

XL CAPITAL LTD
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Registration No. 333-130036

Prospectus Supplement to Prospectus dated December 1, 2005

33,846,000 Ordinary Shares

XL Capital Ltd

Class A Ordinary Shares

XXXXXXXXXXXXXXXXXXXX

XL Capital Ltd is offering 33,846,000 Class A Ordinary Shares, which we refer to as the "ordinary shares," to be sold in this offering.

Concurrently with this offering, XL Capital Ltd is offering 29,800,000 of its 7.00% Equity Security Units, with a stated amount of \$25 per unit, which we refer to as the "equity units." The consummation of this offering and the consummation of the offering of equity units are not conditioned upon each other.

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 December 6, 2005 was \$65.65 per ordinary share.

See "Risk Factors" beginning on page S-6 to read about factors you should consider before buying our ordinary shares.

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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 Ordinary Share	Total
Initial price to public.	\$ 65.00	\$ 2,199,990,000
Underwriting discount.	\$ 1.95	\$ 65,999,700
Proceeds, before expenses, to XL Capital Ltd	\$ 63.05	\$ 2,133,990,300

To the extent that the underwriters sell more than 33,846,000 ordinary shares, the underwriters have the option to purchase up to an additional 5,076,900 ordinary shares from us at the initial price to public less the underwriting discount.

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The underwriters expect to deliver the ordinary shares against payment in New York, New York on December 9, 2005.

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Joint Book-Running Managers

Goldman, Sachs & Co.

Citigroup

□□□□□□□□□□□□□□□□

Joint Lead Managers

JPMorgan
Merrill Lynch &
Co.

Lehman
Brothers
Wachovia
Securities

□□□□□□□□□□□□□□□□

Senior Co-Managers

ABN AMRO Rothschild LLC
Calyon Securities (USA) Inc.
ING Financial Markets LLC

Banc of America Securities LLC
Deutsche Bank Securities
KeyBanc Capital Markets
UBS Investment Bank

Barclays Capital
HSBC
Lazard Capital Markets

Prospectus Supplement dated December 6, 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 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 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 ordinary 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 ordinary 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 the ordinary shares. Non-resident or exempted companies or other non-resident or exempted entities established in the Cayman Islands, however, may purchase the ordinary shares.

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 ordinary shares. You should read carefully this entire prospectus supplement, including the "Risk Factors" section, the accompanying prospectus and the information incorporated by reference herein and therein. In this prospectus supplement, "XL Capital", "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

Winterthur International

On December 5, 2005 the previously announced draft report of the independent actuary appointed in connection with our acquisition of certain Winterthur International operations from Winterthur Swiss Insurance Company ("WSIC") in 2001 became final and we expect to record the previously announced charge of approximately \$830 million relating to the actuarial process in the fourth quarter of 2005. An aggregate of approximately \$575 million (including interest) will be due to us from WSIC by December 12, 2005.

Hurricanes Wilma, Katrina and Rita

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 our core property and casualty operating companies' financial strength ratings to 'A+' from 'AA-' and affirmed them with a stable outlook. 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.

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On November 22, 2005, Moody's Investors Service, Inc. 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].

