

XL CAPITAL LTD
 Form 424B5
 December 01, 2005

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 Registration No. 333-130036

Subject to Completion. Dated December 1, 2005
 Prospectus Supplement to Prospectus dated December 1, 2005.

26,000,000 Units

XL Capital Ltd
 % Equity Security Units

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This is an offering of % Equity Security Units of XL Capital Ltd, which we refer to as the "units." Each equity security unit has a stated amount of \$25 and will initially consist of (a) a contract pursuant to which you agree to purchase, for \$25, Class A Ordinary Shares of XL Capital Ltd, which we refer to as our "ordinary shares," on February 15, 2009 and (b) a 1/40, or 2.5%, ownership interest in a senior note of XL Capital Ltd due February 15, 2011 with a principal amount of \$1,000. The ownership interest in the senior note will initially be held as a component of your equity security unit and will be pledged to secure your obligation to purchase our ordinary shares under the related purchase contract.

Concurrently with this offering, XL Capital Ltd is offering \$2.15 billion in ordinary shares in a separate offering. The consummation of this offering and the consummation of the offering of ordinary shares are not conditioned upon each other.

We will make quarterly contract adjustment payments to you under the purchase contract at the annual rate of % of the stated amount of \$25 per purchase contract. In addition, we will make quarterly interest payments on the senior notes at the initial annual rate of %. We have the right to defer the contract adjustment payments on the purchase contracts, but not the interest payments on the senior notes. If the senior notes are successfully remarketed on or before the third business day prior to February 15, 2009, the interest rate on the senior notes will be reset. The senior notes are unsecured and rank equally with all of our other unsecured and unsubordinated debt. The units will be sold initially by the underwriters in a minimum number of 40 units.

All of the equity security units will be issued as normal units (as defined below). Unless you separate your senior notes from your purchase contracts by substituting U.S. treasury securities for your senior notes as described in this prospectus supplement, your equity security units will remain normal units. If a special event redemption described in this prospectus supplement occurs before February 15, 2009, the senior notes represented by the normal units may be replaced by the treasury portfolio described in this prospectus supplement. If an accounting event occurs and is continuing prior to the stock purchase date, we may, at our option, fix the settlement rate according to a formula based on the Black-Scholes option pricing model as described in this prospectus supplement.

Our ordinary shares are listed on the New York Stock Exchange under the symbol "XL". The last reported sale price of our ordinary shares on November 30, 2005 was \$66.38 per ordinary share. We have applied to list the normal units on the New York Stock Exchange. Prior to this offering, there has been no public market for the equity security units.

See "Risk Factors" beginning on page S-18 to read about certain factors you should consider before buying units.

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

	Per Unit	Total
	_____	_____
Initial price to public	\$	\$

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Underwriting discount	\$	\$
Proceeds, before expenses, to XL Capital Ltd	\$	\$

The initial public offering price set forth above does not include accumulated contract adjustment payments and accrued interest, if any. Contract adjustment payments on the purchase contracts and interest on the senior notes will accrue from the date of initial issuance of the units, expected to be December , 2005.

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To the extent that the underwriters sell more than 26,000,000 equity security units, the underwriters have the option to purchase, not later than 13 days after the initial issuance of the units, up to an additional 3,900,000 equity security units from us at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the equity security units in book-entry form only through the facilities of The Depository Trust Company against payment in New York, New York on or about December , 2005.

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Joint Book-Running Managers

**Goldman, Sachs
& Co.**

Citigroup

□□□□□□□□□□□□□□□□

Joint Lead Managers

JPMorgan

Merrill Lynch & Co.

**Wachovia
Securities**

□□□□□□□□□□□□□□□□

Senior Co-Managers

**ABN AMRO Rothschild
LLC**

Banc of America Securities LLC

**Barclays Capital
KeyBanc Capital
Markets**

**Deutsche Bank Securities
Lazard Capital Markets**

**HSBC
Lehman Brothers**

UBS Investment Bank

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Prospectus Supplement dated December ,
2005.

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

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

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

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

Unless the context otherwise requires, references in this prospectus supplement to our "ordinary shares" are to our Class A Ordinary Shares, par value \$0.01 per share.

