsh Inc., Aon, Greenwich Insurance Company, XL Specialty Insurance Company, XL Insurance America, Inc., XL Insurance Company Ltd, Lloyd's syndicates 861, 588 and 1209 and XL Capital Ltd. The Complaint appears to make a number of allegations similar to the *In re Insurance Brokerage Antitrust Litigation* and asserts statutory claims under the Sherman Act, the Racketeer Influenced and Corrupt Organizations Act, as well as common law claims alleging breach of fiduciary duty, inducement to breach fiduciary duty, unjust enrichment and fraud.

See also discussion of the Sale and Purchase Agreement, as amended, between XL Insurance (Bermuda) Ltd and Winterthur Swiss Insurance Company, in "Unpaid Losses and Loss Expenses Recoverable and Reinsurance Balances Receivable" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 2 above.

The Company believes that the ultimate outcome of all outstanding litigation and arbitration will not have a material adverse effect on its consolidated financial condition, future operating results and/or liquidity, although an adverse resolution of a number of these items could have a material adverse effect on the Company's results of operations in a particular fiscal quarter or year.

ITEM 1A. RISK FACTORS

Refer to Item 1A. Risk Factors in our Annual Report on Form 10-K/A for the period ended December 31, 2005 for further information.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information about purchases by the Company during the three months ended March 31, 2006 of equity securities that are registered by the Company pursuant to Section 12 of the Securities Exchange Act of 1934, as amended:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (3)
January 1-31, 2006	5,960	$ 67.45		$135.4 million
February 1-28, 2006		$		$135.4 million
March 1-31, 2006	45,757	$ 68.07		$135.4 million
Total	51,717	$ 68.00		$135.4 million

(1) All of the shares included in each period were purchased in connection with the vesting of restricted shares granted under the Companys restricted stock plan. All of these purchases were made in connection with satisfying tax withholding obligations of those employees. These shares were not purchased as part of the Companys publicly announced share repurchase program.
(2) The price paid per share is the closing price of the shares on the vesting date.
(3) On January 9, 2000, the Board of Directors previously authorized a $500.0 million share repurchase program. The Company did not repurchase any equity securities under the share repurchase program during the three or nine months ended March 31, 2006. As of March 31, 2006, the Company may repurchase up to approximately $135.4 million of its equity securities under the share repurchase program.

ITEM 6. EXHIBITS

10.1 Amendment Agreement to the Master Standby Letter of Credit and Reimbursement Agreement, dated as of September 30, 2005, by and among XL Capital Ltd, X.L. America, Inc., XL Insurance (Bermuda) Ltd and XL Re Ltd, as Account Parties, and National Australia Bank Limited, New York Branch,

	incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 18, 2006.
10.2	Agreement of Amendment, dated as of February 16, 2006, to (i) the Revolving Credit and Security Agreement, dated as of February 25, 2003, among XL Re Ltd, as Borrower, CAFCO, LLC (formerly Corporate Asset Funding Company, Inc.), CRC Funding, LLC (formerly Corporate Receivables Corporation), CHARTA, LLC (formerly CHARTA Corporation) and CIESCO, LLC (formerly CIESCO, L.P.), as Lenders, Citibank, N.A. and the other Secondary Lenders from time to time parties thereto, as Secondary Lenders, and Citicorp North America, Inc., as Agent, and (ii) the Control Agreement, dated as of February 25, 2003, among XL Re Ltd, as Borrower, Citicorp North America, Inc., as Agent, and Mellon Bank, N.A., as Securities Intermediary, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 17, 2006.
10.3	Letter of Credit Facility and

	Reimbursement Agreement, dated as of March 14, 2006, by and among XL Capital Ltd, as Account Party, XL Capital Ltd, X.L. America, Inc., XL Insurance (Bermuda) Ltd and XL Re Ltd, as Guarantors, the Lenders party thereto and Citibank International plc, as Agent and Security Trustee, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 17, 2006.
31*	Rule 13a-14(a)/15d-14(a) Certifications.
32*	Section 1350 Certification.
99.1**	XL Capital Assurance Inc. and Subsidiary condensed consolidated financial statements (unaudited) for the three month periods ended March 31, 2006 and 2005.
99.2**	XL Financial Assurance Ltd. condensed financial statements (unaudited) for the three month periods ended March 31, 2006 and 2005.

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* Filed herewith

** Previously filed with the original Quarterly Report on Form 10-Q for the period ended March

31, 2006, as filed on
May 5, 2006, and
herein incorporated
by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

XL CAPITAL LTD
(Registrant)

Date: November 8, 2006

/s/ BRIAN M. O’HARA
Brian M. O’Hara
President and Chief Executive Officer

Date: November 8, 2006

/s/ JERRY DE ST. PAER
Jerry de St. Paer
Executive Vice President and
Chief Financial Officer