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THE OFFERING

Issuer	XL Capital Ltd
Class A Ordinary Shares offered by us	33,846,000 ordinary shares.
Class A Ordinary Shares to be outstanding after this offering	174,422,462 ordinary shares.(1)
Use of Proceeds	We estimate our net proceeds from this offering, assuming no exercise of the overallotment option, after deducting underwriting discounts and commissions and estimated offering expenses, to be \$2.13 billion. We intend to use the net proceeds from this offering, together with the net proceeds from the concurrent offering of equity units (which we estimate to be approximately 721.2 million), 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 determination by the independent actuary in connection with our post-closing reserve seasoning process with Winterthur Swiss Insurance Company. See "Use of Proceeds" in this prospectus supplement.
New York Stock Exchange Symbol	XL
Concurrent Offering	Concurrently with this offering, XL Capital Ltd is offering 29,800,000 of its 7.00% Equity Security Units (the "equity units") pursuant to a separate prospectus supplement. Each equity unit will initially consist of (i) a contract pursuant to which the holder thereof agrees to purchase, for \$25, Class A Ordinary Shares of XL Capital Ltd on February 15, 2009 and (ii) 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 number of Class A Ordinary Shares that each holder will be required to purchase, and we will be obligated to sell, will be determined based on the average of the closing price per share of our Class A Ordinary Shares on each of the 20 consecutive trading days ending on the third trading day immediately preceding the stock purchase date, and will be a minimum of 0.3102 ordinary shares and a maximum of 0.3846 ordinary shares per equity unit upon settlement. The senior notes, which initially will be pledged to secure each holder's obligation under the related purchase contract, will bear interest at the initial annual rate of 5.25% of their principal amount. If the senior notes are successfully remarketed in connection with a remarketing process that will occur in February 2009, interest payments will thereafter be made at the reset rate. The senior notes will mature on February 15, 2011. We will also make contract adjustment payments on the purchase contracts at the annual rate of 1.75% of the stated amount of \$25 per purchase contract through the stock purchase date, which we have the right to defer. The consummation of this offering and the consummation of the offering of equity units are not conditioned upon each other.

- (1) The number of Class A Ordinary Shares to be outstanding after this offering is based on approximately 140,576,462 ordinary shares outstanding as of December 6, 2005 and excludes 9,248,355 ordinary shares that may be issued upon exercise of vested options. This number also excludes ordinary shares issuable upon settlement of the purchase contracts that are a component of our outstanding Equity Security Units issued in March 2004 and of the equity units being offered pursuant to a concurrent offering. This number assumes that the underwriters' option to purchase additional 5,076,900 ordinary shares is not exercised. If the option to purchase additional ordinary shares is exercised in full, we will issue and sell an additional ordinary shares. For a more complete description of our ordinary shares, see "Description of XL Capital Ordinary Shares" in the accompanying prospectus.

Risk Factors

An investment in our ordinary shares involves certain risks that you should carefully evaluate prior to making an investment in our ordinary shares. In particular, you should evaluate the specific risk factors under "Risk Factors" beginning on page S-6 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 ordinary shares.

RISK FACTORS

Investing in our ordinary shares involves risk. In deciding whether to invest in our ordinary shares, 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 lowered XL Capital's core property and casualty operating companies' financial strength ratings to A+ from AA- and affirmed them with a stable outlook. Moody's Investors Service, Inc. (Moody's) recently lowered the insurance financial strength ratings of XL Capital's leading insurance operating subsidiaries to Aa3 from Aa2 and confirmed the insurance financial strength ratings of XL Capital's leading reinsurance operating subsidiaries at Aa3. A.M. Best Company, Inc. (A.M. Best) placed XL Capital's financial strength rating of A+ under review with negative implications in September 2005. In October 2005, Fitch Ratings Inc. (Fitch) lowered the insurance financial strength ratings of XL Capital's lead insurance and reinsurance operating subsidiaries to AA- from AA. 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 of the 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 notches below our current A.M. Best rating of A+, would constitute an event of default under our letter of credit and revolving credit facilities. 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's 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.

S&P, Moody's and Fitch have assessed 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.

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

The majority of our assumed reinsurance contracts contain provisions that would allow our clients to cancel the contract in the event of a downgrade in our ratings below specified levels by one or more rating agencies. Based on premium value, approximately 70% of our reinsurance contracts that incepted 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 opera-

tions. 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 due to us from Winterthur Swiss Insurance Company (WSIC) may prove to be uncollectible and/or we may be unable to make full recovery of the reinsurance recoverables related to the Winterthur Business, either from third parties or from WSIC.

On December 5, 2005, the previously announced draft report of the independent actuary appointed in connection with our acquisition of certain Winterthur International insurance operations (the Winterthur Business) from WSIC in 2001 became final. Under the terms of the Sale and Purchase Agreement, as amended, between XL Insurance (Bermuda) Ltd and WSIC (the SPA), the amounts due to us as described above are payable within five business days of the independent actuary's draft actuarial report becoming final. Accordingly, an aggregate of approximately \$575 million (including interest receivable) will be due to us from WSIC by December 12, 2005.