In this prospectus supplement and the accompanying prospectus, references to "dollar" and "\$" are to United States currency, and the terms "United States" and "U.S." mean the United States of America, its states, its territories, its possessions and all areas subject to its jurisdiction.

PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights information contained elsewhere, or incorporated by reference, in this prospectus supplement and the accompanying prospectus. This summary does not contain all of the information that you should consider before investing in our equity security units. You should read carefully this entire prospectus supplement, including the [Risk Factors] section, the accompanying prospectus and the information incorporated by reference, herein and therein. In this prospectus supplement, [XL Capital], [we], [our], [ours] and [us] refer to XL Capital Ltd unless the context otherwise requires.

XL Capital Ltd

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

Our principal executive offices are located at XL House, One Bermudiana Road, Hamilton, Bermuda HM 11. Our telephone number is (441) 292-8515. Our website address is www.xlcapital.com. The information contained on our website is not incorporated by reference into, or otherwise included in, this prospectus supplement or the accompanying prospectus.

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

Recent Developments

Hurricane Wilma

On December 1, 2005, we announced that, based on current loss reports and estimates, we expect that pre-tax net losses arising from Hurricane Wilma will be approximately \$225 million. These losses are expected to be \$90 million and \$135 million from our insurance and reinsurance segments, respectively. After taking into account net reinstatement premiums and tax effects, we estimate net losses due to this catastrophe will be approximately \$210 million and will adversely affect our fourth quarter and full year results.

In addition, based on current loss reports and estimates, we also reaffirmed our overall loss estimates previously established for Hurricanes Katrina and Rita.

Our loss estimates for Hurricanes Katrina, Rita and Wilma are based upon a review of contracts we believe are exposed to these events, loss reports received from brokers and cedants, industry loss models and management's best judgment. In particular, we expect that the loss adjustment processes for Hurricanes Katrina and Rita will be protracted due to the complexity and scale of these events. Our loss estimates for these three hurricanes involve the exercise of considerable judgment and are accordingly subject to revision. Actual losses may differ materially from these estimates.

Planned Dividend Reduction

On December 1, 2005, we announced that in January 2006, management intends to recommend to our Board of Directors a reduction in the quarterly dividend payable on our Class A Ordinary Shares to \$0.38 per ordinary share.

Recent Ratings Downgrades

On November 28, 2005, Standard & Poor's Ratings Services lowered its counterparty credit and financial strength ratings on our core operating companies to [A+] from [AA-] and removed them from CreditWatch

with negative implications, where they were placed on September 20, 2005. At the same time, Standard & Poor's lowered our counterparty credit ratings and the counterparty credit ratings of our core group holding companies, X.L. America, Inc. and NAC Re Corporation, to "A-" from "A" and removed us and them from CreditWatch negative. The outlook on all these companies is stable.

On November 22, 2005, Moody's Investors Service downgraded our senior debt rating to A3 from A2 and downgraded the insurance financial strength ratings of our leading insurance operating subsidiaries, including XL Insurance (Bermuda) Ltd to Aa3 from Aa2. In addition, the insurance financial strength ratings of our leading reinsurance operating subsidiaries, including XL Re Ltd, were confirmed at Aa3.

Winterthur International

On November 23, 2005, we received a draft actuarial report from the independent actuary in connection with our post-closing protection for adverse development of net loss and unearned premium reserves relating to our acquisition of certain Winterthur International insurance operations from Winterthur Swiss Insurance Company ("WSIC") in 2001.

The independent actuary's draft report indicates that the independent actuary has determined that WSIC's submitted Seasoned Net Reserve Amount ("SNRA") and Net Premium Receivable Amount ("NPRA") are closest to the independent actuary's determinations of SNRA and NPRA. These determinations, if made final as described further below, would result in us receiving a net lump sum payment in the amount of approximately \$575 million (including interest receivable) from WSIC.

