

XL CAPITAL LTD
 Form 424B2
 November 10, 2004
 PROSPECTUS SUPPLEMENT
 (To prospectus dated August 6, 2004)

\$650,000,000

XL Capital Ltd

\$300,000,000 5.25% Senior Notes due 2014
\$350,000,000 6.375% Senior Notes due 2024

We are offering \$300,000,000 aggregate principal amount of our 5.25% Senior Notes due 2014, which we refer to as the "2014 Notes." The 2014 Notes offered hereby are an additional issuance, and will be considered a part of the same series, of our 5.25% Senior Notes due 2014, of which we offered and sold \$300,000,000 aggregate principal amount on August 23, 2004. The 2014 Notes will mature on September 15, 2014. Interest on the 2014 Notes is payable on March 15 and September 15 of each year, beginning March 15, 2005.

We also are offering \$350,000,000 aggregate principal amount of our 6.375% Senior Notes due 2024, which we refer to as the "2024 Notes." The 2024 Notes will mature on November 15, 2024. Interest on the 2024 Notes is payable on May 15 and November 15 of each year, beginning May 15, 2005. We refer to the 2014 Notes and the 2024 Notes offered hereby collectively as the "senior notes."

We may redeem the senior notes in whole at any time, or in part from time to time, at a make-whole redemption price described in this prospectus supplement. We may redeem the 2014 Notes (together with all outstanding 5.25% Senior Notes due 2014) and/or the 2024 Notes (each as a separate series) in whole, but not in part, at any time upon the occurrence of certain tax events as described in this prospectus supplement.

The senior notes will be unsecured and rank equally with all our existing and future unsecured senior debt. The senior notes will be junior to all our future secured debt and rank senior to all our future subordinated debt, in each case, when, and if, issued. The senior notes will be structurally subordinated to losses and loss expenses and other obligations of our subsidiaries.

Investing in the senior notes involves risks. See "Risk Factors" on page S-4.

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 2014 Note	Total 2014 Notes	Per 2024 Note	Total 2024 Notes
Initial public offering price	98.419%	\$298,713,250 (1)	100.000%	\$350,000,000

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Underwriting discount	0.450%	\$ 1,350,000	0.625%	\$ 2,187,500
Proceeds, before expenses, to XL Capital Ltd	97.969%	\$297,363,250 (1)	99.375%	\$347,812,500

(1) Includes accrued interest from August 23, 2004 to the date of delivery.

Interest on the 2014 Notes will accrue from August 23, 2004 to the date of delivery.

Interest on the 2024 Notes will accrue from November 12, 2004 to the date of delivery.

The underwriters expect to deliver the senior notes on or about November 12, 2004.

Joint Book-Running Managers

Wachovia Securities

Credit Suisse First Boston

Joint Lead Managers

HSBC

KeyBanc Capital
Markets

Co-Managers

ABN AMRO Incorporated
Banc of America Securities LLC
BNP PARIBAS

Calyon Securities (USA)
ING Financial Markets

Lazard
RBS Greenwich Capital
Scotia Capital

The date of this prospectus supplement is November 8, 2004.

TABLE OF CONTENTS

	Page		Page
Prospectus Supplement Summary	S-1	About This Prospectus	1
Risk Factors	S-4	Where You Can Find More Information	1
Cautionary Note Regarding Forward-Looking Statements	S-5	Incorporation of Documents by Reference	2
Use of Proceeds	S-7	XL Capital Ltd	3
Ratio of Earnings to Fixed Charges	S-8	XL Capital Finance (Europe) plc	3
Capitalization	S-9	The Trusts	3
Selected Consolidated Financial Data	S-11	Use of Proceeds	4
Description of the Senior Notes	S-13	Accounting Treatment Relating to Trust Securities	4
Book-Entry; Delivery and Form	S-19	Ratio of Earnings to Combined Fixed Charges and Preference Ordinary Share Dividends	4
Certain Tax Consequences	S-21	General Description of the Offered Securities	5
Underwriters	S-23	Description of XL Capital Share Capital	5
Legal Matters	S-25	Description of XL Capital Preference Ordinary Shares	6