In addition, WSIC provides us with protection with respect to third party reinsurance receivables and recoverables related to the Winterthur Business, which were approximately \$1.6 billion, in the aggregate, as of September 30, 2005. There are two levels of protection from WSIC for these balances:

- At the time of the acquisition of the Winterthur Business, WSIC provided to us a liquidity facility. Repayment of the facility is due at the time of the payment of the net reserve seasoned amount as described above and we will have the right to repay up to the balances outstanding on this facility, by cash or by assignment, to WSIC of an equal amount of reinsurance receivables selected by us. The payable balance related to this facility is included within other liabilities on our balance sheet at September 30, 2005 and amounted to approximately \$268 million at that date.
- Under two retrocession agreements, we have reinsurance protection on the remaining portion of reinsurance recoverables with respect to incurred losses seasoned as of September 30, 2004 to the extent that we do not receive payment of such amounts from applicable reinsurers, with one agreement providing a limit of \$1.3 billion for insurance written in the period prior to June 30, 2001 and the other agreement providing a limit of \$1.3 billion for insurance written prior to December 31, 2000.

Certain reinsurers responsible for some portions of the reinsurance of the Winterthur Business have raised issues as to whether amounts claimed are due and the resolution of those discussions is also currently ongoing.

We may record a loss in future periods if any or some of the following occur and any such loss could have a material adverse effect on our financial condition and results of operations:

- there is deterioration of the net reserves and premium balances relating to the Winterthur Business from what was reported in our December 31, 2004 financial statements;
- any amount (including the amount due by December 12, 2005) due from WSIC proves to be uncollectible from WSIC for any reason; and/or
- we are unable to make full recovery of the reinsurance recoverables related to the Winterthur Business, either from third parties or from WSIC under the additional protections described above.

Our financial condition could be adversely affected by the occurrence of disasters.

We have substantial exposure to losses resulting from natural and man-made disasters and other catastrophic events. Catastrophes can be caused by various events, including hurricanes, earthquakes, hailstorms, explosions, severe winter weather, fires, war, acts of terrorism, political instability and other natural or man-made disasters. The incidence and severity of catastrophes are inherently unpredictable and our losses from catastrophes could be substantial.

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

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

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

The failure of our initiative to reduce our net catastrophe exposed risks could have a material adverse effect on our financial condition and results of operations.

Certain of our insurance accounts have the potential for significant volatility under worsening catastrophe event scenarios. In connection with our initiative to reduce our net catastrophe exposed risks, we intend to reduce exposure from such accounts, reduce catastrophe sub-limits and eliminate insurance accounts that no longer meet our increased pricing needs. In addition, we plan to reduce our reinsurance catastrophe exposure within the property risk portfolio and restructure the way in which our marine excess of loss programs are written. If we are unable to carry out our initiative to reduce our net catastrophe exposed risks, we may not be able to meet rating agencies' additional capital requirements and our financial condition and results of operations could be materially adversely affected.

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

Our results of operations and financial condition depend upon our ability to assess accurately the potential losses associated with the risks that we insure and reinsure. We establish reserves for unpaid losses and loss adjustment expense ("LAE") liabilities, which are estimates of future payments of reported and unreported claims for losses and related expenses with respect to insured events that have occurred. The process of establishing reserves for property and casualty claims can be complex and is subject to considerable variability as it requires the use of informed estimates and judgments. Actuarial estimates of unpaid loss and LAE liabilities are subject to potential errors of estimation, which could be significant, due to the fact that the ultimate disposition of claims incurred prior to the date of such estimation, whether reported or not, is subject to the outcome of events that have not yet occurred. Examples of these events include jury decisions, court interpretations, legislative changes, changes in the medical condition of

claimants, public attitudes, and economic conditions such as inflation. Any estimate of future costs is subject to the inherent limitation on the ability to predict the aggregate course of future events. It should therefore be expected that the actual emergence of loss and LAE liabilities will vary, perhaps materially, from any estimate.