The independent actuary has indicated to the parties that he intends his draft report to be final absent manifest errors. The parties have been advised by the independent actuary that he will revise the draft report for any manifest errors brought to his attention by the parties and finalize the report by December 5, 2005 (after the close of regular market hours on the NYSE). The independent actuary's report and the determinations therein become final on such date under the terms of the Sale and Purchase Agreement, as amended, between XL Insurance (Bermuda) Ltd and WSIC (the "SPA"). Under the terms of the SPA, the amounts due to us as described above are payable within five business days of the independent actuary's report becoming final. Accordingly, absent manifest errors in the draft report as described above, an aggregate of approximately \$575 million (including interest as described above) will be due to us from WSIC by December 12, 2005.

If the draft report is finalized in the time period described above, we would expect to record a loss of approximately \$830 million in the fourth quarter of 2005 relating to the independent actuarial process.

THE OFFERING

What are the equity security units?

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

- (1) a purchase contract pursuant to which:
 - you will agree to purchase, and we will agree to sell, for \$25, a number of our ordinary shares on February 15, 2009 (the "stock purchase date") to be determined based on the average trading price of our ordinary shares for a period preceding that date, calculated in the manner described below or, if we have previously fixed the settlement rate as a result of an accounting event (as defined below), the fixed number of shares to be determined as described below; and
 - we will pay you contract adjustment payments on a quarterly basis at the annual rate of % of the stated amount of \$25, subject to our right to defer such payments, as specified below; and
- (2) a 1/40, or 2.5%, ownership interest in a senior note due February 15, 2011 of XL Capital with a principal amount of \$1,000, on which we will pay interest at the initial annual rate of % until a successful remarketing of the senior notes and at the reset rate (as described below) thereafter. Interest will be payable quarterly in arrears through and including the stock purchase date and, thereafter, semi-annually in arrears.

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

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

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

What are the purchase contracts?

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

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

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

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

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

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

The senior notes, whether held separately from, or as part of, the units, will initially pay interest at the annual rate of %. If the senior notes are successfully remarketed, however, the rate of interest payable from the settlement date of the successful remarketing, which we anticipate to be on or before February 15, 2009, until their maturity on February 15, 2011 will be the reset rate, which will be a rate established by the remarketing agent in accordance with the procedures and the requirements described in this prospectus supplement. If the remarketing agent cannot establish a reset rate during the remarketing period, the remarketing agent will not reset the interest rate on the senior notes and the interest rate will continue to be the initial annual rate of %.

We currently conduct substantially all of our operations through our subsidiaries and our subsidiaries generate substantially all of our operating income and cash flow. Our ability to pay our obligations under the purchase contracts and senior notes depends on our ability to obtain cash dividends or other cash payments or obtain loans from our subsidiaries, which are separate and distinct legal entities that will have no obligations to pay any dividends or to lend or advance us funds and which may be restricted from doing so by contract, including other financing arrangements, charter provisions or applicable legal or regulatory requirements and may also depend on the financial condition of our subsidiaries. For instance, the ability of our subsidiaries to pay such dividends is limited by the applicable laws and regulations of the various countries that they operate in, including the Cayman Islands, Bermuda, the United States and the U.K., and those of the Society of Lloyd's. As a result, our obligations under the purchase contracts and the senior notes will be effectively subordinated to all of the obligations of our subsidiaries. For further discussion of certain regulatory restrictions on the payments of dividends by our subsidiaries, see Note 24 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2004, which is incorporated by reference in this prospectus supplement and the accompanying prospectus. In addition, our obligations to make contract adjustment payments to you will be contractually subordinated to our senior indebtedness as described below under Description of the Equity Security UnitsCurrent Payments.

What are the payment dates?

Subject to our deferral right in respect of the contract adjustment payments described below, we will make contract adjustment payments quarterly in arrears on each February 15, May 15, August 15 and November 15, commencing on February 15, 2006 and ending on the stock purchase date. We will initially make interest payments on the senior notes quarterly in arrears on February 15, May 15, August 15 and November 15 of each year, commencing on February 15, 2006, and, following the stock purchase date, semi-annually in arrears on February 15 and August 15 of each year until maturity on February 15, 2011.

Can we defer payments?

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

What is the reset rate?