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Experts	S-25	Description of XL Capital Ordinary Shares	9
		Description of XL Capital Ordinary Share	
Incorporation of Documents by Reference	S-25	Warrants	11
		Description of XL Capital Ordinary Share Purchase	
		Contracts and Ordinary Share Purchase Units	13
		Description of XL Capital Debt Securities	14
		Description of XL Capital Finance (Europe) plc	
		Senior Debt Securities	27
		Description of the Trust Preferred Securities	38
		Description of the Trust Preferred Securities Guarantees	50
		Description of the Subordinated Deferrable Interest	
		Debentures	54
		Plan of Distribution	61
		Legal Matters	64
		Experts	64
		Enforcement of Civil Liabilities Under United States Federal Securities Laws	64

You should read this prospectus supplement along with the accompanying prospectus carefully before you invest. Both documents contain important information that 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 provide you with any information or to represent to you anything not contained in this prospectus supplement and 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 senior notes 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 senior notes 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 senior notes 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 senior notes. Non-resident or exempted companies or other non-resident or exempted entities established in the Cayman Islands, however, may purchase the senior notes.

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 senior notes. 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 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 Documents by Reference] in the accompanying prospectus.

S-1

THE OFFERING

Issuer	XL Capital Ltd
Notes	<p>\$300,000,000 aggregate principal amount of 5.25% Senior Notes due 2014 and \$350,000,000 aggregate principal amount of 6.375% Senior Notes due 2024.</p> <p>The 2014 Notes offered hereby constitute an additional issuance of 5.25% Senior Notes due 2014, of which we offered and sold \$300,000,000 aggregate principal amount on August 23, 2004. The 2014 Notes offered hereby together with the 5.25% Senior Notes due 2014 issued on August 23, 2004 will constitute a single series of senior notes for all purposes under the indenture and the applicable supplemental indenture.</p>
Maturity	<p>2014 Notes: September 15, 2014. 2024 Notes: November 15, 2024.</p>

Interest Payment Dates	2014 Notes: March 15 and September 15 of each year, commencing on March 15, 2005. 2024 Notes: May 15 and November 15 of each year, commencing on May 15, 2005.
Ranking	The senior notes will be our unsecured and unsubordinated obligations and will rank equal in right of payment with all of our other unsecured and unsubordinated indebtedness. As of September 30, 2004, on a pro forma basis after giving effect to this offering, the aggregate amount of our outstanding consolidated indebtedness for money borrowed was approximately \$2.7 billion. All such outstanding indebtedness is unsecured and unsubordinated. The senior notes will be structurally subordinated to losses and loss expenses and other obligations of our subsidiaries. As of September 30, 2004, the aggregate amount of indebtedness for money borrowed of our subsidiaries (other than XL Capital Finance (Europe) plc), which would effectively rank senior to the senior notes, was \$355.0 million.
Optional Redemption	We may redeem the 2014 Notes and the 2024 Notes (each as a separate series), in whole at any time, or in part from time to time, at our option on not less than 30 nor more than 60 days notice, at a make-whole redemption price described in [Description of the Senior Notes] Optional Redemption in this prospectus supplement.
Tax Event Redemption	We may redeem the 2014 Notes (together with all outstanding 5.25% Senior Notes due 2014) and/or the 2024 Notes (each as a separate series) in whole, but not in part, at any time upon the occurrence of certain tax events as described in [Description of the Senior Notes] Tax Event Redemption in this prospectus supplement.
Covenants	The indenture governing the senior notes contains a covenant, which will apply to the senior notes, that limits our ability to create liens on the

capital stock of certain of our subsidiaries. This covenant is subject to a number of important qualifications and limitations. See [Description of the Senior Notes] Limitation on Liens on Capital Stock in this prospectus supplement.

Trustee, Registrar, Principal Paying
and Transfer Agent

The Bank of New York

Form of the Notes

When issued, the senior notes will be issued as global notes in registered form and governed by the laws of the State of New York.