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

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

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

We believe that our modeling, underwriting and information technology and application systems are critical to our business. Moreover, our information technology and application systems have been an important part of our underwriting process and our ability to compete successfully. We have also licensed certain systems and data from third parties. We cannot be certain that we will have access to these, or comparable, service providers, or that our information technology or application systems will continue to operate as intended. A major defect or failure in our internal controls or information technology and application systems could result in management distraction, harm to our reputation or increased expense. We believe appropriate controls and mitigation procedures are in place to prevent significant risk of defect in our internal controls, information technology and application systems, but internal controls provide only reasonable, not absolute, assurance as to the absence of errors or irregularities and any ineffectiveness of such controls and procedures could have a material adverse effect on our business.

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

As industry practices and legal, judicial, social and other environmental conditions change, unexpected issues related to claims and coverage may emerge. These issues may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number or size of claims. In some instances, these changes may not become apparent until some time after we have issued the insurance or reinsurance contracts that are affected by the changes. For example, our actual losses in connection with the third quarter 2005 catastrophes and Hurricane Wilma may vary materially from our current estimate based on a number of factors, including receipt of additional information from insureds or brokers, the attribution of losses to coverages that had not previously been considered as exposed and inflation in repair costs due to additional demand for labor and materials. As a result, the full extent of liability under an insurance or reinsurance contract may not be known for many years after such contract is issued.

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

Our future capital requirements depend on many factors, including our ability to write new business successfully and to establish premium rates and reserves at levels sufficient to cover our losses. To the extent that the funds generated by our ongoing operations are insufficient to fund future operating requirements and cover claim payments, we may need to raise additional funds through financings or curtail our growth and reduce our assets. Any future equity or debt financing may not be available on terms that are favorable to us, if at all. Any future equity financings could be dilutive to our existing shareholders or could result in the issuance of securities that have rights, preferences and privileges that are senior to those of our other securities. Our inability to obtain adequate capital could have a material

adverse effect on our business, financial condition and results of operations. See also [Risks Related to Our Ordinary Shares](#) below.

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

We purchase reinsurance for our own account in order to mitigate the volatility that losses impose on our financial condition. Our clients purchase reinsurance from us to cover part of the risk originally written by them. Retrocessional reinsurance involves a reinsurer ceding to another reinsurer, the retrocessionaire, all or part of the reinsurance that the first reinsurer has assumed. Reinsurance, including retrocessional reinsurance, does not legally discharge the ceding company from its liability with respect to its obligations to its insureds or reinsureds. A reinsurer's or retrocessionaire's insolvency, inability or refusal to make timely payments under the terms of its agreements with us, therefore, could have a material adverse effect on us because we remain liable to our insureds and reinsureds. At September 30, 2005, we had approximately \$7.6 billion of reinsurance recoverables, net of reserves for uncollectible recoverables. For further information regarding our reinsurance exposure, see [Management's Discussion and Analysis of Financial Condition and Results of Operations](#) in our 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.

From time to time, market conditions have limited or, in some cases, prevented insurers and reinsurers from obtaining the types and amounts of reinsurance that they consider adequate for their business needs. Accordingly, we may not be able to obtain reinsurance or retrocessional reinsurance from entities with satisfactory creditworthiness in amounts that we deem desirable or on terms that we deem appropriate or acceptable.

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

We market our insurance and reinsurance products worldwide primarily through insurance and reinsurance brokers. Marsh & McLennan Companies and AON Corporation and their respective subsidiaries provided approximately 22% and 17%, respectively, of our gross written premiums from general operations for the year ended December 31, 2004. We believe that these brokers also have, or may in the future acquire, ownership interests in insurance and reinsurance companies that may compete with us, and these brokers may favor such insurers and reinsurers over other companies. Loss of all or a substantial portion of the business provided by one or more of these brokers could have a material adverse effect on our business.