To facilitate the remarketing of the senior notes at the remarketing price described below, the remarketing agent will reset the rate of interest on the senior notes, effective from the settlement date of a successful remarketing until their maturity on February 15, 2011. The reset rate will be the rate sufficient to cause the then-current market value of each outstanding senior note to be equal to 100.25% of the remarketing value described below.

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

The reset of the interest rate on the senior notes in connection with a successful remarketing will not change the amount of the cash payment due to holders of normal units in respect of the senior notes held by holders of normal units on the stock purchase date, which will be at the initial annual rate of %.

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

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

What is the remarketing?

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

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

We will enter into a remarketing agreement with a nationally recognized investment banking firm that will act as remarketing agent. The remarketing agent will agree to use reasonable best efforts to remarket the senior notes that are included in the normal units (as well as separately held senior notes) that are participating in the remarketing, at a price per senior note that will result in net cash proceeds equal to 100.25% of the remarketing value. The □remarketing value□ of a senior note will be equal to the principal amount of the senior note. We anticipate that the settlement date of any successful remarketing will be on or before February 15, 2009.

The remarketing agent will deduct out of the proceeds in excess of the remarketing value as a remarketing fee an amount not to exceed 25 basis points (0.25%) of the total proceeds from such remarketing.

The proceeds of the remarketing, less the remarketing fee, will be paid directly to us in settlement of the obligations of the holders of normal units to purchase our ordinary shares. The remarketing agent will remit the remaining portion of the proceeds, if any, for payment to the holders of the normal units or senior notes participating in the remarketing.

A holder of normal units may elect not to participate in any remarketing and instead retain the ownership interests in senior notes underlying those normal units by delivering to the collateral agent, in respect of each senior note to be retained, cash in the amount and on the date specified in the Remarketing Notice to satisfy its obligations under the related purchase contracts. Whether or not a holder of normal units participates in the remarketing, the interest rate on the senior notes in which interests are included in those units will nevertheless be reset if the remarketing is successful.

Prior to any remarketing, we plan to file and obtain effectiveness of a registration statement if so required under the U.S. federal securities laws at the time.

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

If the remarketing agent cannot establish a reset rate meeting the requirements described above on the ninth business day prior to the stock purchase date and therefore cannot remarket the senior notes participating in the remarketing at a price per senior note that will result in net cash proceeds equal to 100.25% of the remarketing value, the remarketing agent will attempt to establish a reset rate meeting these requirements on each of the six business days immediately following the initial proposed remarketing date. We refer to this period as the remarketing period. If the remarketing agent fails to remarket the senior notes underlying the normal units at that price by the end of the remarketing period, holders of normal units will be deemed to have directed us to retain the securities pledged as collateral in satisfaction of the holders' obligations under the related purchase contracts and we will exercise our rights as a secured party and may, subject to applicable law, retain or dispose of such securities to satisfy in full such holders' obligation to purchase our ordinary shares under the related purchase contracts on the stock purchase date. In no event will a holder of a purchase contract be liable for any deficiency between the amount of such proceeds and the purchase price for the ordinary shares under the purchase contract. In addition, holders of senior notes that remain outstanding on the stock purchase date following a failed remarketing will have the right to put their senior notes to us on the date set forth in the Remarketing Notice for an amount equal to the principal amount of the senior notes, plus accrued and unpaid interest, by notifying the indenture trustee in accordance with the procedures set forth in the Remarketing Notice.

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

Holders of senior notes in which interests are not included as part of normal units may elect to have their senior notes included in the remarketing in the manner described in Description of the Equity Security UnitsOptional Remarketing. The remarketing agent will use reasonable best efforts to remarket the separately held senior notes included in the remarketing at a price per senior note that will result in net cash proceeds equal to 100.25% of the remarketing value, determined on the same basis as for the other senior notes being remarketed. After deducting as a remarketing fee an amount not to exceed 25 basis points (0.25%) of the total proceeds from such remarketing, the remaining portion of the proceeds will be remitted for payment to the holders whose separate senior notes were remarketed in the remarketing. If a holder of senior notes elects to have its senior notes remarketed during the remarketing period but the remarketing agent fails to remarket the senior notes during such remarketing period, the senior notes will be promptly returned to the custodial agent for release to the holder at the end of that period.