S-2

Use of Proceeds

We intend to use the net proceeds from this offering, together with available cash, to redeem all of our outstanding Zero-Coupon Convertible Debentures due 2021, or [CARZ], on November 29, 2004. See [Use of Proceeds] in this prospectus supplement.

Conditions to the Consummation
of the Offering

Consummation of the offering of the 2014 Notes and consummation of the offering of the 2024 Notes are conditioned upon each other.

Risk Factors

An investment in the senior notes involves certain risks that you should carefully evaluate prior to making an investment in the senior notes. In particular, you should evaluate the specific risk factors under [Risk Factors] on page S-4 of this prospectus supplement and the disclosure contained in the documents incorporated by reference into this prospectus supplement and the accompanying prospectus for a discussion of certain risks involved with an investment in the senior notes.

S-3

RISK FACTORS

Investing in the senior notes involves risk. In deciding whether to invest in the senior notes, you should carefully consider the following risk factors related to the senior notes, in addition to the other information contained in this prospectus supplement, the accompanying prospectus and the information incorporated by reference herein and therein.

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

We currently conduct substantially all of our operations through our subsidiaries, and our subsidiaries generate substantially all of our operating income and cash flow. Our ability to pay our obligations under the 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 and regulatory requirements of our subsidiaries. As a result, our obligations under the senior notes will be effectively subordinated to all of the obligations of our subsidiaries. For a description of certain regulatory restrictions on the payments of dividends by our subsidiaries, see Note 25 of the notes to the consolidated financial statements of XL Capital incorporated by reference to our Annual Report on Form 10-K for the year ended December 31, 2003.

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

As of September 30, 2004, on a pro forma basis after giving effect to this offering, the aggregate amount of our outstanding consolidated indebtedness for money borrowed was approximately \$2.7 billion. All such outstanding indebtedness is unsecured and unsubordinated. As of September 30, 2004, the aggregate amount of outstanding indebtedness for money borrowed of our subsidiaries (other than XL Capital Finance (Europe) plc), which would effectively rank senior to the senior notes, was approximately \$355.0 million. The senior notes will also be structurally subordinated to losses and loss expenses and other obligations of our subsidiaries.

The secondary market for the senior notes may be illiquid.

We are unable to predict how the senior notes will trade in the secondary market or whether that market will be liquid or illiquid. While a secondary market for the 2014 Notes currently exists, we can give you no assurance as to the liquidity of such market, your ability to sell the 2014 Notes or whether such market will continue. There is currently no secondary market for the 2024 Notes and we give you no assurance as to the liquidity of any market that may develop for the 2024 Notes, your ability to sell the 2024 Notes or whether a trading market, if it develops, will continue. We have no obligation to apply for any listing of the senior notes on any stock exchange.

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

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

S-4

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause actual results to differ materially from those indicated in such

statements.

We believe that these factors include, but are not limited to, the following:

- the timely and full recoverability of reinsurance placed by us with third parties, or other amounts due to us, including, without limitation, amounts due to us from the seller in connection with our acquisition of the Winterthur International operations;
- the projected amount of ceded reinsurance recoverables and the ratings and creditworthiness of reinsurers may change;
- the size of our claims relating to recent hurricane losses 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 us;
- ineffectiveness or obsolescence of our 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 our 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 our investments and our access to such markets;
- the potential impact on us from government-mandated insurance coverage for acts of terrorism;
- the potential impact of variable interest entities or other off-balance sheet arrangements on us;
- 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 we may have as a counterparty;
- availability of borrowings and letters of credit under our credit facilities;
- changes in regulation or tax laws applicable to us or our subsidiaries, brokers or customers;
- acceptance of our 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;

S-5

- the effects of mergers, acquisitions and divestitures;
- changes in 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 our other documents on file with the Securities and Exchange Commission, or the SEC.