Our reliance on brokers subjects us to their credit risk.

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

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

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

We may be adversely affected by interest rate changes.

Our operating results are affected, in part, by the performance of our investment portfolio. Our investment portfolio contains interest rate-sensitive instruments, such as fixed income securities, which may be adversely affected by changes in interest rates. Changes in interest rates could also have an adverse effect on our investment income and results of operations. For example, if interest rates decline, funds reinvested will earn less than expected.

Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. Although we take measures to manage the economic risks of investing in a changing interest rate environment, we may not be able to mitigate the interest rate risk of our assets relative to our liabilities. Our mitigation efforts with respect to interest rate risk are primarily focused towards maintaining a general investment portfolio with diversified maturities that has a weighted average duration that is approximately equal to the duration of estimated future paid liabilities. However, our estimate of future paid liabilities may be inaccurate and we may be forced to liquidate investments prior to maturity at a loss in order to cover liabilities. In addition, even if the duration of our fixed income portfolio perfectly matched future paid liabilities, a sharp rise in interest rates would cause the market value of our fixed income portfolio to decline and could have a material adverse effect on our book value.

For further information regarding our exposure to interest rate risk, see "Quantitative and Qualitative Disclosures About Market Risk" 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.

Our operating results may be adversely affected by currency fluctuations.

Our functional currency is the U.S. dollar and exchange rate fluctuations relative to the U.S. dollar may materially impact our financial position and results of operations. Many of our non-U.S. subsidiaries maintain both assets and liabilities in local currencies, which exposes us to changes in currency exchange rates to the extent that we need to convert U.S. dollars into such local currencies or vice versa. In addition, locally-required capital levels are invested in home currencies in order to satisfy regulatory requirements and to support local insurance operations regardless of currency fluctuations. Foreign exchange rate risk is reviewed as part of our risk management process. The principal currencies creating foreign exchange risk for us are the British pound sterling, the euro and the Swiss franc.

While we utilize derivative instruments such as futures, options and foreign currency forward contracts to, among other things, manage our foreign currency exposure, it is possible that these instruments will not effectively mitigate all or a substantial portion of our foreign exchange rate risk.

Current legal and regulatory activities relating to insurance brokers and agents, contingent commissions and certain finite-risk insurance products could adversely affect our business, financial condition and results of operations.

Contingent commission arrangements and finite-risk reinsurance have become the focus of investigations by the U.S. Securities and Exchange Commission (the "SEC") and numerous U.S. Attorney's Offices and state Attorneys General. Finite-risk reinsurance has been defined as a form of reinsurance in which, among other things, the time value of money is considered in the product's design and pricing, and there is less risk transfer to the insurer or reinsurer in return for less premium being paid.

In May and June of 2005, we received a subpoena from the SEC and a grand jury subpoena from the U.S. Attorney's Office for the Southern District of New York, respectively, in each case for documents and information relating to certain finite risk and loss mitigation insurance products. We are fully cooperating with, and responding to, these requests.

On August 1, 2005, plaintiffs in a proposed class action multi-district lawsuit (the "MDL") filed a consolidated amended complaint, which named as new defendants in the pending action approximately 30 entities, including XL Capital Ltd and its subsidiaries Greenwich Insurance Company and Indian Harbor Insurance Company. In the MDL, 19 named plaintiffs have asserted various claims, purportedly on behalf of a class of commercial insureds, against

approximately 113 insurance companies and insurance brokers through which the named plaintiffs allegedly purchased insurance. The amended complaint alleges that the defendant insurance companies and insurance brokers conspired to manipulate bidding practices for insurance policies in certain insurance lines and failed to disclose certain commission arrangements. The named plaintiffs have asserted statutory claims under the Sherman Act, various state antitrust laws and the Racketeer Influenced and Corrupt Organizations Act, as well as common law claims alleging breach of fiduciary duty, aiding and abetting a breach of fiduciary duty and unjust enrichment.

