

XL CAPITAL LTD
 Form 424B5
 March 12, 2007

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

Subject to completion, dated March 12, 2007

Prospectus Supplement

(To Prospectus dated December 1, 2005)

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

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

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

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

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

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

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

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

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

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

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

Joint Book-Runners

JPMorgan

Sole Structuring Advisor

Citigroup

Merrill Lynch & Co.

Senior Co-Managers

**ABN AMRO Incorporated
Goldman, Sachs & Co.**

**Barclays Capital
RBS Greenwich Capital**

**Deutsche Bank Securities
Wachovia Securities**

Co-Managers

**BNY Capital Markets, Inc.
ING Wholesale Banking**

**Calyon Corporate and Investment Bank
KeyBanc Capital Markets
Lloyds TSB**

**HSBC
Lazard Capital Markets**

March , 2007

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

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

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

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

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

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

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PROSPECTUS SUPPLEMENT SUMMARY

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

XL Capital Ltd

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

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

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

THE OFFERING

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

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

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

See Description of the Series E Preference Shares Dividends in this prospectus supplement and Description of XL Capital Preference Ordinary Shares Dividends in the accompanying prospectus.

Dividend Blocker

With certain limited exceptions, XL Capital may not pay dividends on, or repurchase, redeem or make a liquidation payment with respect to, Parity Shares or Junior Shares (as each such term is defined under Description of the Series E Preference Shares Dividends) unless full dividends on the Series E Preference Shares and any Parity Shares have been or contemporaneously are declared and paid, or are declared and a sum sufficient for the payment thereof is set apart for payment for the then-current Dividend Period for the Series E Preference Shares.

Payment of Additional Amounts

Subject to certain limitations, we will pay additional amounts to holders of the Series E Preference Shares, as additional dividends, to make up for any deduction or withholding for any taxes or other charges imposed on amounts we must pay with respect to the Series E Preference Shares, so that the net amounts paid will be equal to the amounts we would otherwise be required to pay had no such withholding or deduction been required. See Description of the Series E Preference Shares Payment of Additional Amounts in this prospectus supplement.

Liquidation Rights

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

Conversion

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

Redemption

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

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

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

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

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

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at a redemption price equal to the Make Whole Amount for the Series E Preference Shares, plus any declared but unpaid dividends with respect to the then-current Dividend Period to the date of redemption, without interest on such declared but unpaid dividends and without accumulation of dividends for any prior Dividend Period to the extent not declared and payable in respect of such Dividend Period.

Replacement Capital Covenant

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

The replacement capital covenant is not intended for the benefit of holders of the Series E Preference Shares and is not enforceable by them, and the replacement capital covenant is not a term of the Series E Preference Shares. See [Certain Terms of the Replacement Capital Covenant](#) in this prospectus supplement.

Voting Rights

Holders of the Series E Preference Shares will have no voting rights, except with respect to certain fundamental changes in the terms of the Series E Preference Shares and certain other matters. In addition, if dividends on the Series E Preference Shares are not paid in an aggregate amount equivalent to dividends for six full quarterly periods (which, during the Series E Fixed Rate Period, shall mean three Dividend Periods and, during the Series E Floating Rate Period, shall mean six Dividend Periods), whether or not declared and whether or not consecutive, holders of the Series E Preference Shares voting as a single class with all other series of the preference ordinary shares then having such right, will have the right to elect two persons who will then be appointed as additional directors to the Board of Directors of XL Capital. The right of holders of the Series E Preference Shares will cease (subject always to the same provision for the vesting of such rights if dividends on the Series E Preference Shares are not paid in future periods) upon the earlier to occur of (i) the first date as of which full dividends on the Series E Preference Shares have been paid for at least four consecutive quarterly periods (which, during the Series E Fixed Rate Period, shall mean two Dividend Periods and, during the Series E Floating Rate Period, shall mean four Dividend Periods) and (ii) the redemption of all Series E Preference Shares. See [Description of the Series E Preference Shares Voting Rights](#) in this prospectus supplement.