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

S-6

USE OF PROCEEDS

We estimate our net proceeds from our sale of \$650,000,000 aggregate principal amount of senior notes in this offering, after deducting underwriting discounts and commissions and estimated offering expenses, to be approximately \$644.8 million. Consummation of the offering of the 2014 Notes and consummation of the offering of the 2024 Notes are conditioned upon each other.

We intend to use the net proceeds from this offering, together with available cash, to redeem all of our outstanding Zero-Coupon Convertible Debentures due 2021, or CARZ, on November 29, 2004. At September 30, 2004, the aggregate accreted value of CARZ outstanding was approximately \$654,991,000. Interest on the CARZ for the six months ended November 23, 2004 accretes at a rate of 2.625% per annum. The maturity date of the CARZ is May 23, 2021.

S-7

RATIO OF EARNINGS TO FIXED CHARGES

Our ratio of earnings to fixed charges for each of the periods indicated is as follows:

	Nine Months Ended September 30, 2004	Fiscal Year Ended December 31,				
		2003	2002	2001	2000**	1999**
Ratio of Earnings to Fixed Charges	5.4x	3.1x	3.3x	*	6.5x	8.3x

* For the year ended December 31, 2001, earnings were insufficient to cover fixed charges by \$832.4 million.

** The ratio reflects certain reclassifications of interest expense related to the accretion of deposit liabilities that were implemented retroactively effective March 31, 2002.

We have computed the foregoing ratio by dividing (1) income from continuing operations before income taxes, minority interest and income or loss from affiliate investments plus the sum of fixed charges, amortization of capitalized interest and distributed income of equity investments, less minority interest, by (2) fixed charges. Fixed charges consist of interest expense on all indebtedness (including amortization of deferred financing costs), the portion of operating lease rental expense that is representative of the interest factor (deemed to be 30% of operating lease rentals) and interest credited to policyholders consisting of accretion of deposit liability transactions.

S-8

CAPITALIZATION

The following table sets forth the consolidated capitalization of XL Capital as of September 30, 2004, on an actual basis and as adjusted to give effect to the issuance of \$650,000,000 aggregate principal amount of senior notes in this offering and the anticipated application of the estimated net proceeds as described under "Use of Proceeds."

You should read the following information in conjunction with our consolidated financial statements and the notes to those financial statements and the information under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Form 10-Q for the quarterly period ended September 30, 2004, which is incorporated by reference in this prospectus supplement and the accompanying prospectus.

	(Unaudited)	
	As of September 30, 2004	
	Actual	As Adjusted
	(U.S. dollars in thousands, except share and per share amounts)	
Debt:		
364-day revolvers (1)(2)	\$ 0	\$ 0
Three-year credit facility (1)(2)	0	0
7.15% Senior Notes due 2005	99,992	99,992
6.58% Guaranteed Senior Notes due 2011	255,000	255,000
6.50% Guaranteed Senior Notes due 2012	597,679	597,679
Zero Coupon Convertible Debentures due 2021(3)	654,991	0
2.53% Senior Notes due 2009 (4)	825,000	825,000
5.25% Senior Notes due 2014	298,328	598,328
6.375% Senior Notes due 2024	0	350,000
Total debt	\$ 2,730,990	\$ 2,725,999
Shareholders' Equity:		
Series A preference ordinary shares; \$0.01 par value per share, 9,200,000 shares issued and outstanding (actual and as adjusted)	\$ 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)		
Class A ordinary shares; \$0.01 par value per share, 138,622,650		
shares issued and outstanding (actual and as adjusted)	1,386	1,386
Additional paid in capital	3,928,360	3,928,360
Accumulated other comprehensive income	343,423	343,423
Deferred compensation	(78,071)	(78,071)
Retained earnings	3,176,414	3,176,414
	<hr/>	<hr/>
Total shareholders' equity	\$ 7,371,719	\$ 7,371,719
	<hr/>	<hr/>
Total capitalization	\$ 10,102,709	\$ 10,097,718
	<hr/>	<hr/>