From time to time, we have also received and responded to additional requests from state Attorneys General and insurance regulators for information relating to our contingent commission arrangements, including with respect to brokers and agents, and our insurance and reinsurance practices in connection with certain finite risk and loss mitigation insurance products. Similarly, our affiliates outside the United States have, from time to time, received and responded to requests from regulators relating to our insurance and reinsurance practices. We are fully cooperating with these regulators in these matters.

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

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

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

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

Risks Related to Our Industry

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

The insurance and reinsurance industries have historically been cyclical, characterized by periods of intense price competition due to excess underwriting capacity as well as periods when shortages of capacity permitted favorable premium levels. An increase in premium levels is often offset by an increasing supply of insurance and reinsurance capacity, either by capital provided by new entrants or by the commitment of additional capital by existing insurers or reinsurers, which may cause prices to decrease. Either of these factors could lead to a significant reduction in premium rates, less favorable policy terms and conditions and fewer submissions for our underwriting services. In addition to these considerations, changes in the frequency and severity of losses suffered by insureds and insurers may affect the cycles of the insurance and reinsurance industries significantly.

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

The insurance and reinsurance industries are highly competitive. We compete on an international and regional basis with major U.S., Bermudian, European and other international insurers and reinsurers and with

underwriting syndicates, some of which have greater financial and management resources than we do. We also compete with new com-

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panies that continue to be formed to enter the insurance and reinsurance markets. In addition, capital market participants have recently created alternative products that are intended to compete with reinsurance products. Increased competition could result in fewer submissions, lower premium rates and less favorable policy terms and conditions, which could reduce our margins.

Uncertainty surrounding the future of the Terrorism Risk Insurance Act of 2002 and other political, regulatory and industry initiatives could adversely affect our business.

Following the September 11th terrorist attacks, the Terrorism Risk Insurance Act of 2002 (the "TRIA") was enacted to ensure the availability of insurance coverage for "certified" acts of terrorism in the U.S. Pursuant to the TRIA, if a "certified" act of terrorism results in an industry-wide loss over \$5 million, the U.S. government becomes liable to pay a portion of such loss. Under the TRIA, each eligible insurance company is first required to absorb a deductible equal to 15% of its prior year reported commercial lines gross written premium before the government becomes liable for payment of losses of such company. For losses above this deductible, the payment by the government in effect provides reinsurance protection on a 90/10 quota share basis (with the government absorbing 90% of the loss and the applicable insurance company absorbing the remaining 10%). While insurance companies are allowed to purchase commercial reinsurance for their deductible amounts and quota share exposure, to date there has not been a viable market for such reinsurance coverage in terms of capacity, price or coverage terms and there remains an uncertainty regarding the future of terrorism coverage should the U.S. government not extend the TRIA after its expiration on December 31, 2005.

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

- Providing insurance and reinsurance capacity in markets and to consumers that we target;
- Requiring our participation in industry pools and guaranty associations;
- Expanding the scope of coverage under existing policies, e.g., following large disasters such as Hurricanes Katrina and Rita;
- Regulating the terms of insurance and reinsurance policies; or
- Disproportionately benefiting the companies of one country over those of another.

For instance, if the TRIA expires without replacement, we believe that the products that would most expose us to acts of terrorism are our property and workers' compensation products. With respect to property products, we believe that (i) underwriters will no longer be required to "make available" terrorism coverage and, accordingly, will be able to exclude or sub-limit such coverage, (ii) given current state law, underwriters will not be able to exclude terrorism in New York, Florida or Georgia but may limit their exposure by offering lower limits, or not writing business, in those states and (iii) in a minority of other states, underwriters will be permitted to exclude terrorism, but may not exclude fire following a terrorist attack. The foregoing limitations do not apply to coverage that a customer may purchase from underwriters outside the U.S. and, while some domestic U.S. companies will struggle with such limitations, other companies that are foreign legal entities or have established underwriting and distribution networks outside the U.S. will be free to negotiate terms and conditions with U.S. customers who are willing to purchase coverage from markets outside the U.S.