Ranking

The Series E Preference Shares will rank senior to our ordinary shares with respect to payment of dividends and receipt of amounts distributable upon any voluntary or involuntary return of assets on

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liquidation, dissolution or winding up of XL Capital. See Description of the Series E Preference Shares Ranking in this prospectus supplement and Description of XL Capital Preference Ordinary Shares Ranking in the accompanying prospectus. The Series E Preference Shares will rank pari passu with the Series A Cumulative Preference Ordinary Shares, the Series B Cumulative Preference Ordinary Shares and, if issued, the Series C Cumulative Preference Ordinary Shares and the Series D Non-Cumulative Perpetual Preferred Shares of XL Capital, being in each case Parity Shares, including as to the payment of dividends and as to distribution of assets upon any voluntary or involuntary return of assets on liquidation, dissolution or winding up of XL Capital.

Ratings

We have been advised that the Series E Preference Shares have been assigned ratings of Baa2 by Moody's Investors Service, Inc. (Moody's), BBB by Standard & Poor's Rating Services (Standard & Poor's), A- by Fitch, Inc. (Fitch) and bbb by A.M. Best Company (A.M. Best). These ratings have been obtained with the understanding that Moody's, Standard & Poor's, Fitch and A.M. Best will continue to monitor our credit rating and will make future adjustment to the extent warranted. A rating reflects only the view of Moody's, Standard & Poor's, Fitch and A.M. Best, as the case may be, and is not a recommendation to buy, sell or hold the Series E Preference Shares. There is no assurance that any such rating will be retained for any given period of time or that it will not be revised downward or withdrawn entirely by Moody's, Standard & Poor's, Fitch or A.M. Best, as the case may be, if, in their respective judgments, circumstances so warrant.

Use of Proceeds

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

Form of the Series E Preference Shares

The Series E Preference Shares will be represented by one or more global securities that will be deposited with and registered in the name of The Depository Trust Company or its nominee. This means you will not receive a certificate for your Series E Preference Shares except under limited circumstances described herein. See Description of the Series E Preference Shares Book-Entry Issuance in this prospectus supplement.

Securities Identification Codes:

CUSIP:
ISIN:

Transfer Agent, Paying Agent and Registrar

Mellon Investor Services LLC.
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RISK FACTORS

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

Dividends on the Series E Preference Shares are not cumulative.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

the adequacy of rates and terms and conditions may not be as sustainable as XL Capital is currently projecting;

changes to the size of XL Capital's claims relating to Hurricanes Katrina, Rita and Wilma and other natural catastrophes;

XL Capital's ability to realize the expected benefits of the collateralized quota share reinsurance treaty that it entered into in the fourth quarter of 2005 with respect to specified portions of its property catastrophe and retrocessional lines of business;

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

changes in the projected amount of ceded reinsurance recoverables and the ratings and creditworthiness of reinsurers;

the size of XL Capital's claims relating to the hurricane and tsunami losses described in XL Capital's Form 10-K for the fiscal year ended December 31, 2006 may change due to the preliminary nature of some of the reports and estimates of loss and damage to date;

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

ineffectiveness or obsolescence of XL Capital's business strategy due to changes in current or future market conditions;

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

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

developments in the world's financial and capital markets that adversely affect the performance of XL Capital's investments and XL Capital's access to such markets;

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

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

developments in bankruptcy proceedings or other developments related to bankruptcies of companies insofar as they affect property and casualty insurance and reinsurance coverages or claims that XL Capital may have as a counterparty;

availability of borrowings and letters of credit under XL Capital's credit facilities;

changes in regulation or tax laws applicable to XL Capital or its subsidiaries, brokers or customers;

acceptance of XL Capital's products and services, including new products and services;

changes in the availability, cost or quality of reinsurance;

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

loss of key personnel;

the effects of mergers, acquisitions and divestitures;

changes in ratings, rating agency policies or practices;

changes in accounting policies or practices or the application thereof;

legislative or regulatory developments;

changes in general economic conditions, including inflation, foreign currency exchange rates and other factors;

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

the other factors set forth in XL Capital's other documents on file with the SEC as well as management's response to any of the aforementioned factors.

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

CAPITALIZATION

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

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

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

(1)

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

- (2) Available for the SCA group only.

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USE OF PROCEEDS

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

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

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

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

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

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

DESCRIPTION OF THE SERIES E PREFERENCE SHARES

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

General

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

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

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

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

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

XL Capital may from time to time in the future issue one or more additional series of preference ordinary shares which would rank *pari passu* with or junior to the Series E Preference Shares and XL Capital's other preference ordinary shares as described under *Ranking*. Unless previously redeemed or called for redemption, certain transactions that would vary the rights of holders of the Series E Preference Shares will not be