What is the settlement rate?

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

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

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

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

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

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

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

For a series of diagrams that explain some of the key features of the equity security units, including the settlement rate and the reference price, see □The Offering□Explanatory Diagrams□ below.

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

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

- if you have created stripped units, by delivering and pledging specified U.S. treasury securities in substitution for your senior notes and applying the cash payments received upon maturity of those pledged treasury securities;
- through the early delivery of cash to the purchase contract agent on or prior to the thirteenth business day prior to the stock purchase date in the manner described in [Description of the Equity Security Units]Early Settlement[;];
- by delivering a notice to settle for cash along with the requisite amount of cash on the thirteenth business day prior to the stock purchase date for settlement of the purchase contracts in the manner described in [Description of the Equity Security Units]Notice to Settle with Cash[;]; or
- if we are involved in a merger, acquisition or consolidation other than with one of our subsidiaries prior to the stock purchase date in which at least 30% of the consideration for our ordinary shares consists of cash or cash equivalents, through an early settlement of the purchase contract as described in [Description of the Equity Security Units]Early Settlement upon Cash Merger[.]

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

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

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

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

What is the maturity of the senior notes?

The senior notes will mature on February 15, 2011.

What are the rights and privileges of the ordinary shares?

The ordinary shares that you will be obligated to purchase under the purchase contracts have one vote per share, subject to the provisions of our Articles of Association that restrict the voting power of any shareholder to

less than 10% of total voting power. For more information, please see the discussion of our ordinary shares in the accompanying prospectus under the heading "Description of XL Capital Ordinary Shares."

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

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

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

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

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

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

What are the ERISA considerations?

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

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

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

What are the expected uses of proceeds from the offerings?

We estimate our net proceeds from this offering, after deducting underwriting discounts and commissions and estimated offering expenses, to be approximately \$ million, or approximately \$ million if the underwriters' option to purchase additional units is exercised in full.

We intend to use the net proceeds from this offering, together with the net proceeds from the concurrent offering of ordinary shares (which we estimate to be approximately \$ billion, assuming no exercise of the underwriters' option to purchase additional ordinary shares granted in such offering or approximately \$ billion if that option is exercised in full), for general corporate purposes, including, without limitation, the replenishment of the capital base of certain of our subsidiaries following our third quarter 2005 catastrophe losses, estimated losses relating to Hurricane Wilma and the recent adverse determination by the independent

actuary in connection with our post-closing reserve seasoning process with Winterthur Swiss Insurance Company. The consummation of this offering and the offering of ordinary shares are not conditioned upon each other.

THE OFFERING EXPLANATORY DIAGRAMS

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

Purchase Contracts

- Normal units and stripped units both include a purchase contract under which you agree to purchase ordinary shares on the stock purchase date.
- The number of ordinary shares to be purchased under each purchase contract will depend on the applicable market value. The applicable market value means the average of the closing price per ordinary share on each of the 20 consecutive trading days ending on the third trading day immediately preceding the stock purchase date.
- The following charts are intended to illustrate (1) the value of the ordinary shares to be delivered upon settlement of the purchase contracts on the stock purchase date in relation to the market price of the ordinary shares and (2) the number of ordinary shares that a holder of units will receive on the stock purchase date, expressed as a percentage of the maximum number of ordinary shares deliverable upon settlement of the purchase contracts.

(1) The reference price is \$. The closing price of our ordinary shares on November 30, 2005 was \$66.38.

(2) The threshold appreciation price is \$, which is % of the reference price.