- (1) In June of 2004, we entered into a \$1.0 billion credit and letter of credit facility that expires on June 22, 2005 and a \$2.0 billion credit and letter of credit facility that expires on June 22, 2007. In the nine months ended September 30, 2004, we replaced three of our bilateral unsecured letter of credit facilities, which had amounted to \$125.0 million in the aggregate, with a new \$100.0 million credit and letter of credit facility that expires on September 29, 2005. Each of the facilities are available to provide revolving credit (\$660.0 million in the aggregate) and letters of credit (\$3.1 billion in the aggregate) and are syndicated and unsecured.
- (2) Does not include letters of credit outstanding as of September 30, 2004 in the amount of approximately \$2.8 billion. The \$1.0 billion and the \$100.0 million facilities were unutilized at September 30, 2004, and approximately \$1.7 billion of the \$2.0 billion facility was utilized to provide letters of credit at September 30, 2004.

S-9

- (3) The Zero Coupon Convertible Debentures were issued at a discount to their face amount. The amounts shown are the accreted values at September 30, 2004. The Zero Coupon Convertible Debentures are convertible into Class A ordinary shares under certain circumstances.
- (4) The 2.53% Senior Notes due 2009 are a component of the Company's 6.5% Equity Security Units (the "Units"). In March 2004, the Company issued 33 million Units in a public offering. The Company received approximately \$800.2 million in net proceeds from the sale of the Units.

Each Unit has a stated amount of \$25 and consists of (a) a purchase contract pursuant to which the holder agreed to purchase, for \$25, a variable number of shares of the Company's Class A Ordinary Shares on May 15, 2007 and (b) a one-fortieth, or 2.5%, ownership interest in the senior notes issued by the Company due May 15, 2009 with a principal amount of \$1,000.

S-10

SELECTED CONSOLIDATED FINANCIAL DATA

Our selected consolidated financial, operating and supplemental data presented below as at and for the years ended December 31, 2003, 2002, 2001, 2000 and 1999 are derived from our audited consolidated financial statements, which have been audited by PricewaterhouseCoopers LLP, an independent registered public auditing firm, and which are incorporated by reference in this prospectus supplement and the accompanying prospectus. The summary consolidated financial and operating data presented below for the nine month periods ended September 30, 2004 and September 30, 2003 have been derived from our unaudited consolidated financial data as presented in our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004, incorporated by reference in this prospectus supplement and the accompanying prospectus and reflect all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of our financial position and results of operations as at the end of and for the periods presented. The results of operations for the first nine months of 2004 are not necessarily indicative of the results that may be expected for

the full year.

You should read the following selected consolidated financial, operating and supplemental data in conjunction with our consolidated financial statements and the notes to those financial statements and the information under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2003 and our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 which are incorporated by reference in this prospectus supplement and the accompanying prospectus. Certain reclassifications to prior period information have been made to conform to current year presentation.

	(Unaudited) Nine Month Period Ended September 30,		Year Ended December 31,				
	2004 (1)	2003 (1)	2003 (1)	2002 (1)	2001 (1)	2000	1999 (2)
(U.S. dollars in thousands, except share and per share amounts and ratios)							
Income Statement							
Data:							
Net premiums earned							
general operations	\$5,272,434	\$4,565,120	\$6,081,033	\$4,899,073	\$2,730,420	\$2,011,525	\$1,728,753
Net premiums earned—financial							
operations	123,083	98,087	139,622	67,745	37,113	23,715	21,253
Net premiums earned—life							
operations	1,208,358	249,681	748,495	1,022,992	695,595		
Net investment income	716,599	573,218	779,558	734,535	610,528	580,946	525,318
Net realized gains (losses) on							
investments	181,115	80,331	120,195	(214,160)	(93,237)	45,090	66,800
Net realized and unrealized gains (losses) on derivative instruments							
instruments	34,150	(26,110)	(27,542)	(51,761)	11,768	21,405	27,556
Equity in net income of investment affiliates							
affiliates	144,392	87,344	133,902	64,662	80,580	70,032	43,865
Fee income and other	25,870	25,989	41,745	54,963	18,247	(1,131)	100,400
Net losses and loss expenses							
incurred—general operations							
operations	3,611,243	2,970,210	4,576,856	3,329,047	2,890,076	1,426,443	1,298,673
Net losses and loss expenses							
incurred—financial operations							
operations	61,737	26,177	33,750	(1,732)	15,155	6,116	5,361
Claims and policy benefits—life operations							
life operations	1,268,519	302,737	818,894	1,069,456	698,675		
Acquisition costs, operating expenses and exchange gains and losses							
and losses	1,707,908	1,430,383	1,926,393	1,549,440	1,073,903	743,067	689,005