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

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

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

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

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

Normal Units

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

<u>Purchase Contract</u>	<u>Ownership Interest in Senior Note</u>
(Owed to Holder) Ordinary Shares + contract adjustment payments at % per year payable quarterly, subject to deferral	(Owed to Holder) Interest on a 1/40, or 2.5%, ownership interest in \$1,000 principal amount at % per year payable quarterly until Stock Purchase Date and semi-annually thereafter (reset in connection with remarketing)
(Owed to XL Capital) \$25 at Stock Purchase Date (February 15, 2009)	(Owed to Holder) \$25 at Maturity (as a 1/40, or 2.5%, ownership interest in \$1,000 principal amount) (February 15, 2011)

- After a special event redemption, the normal units will include specified treasury securities in lieu of the senior notes.
- If you hold a normal unit, you will hold an ownership interest in a senior note and, after a special event redemption, an ownership interest in specified treasury securities, but will pledge that interest to the collateral agent for our benefit to secure your obligations under the purchase contract.
- If you hold a normal unit, you may also substitute the requisite amount of cash for your ownership interest in a senior note if you decide not to participate in the remarketing.

Stripped Units

- A stripped unit consists of two components as illustrated below:

Purchase Contract	Zero-Coupon Treasury Security
(Owed to Holder) Ordinary Shares + contract adjustment payments at % per year payable quarterly, subject to deferral	
(Owed to XL Capital) \$25 at Stock Purchase Date (February 15, 2009)	(Owed to Holder) \$25 at Maturity (as a 1/40, or 2.5%, ownership interest in \$1,000 principal amount) (February 15, 2009)

- If you hold a stripped unit, you own a 1/40, or 2.5%, interest in the treasury security but will pledge it to the collateral agent for our benefit to secure your obligations under the purchase contract. The treasury security is a zero-coupon U.S. treasury security (CUSIP No. 912820JW8) that matures on February 15, 2009.

Senior Notes

- Senior notes will have the terms illustrated below:

(Owed to Holder)

Interest on \$1,000 principal amount
at % per year
payable quarterly until Stock Purchase
Date and semi-annually thereafter
(reset in connection with remarketing)

(Owed to Holder)

\$1,000 principal amount at Maturity
(February 15, 2011)

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

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

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

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

continue to hold the senior note, the interest rate on which will be reset effective from the settlement date of a successful remarketing of the senior notes; or

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

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Transforming Normal Units into Stripped Units and Senior Notes

- To create stripped units, you must substitute for the pledged ownership interest in the senior note (or, after a special event redemption, the pledged treasury securities) the specified zero-coupon U.S. treasury security that matures on February 15, 2009.
- Upon such substitution, the pledged senior note or, after a special event redemption, the pledged treasury securities will be released from the pledge and delivered to you.
- The zero-coupon U.S. treasury security, together with the purchase contract, would then constitute a stripped unit. The senior note (or, after a special event redemption, treasury securities), which was previously a component of normal units, is tradable as a separate security.
- The transformation of normal units into stripped units and senior notes and the transformation of stripped units and senior notes into normal units may generally be effected only in integral multiples of 40 units.

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

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

40 Normal Units		40 Stripped Units		Separately Traded
40 Purchase Contracts	Ownership Interest in Senior Note	40 Purchase Contracts	Zero-Coupon Treasury Security	Senior Note
(Owed to Holder) Ordinary Shares + Contract adjustment payments at % per year payable quarterly, subject to deferral	(Owed to Holder) % per year payable quarterly until Stock Purchase Date and semi-annually thereafter (reset in connection with remarketing)	(Owed to Holder) Ordinary Shares + Contract adjustment payments at % per year payable quarterly, subject to deferral		(Owed to Holder) % per year payable quarterly until Stock Purchase Date and semi-annually thereafter (reset in connection with remarketing)
(Owed to XL Capital) \$1,000 at Stock Purchase Date (February 15, 2009)	(Owed to Holder) 1,000 principal amount at Maturity (February 15, 2011)	(Owed to XL Capital) \$1,000 at Stock Purchase Date (February 15, 2009)	(Owed to Holder) \$1,000 principal amount at Maturity (February 15, 2009)	(Owed to Holder) \$1,000 principal amount at Maturity (February 15, 2011)

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

Concurrent Offering

Concurrently with this offering, XL Capital Ltd is offering \$2.15 billion in ordinary shares pursuant to a separate prospectus supplement. The consummation of this offering and the consummation of the offering of the ordinary shares are not conditioned upon each other.