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Interest expense	166,730	142,093	199,407	168,086	113,272	70,593	37,378
Amortization of intangible assets	9,770	1,125	4,637	6,187	58,569	58,597	49,141
Income (loss) before minority interests, equity in net income of insurance affiliates and income tax expense	880,094	780,935	457,071	457,565	(758,636)	446,766	434,117
Preference share dividends	30,241	30,241	40,321	9,620	□	□	□
Net income (loss) available to ordinary shareholders	\$838,244	\$686,487	\$371,658	\$395,951	\$(576,135)	\$506,352	\$470,509

S-11

**(Unaudited)
Nine Month
Period Ended
September 30,**

Year Ended December 31,

2004 (1)	2003 (1)	2003 (1)	2002 (1)	2001 (1)	2000	1999 (2)
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(U.S. dollars in thousands, except share and per share amounts and ratios)

Balance Sheet

Data:

Total investments available for sale	\$25,707,023	\$19,410,426	\$20,775,256	\$16,059,733	\$12,429,845	\$9,501,548	\$ 9,122,591
Cash and cash equivalents	2,267,198	2,059,609	2,403,121	3,557,815	1,863,861	930,469	557,749
Investments in affiliates	1,987,544	1,855,989	1,903,341	1,750,005	1,037,344	792,723	479,911
Unpaid losses and loss expenses recoverable	6,071,186	5,366,501	5,779,997	5,012,655	4,633,693	1,339,767	831,864
Premiums receivable	4,141,499	4,448,404	3,487,322	3,592,713	2,182,348	1,119,723	1,126,397
Total assets	46,822,950	39,586,850	40,764,215	35,647,369	27,963,016	16,941,952	15,090,912
Unpaid losses and loss expenses	18,252,435	15,161,821	16,558,788	13,202,736	11,806,745	5,667,833	5,369,402
Unearned premiums	5,644,257	5,161,493	4,729,989	4,028,299	2,636,428	1,741,393	1,497,376
Notes payable and debt	2,730,990	1,898,959	1,905,483	1,877,957	1,604,877	450,032	410,726
Shareholders' equity	7,371,719	7,401,210	6,936,915	6,569,589	5,437,184	5,573,668	5,577,078

Operating Ratios:

Loss and loss expense ratio (3)	68.5%	65.1%	75.3%	68.0%	105.8%	70.9%	75.1%
Underwriting expense ratio (4)	27.6%	27.3%	27.3%	29.0%	33.9%	35.3%	33.6%
Combined ratio (5)	96.1%	92.4%	102.6%	97.0%	139.7%	106.2%	108.7%

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- (1) Results for all periods subsequent to July 1, 2001 include the results of Winterthur International, which was acquired with effect from this date. The results also include the consolidation of XL Re Europe, which is accounted for as a subsidiary with effect from January 1, 2002. In the years ended December 31, 2001, 2000 and 1999, our share of net income of Le Mans Ré (now known as XL Re Europe) was included in equity in net income of insurance and operating affiliates. Our net income for the years ended December 31, 2003, 2002 and 2001 was impacted by the September 11 event. See Item 8, Note 4 to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2003. The effect of all of these items should be considered when making period to period comparisons of our results of operations and financial condition and liquidity. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2003 for further discussion and analysis.
 - (2) Information includes the financial results of NAC for the full year then ended.
 - (3) The loss and loss expense ratio is calculated by dividing the losses and loss expenses incurred by the net premiums earned for general insurance and reinsurance operations.
 - (4) The underwriting expense ratio is the sum of acquisition expenses and operating expenses for general insurance and reinsurance operations divided by net premiums earned for general insurance and reinsurance operations. See Item 8, Note 3 to our consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2003 for further information.
 - (5) The combined ratio is the sum of the loss and loss expense ratio and the underwriting expense ratio. A combined ratio under 100% represents an underwriting profit and over 100% represents an underwriting loss.