Risk Factors

An investment in our units involves certain risks that you should carefully evaluate prior to making an investment in our units. In particular, you should evaluate the specific risk factors under "Risk Factors" beginning on page S-18 of this prospectus supplement and the disclosure contained in the documents incorporated by reference into this prospectus supplement and the accompanying prospectus for a discussion of certain risks involved with an investment in our units.

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RISK FACTORS

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

Risks Related to Our Company

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

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. ("S&P") recently downgraded our financial strength ratings to "A+" from "AA-" and removed us from Credit Watch with negative implications. Moody's Investors Service, Inc. ("Moody's") recently downgraded our financial strength ratings to "Aa3" from "Aa2", concluding Moody's review for possible downgrade. A.M. Best Company, Inc. ("A.M. Best") and Fitch Ratings Inc. ("Fitch") have recently placed the financial strength ratings of many insurance and reinsurance companies, including XL Capital Ltd and its principal insurance and reinsurance operating subsidiaries, under review for a potential downgrade. As our ability to underwrite business is dependent upon the quality of our claims paying and financial strength ratings as evaluated by these independent rating agencies, a further downgrade by S&P or Moody's of our financial strength rating or a downgrade by one or more of the other independent rating agencies by more than one ratings level could cause our competitive position in the insurance and reinsurance industry to suffer and make it more difficult for us to market our products. A downgrade could also result in a substantial loss of business for us as ceding companies and brokers that place such business may move to other insurers and reinsurers with higher ratings. We cannot give any assurance regarding whether or to what extent any rating agency may downgrade our ratings. Similarly, we can give no assurance that the successful completion of this offering and the concurrent offering of equity units will prevent or reduce any such downgrade. Our ratings may be downgraded by one or more rating agencies for a variety of reasons, including any increase in our estimates of third and fourth quarter 2005 natural catastrophes losses.

A downgrade of the A.M. Best financial strength rating of XL Capital Ltd, XL Insurance (Bermuda) Ltd or XL Re Ltd below "A-", which is two levels below our current A.M. Best rating of "A+", would constitute an event of default under our letter of credit and revolving credit facilities and a similar downgrade by A.M. Best or S&P would trigger cancellation provisions in the majority of our assumed reinsurance contracts. See "Risks Related to Our Company" A decline in our ratings may allow many of our clients to terminate their contracts with us, below. Either of these events could reduce our financial flexibility and materially adversely affect our business, financial condition and results of operations. For further discussion, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 13 to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2004, which is incorporated by reference in this prospectus supplement and the accompanying prospectus.

Each of S&P, Moody's and Fitch provide "triple-A" (outlook stable) financial strength ratings to our financial guaranty companies, XL Capital Assurance Inc. ("XLCA") and XL Financial Assurance Ltd. ("XLFA"). A downgrade, rating watch or outlook change of the financial strength ratings of XLCA or XLFA by one or more rating agencies would have an adverse effect on the competitive position of XLCA and XLFA and reduce their future business opportunities. Such a downgrade would reduce the value of the reinsurance offered by XLFA, as financial guaranty primary insurers usually must obtain triple-A-rated reinsurance to qualify for a 100% reinsurance credit on the rating agencies' capital adequacy models. Also, certain of XLFA's reinsurance agreements contain provisions that allow the ceding primary insurer to terminate the agreement in the event of a downgrade in XLFA's credit ratings or other event that would result in the reinsurance credit provided by XLFA to the ceding primary insurer being diminished. To address rating agency requirements regarding the differential between the triple-A ratings of our financial guaranty companies and their affiliated companies in the XL group, we are currently exploring a number of strategies that would strengthen our financial guaranty companies and provide greater stability to XLCA's and XLFA's ratings. Examples of actions identified by the rating agencies include, among other things, the addition of additional independent directors to the boards of directors of our financial guaranty companies; adding some level of outside high-quality ownership with voting and/or veto rights; and securing a

resolution from each of the boards of directors of our financial guaranty companies that clarifies our expectations regarding cash payments from the financial guaranty companies. S&P has stated that one or more of these actions will need to be taken by mid-year 2006.

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

Certain of our ceded excess of loss reinsurance contracts contain provisions that give the reinsurer under the contract the right to cancel the contract and require us to pay a termination fee or deposit collateral for the reinsurer's aggregate exposure under the contract in the event of a downgrade in our ratings. The amount of any such termination fee would be dependent upon various factors, including the applicable level of loss activity.

The majority of our assumed reinsurance contracts contain provisions that would allow our clients to cancel the contract in the event of a downgrade in our ratings below specified levels by one or more rating agencies. Based on premium value, approximately 70% of our reinsurance contracts that inceptioned at January 1, 2005 contained provisions allowing clients additional rights upon a decline in our ratings. Typically, the cancellation provisions in our assumed reinsurance contracts would be triggered if S&P or A.M. Best were to downgrade our financial strength ratings below "A-", which is two levels below our current S&P rating of "A+" and two levels below our current A.M. Best rating of "A+". Whether a client would exercise its cancellation rights after such a downgrade would depend, among other things, on the reasons for the downgrade, the extent of the downgrade, the prevailing market conditions, the degree of unexpired coverage, and the pricing and availability of replacement reinsurance coverage. We cannot predict whether or how many of our clients would actually exercise such cancellation rights or the extent to which such cancellations would have a material adverse effect on our financial condition or future prospects.

Losses related to Hurricanes Katrina, Rita and Wilma and other natural catastrophes will adversely affect our fiscal year 2005 results and uncertainty regarding estimated losses may further impact our financial condition and results of operations.

Based on current loss reports and estimates, we have estimated pre-tax net losses arising from Hurricanes Katrina and Rita and the combined impact of other previously announced natural catastrophes in the third quarter of 2005 to be approximately \$1.16 billion, \$263.6 million and \$89.7 million, respectively. After taking into account net reinstatement premiums and tax effects, we estimate net losses due to these third quarter catastrophes will be approximately \$1.47 billion. In addition, we have recently announced an estimated pre-tax loss arising from Hurricane Wilma of approximately \$225 million. However, these estimates involve the exercise of considerable judgment and are accordingly subject to revision. These losses will materially adversely affect our fiscal year 2005 results.

Our loss estimates are based upon a review of contracts that we believe are exposed to these catastrophes, loss reports received from brokers and cedants, industry loss models and management's best judgment. We expect that the loss adjustment processes for Hurricanes Katrina and Rita will be protracted due to the unprecedented complexity and scale of the events.

Actual losses may vary materially from our estimates. Such variances may be caused by a number of factors, including receipt of additional information from insureds or brokers, the attribution of losses to coverages that had not previously been considered as exposed and inflation in repair costs due to additional demand for labor and materials. In addition, such loss estimates include a high level of uncertainty related to, among other things, complex coverage issues, limited claims data received to date and potential legal developments that may result in ultimate losses not being known for a considerable period of time, as well as industry modeling challenges. Therefore, losses may ultimately be materially greater than currently estimated. If our actual losses exceed our estimates, our financial condition and results of operations could be further materially adversely affected.

We have exhausted certain of our reinsurance and retrocessional coverage with respect to losses related to Hurricanes Katrina, Rita and Wilma leaving us exposed to further losses.

Based on our current estimates of losses related to Hurricanes Katrina, Rita and, to a lesser degree, Wilma, we believe that we have exhausted certain of our reinsurance and retrocessional coverage with respect to such losses, meaning that, in such instances, we will have no further reinsurance or retrocessional coverage available should our

losses related to Hurricanes Katrina, Rita and Wilma prove to be greater than current estimates. If losses related to Hurricanes Katrina, Rita and Wilma prove to be greater than current estimates, to the extent that such adverse development affects lines of business with respect to which we have exhausted our reinsurance or retrocessional coverage, such adverse development could have a further material adverse effect on our financial condition and results of operations. We can not assure you that reinsurance or retrocessional coverage with respect to the lines of business affected by the Hurricanes Katrina, Rita and Wilma will be available to us on acceptable terms, or at all, in the future.

Elimination of all or portions of our reinsurance or retrocessional coverage could subject us to increased, and possibly material, exposure or could cause us to underwrite less business.

Amounts