S-12

DESCRIPTION OF THE SENIOR NOTES

We will issue the 2014 Notes and the 2024 Notes under a senior indenture that we have entered into and a supplemental indenture that we will enter into with The Bank of New York, as trustee. Certain terms of the 2014 Notes offered hereby are also set forth in a supplemental indenture that we entered into with The Bank of New York, as trustee, pursuant to which we issued \$300.0 million aggregate principal amount of 5.25% Senior Notes due 2014 on August 23, 2004. Copies of the indenture and the supplemental indenture pursuant to which we issued the 5.25% Senior Notes due 2014 on August 23, 2004 are on file with the SEC and may be obtained by accessing the internet address provided or contacting us as described under "Where You Can Find More Information" in the accompanying prospectus. The following description is not complete, and is qualified in all respects by reference to the indenture and the supplemental indentures, the forms of which will be, or have been, filed as exhibits on Form 8-K. You should read the indenture, the supplemental indentures, as applicable, and the associated documents carefully to fully understand the terms of the senior notes. In addition, to the extent that the following description is not consistent with that contained in the accompanying prospectus under "Description of XL Capital Debt Securities," you should rely on this description.

Maturity and Interest

The 2014 Notes will mature on September 15, 2014 and the 2024 Notes will mature on November 15, 2024. Unless previously redeemed in full as provided herein, we will repay the 2014 Notes and the 2024 Notes at their respective principal amounts plus accrued and unpaid interest on September 15, 2014 and November 15, 2024, respectively.

The 2014 Notes will bear interest at the rate of 5.25% per annum from August 23, 2004 to maturity or early redemption. Interest on the 2014 Notes will be payable semi-annually on March 15 and September 15 of each year, commencing on March 15, 2005, to the persons in whose names such senior notes were registered at the close of business on the preceding March 1 and September 1, respectively.

The 2024 Notes will bear interest at the rate of 6.375% per annum from November 12, 2004 to maturity or early redemption. Interest on the 2024 Notes will be payable semi-annually on May 15 and November 15 of each

year, commencing on May 15, 2005, to the persons in whose names such senior notes were registered at the close of business on the preceding May 1 and November 1, respectively.

Interest on the senior notes will be computed on the basis of a 360-day year comprised of twelve 30-day months. The amount of interest payable for any period shorter than a full semi-annual period for which interest is computed will be computed on the basis of the actual number of days elapsed in the 180-day period. Principal and interest will be payable, and the senior notes will be transferable or exchangeable, at the office or offices or agency maintained by us for this purpose.

General Terms of the Senior Notes

The senior notes will be the direct, unsecured and unsubordinated obligations of XL Capital Ltd. The senior notes will rank equal in right of payment with all of our other unsecured and unsubordinated indebtedness. As of September 30, 2004, on a pro forma basis after giving effect to this offering, the aggregate amount of our outstanding consolidated indebtedness for money borrowed was approximately \$2.7 billion. All such outstanding indebtedness is unsecured and unsubordinated. The senior notes will be structurally subordinated to losses and loss expenses and other obligations of our subsidiaries. As of September 30, 2004, the aggregate amount of indebtedness for money borrowed of our subsidiaries (other than XL Capital Finance (Europe) plc), which would effectively rank senior to the senior notes, was \$355.0 million.

The 2014 Notes offered hereby constitute an additional issuance of 5.25% Senior Notes due 2014 and, together with the \$300.0 million aggregate principal amount of 5.25% Senior Notes due 2014 issued on August 23, 2004, will constitute a single series of senior notes for all purposes under the indenture and the applicable supplemental indenture.