With respect to workers' compensation products, we believe that (i) unlike property policies, which offer a specific limit of coverage, workers' compensation coverage is defined by statute and limited only by the number of workers covered, although workers' compensation benefit levels can vary significantly from state to state and (ii) since underwriters by law cannot exclude war risk or terrorism risk on workers' compensation policies, underwriters seeking to write workers' compensation risks will be required to write the risk including terrorism.

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

Risks Related to Regulation

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

Our insurance and reinsurance subsidiaries operate in 29 countries around the world as well as in all 50 U.S. states. Our operations in each of these jurisdictions are subject to varying degrees of regulation and supervision. The laws and regulations of the jurisdictions in which our insurance and reinsurance subsidiaries are domiciled require, among other things, that these subsidiaries maintain minimum levels of statutory capital, surplus and liquidity, meet solvency standards, submit to periodic examinations of their financial condition and restrict payments of dividends and reductions of capital. Statutes, regulations and policies that our insurance and reinsurance subsidiaries are subject to may also restrict the ability of these subsidiaries to write insurance and reinsurance policies, make certain investments and distribute funds.

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

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

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

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

- maintain a minimum level of capital and surplus;
- maintain solvency margins and liquidity ratios;
- restrict dividends and distributions;
- obtain prior approval regarding the ownership and transfer of shares;
- maintain a principal office and appoint and maintain a principal representative in Bermuda;
- file an annual statutory financial return; and
- allow for the performance of certain periodic examinations of XL Insurance (Bermuda) Ltd and XL Re Ltd and their respective financial conditions.

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

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

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

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

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

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

Risks Related to Taxation

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

We, and our Bermuda insurance subsidiaries, have received from the Ministry of Finance in Bermuda exemptions from any Bermuda taxes that might be imposed on profits, income or any capital asset, gain or appreciation until March 28, 2016. The exemptions are subject to the proviso that they are not construed so as to prevent the application of any tax or duty to such persons as are ordinarily resident in Bermuda (we and our Bermuda insurance subsidiaries are not so currently designated) and to prevent the application of any tax payable in accordance with the provisions of The Land Tax Act 1967 or otherwise payable in relation to the land leased to us and our Bermuda insurance subsidiaries. We, as a permit company under The Companies Act 1981 of Bermuda, have received similar exemptions, which are effective until March 28, 2016. We and our Bermuda insurance subsidiaries are required to pay certain annual Bermuda government fees and certain business fees as an insurer under The Insurance Act 1978 of Bermuda. Currently there is no Bermuda withholding tax on dividends paid by our Bermuda insurance subsidiaries to us. Given

the limited duration of the Ministry of Finance's assurance, we cannot be certain that we, or our Bermuda insurance subsidiaries, will not be subject to any Bermuda tax after March 28, 2016.

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

Under current Cayman Islands law, we are not obligated to pay any taxes in the Cayman Islands on our income or gains. We have received an undertaking from the Governor-in-Council of the Cayman Islands pursuant to the provisions of the Tax Concessions Law, as amended, that until June 2, 2018, (i) no subsequently enacted law imposing any tax on profits, income, gains or appreciation shall apply to us and (ii) no such tax and no tax in the nature of an estate duty or an inheritance tax shall be payable on any of our ordinary shares, debentures or other obligations. Under current law, no tax will be payable on the transfer or other disposition of our ordinary shares. The Cayman Islands currently impose stamp duties on certain categories of documents; however, our current operations do not involve the payment of stamp duties in any material amount. The Cayman Islands also currently impose an annual corporate fee upon all exempted companies incorporated in the Cayman Islands. Given the limited duration of the undertaking from the Governor-in-Council of the Cayman Islands, we cannot be certain that we will not be subject to any Cayman Islands tax after June 2, 2018.

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

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

If you acquire 10% or more of our ordinary shares, you may be subject to taxation under the "controlled foreign corporation" (the "CFC") rules.

Under certain circumstances, a "United States shareholder" (as defined in "Certain Tax Consequences"Taxation of ShareholdersUnited StatesTaxation of U.S. Holders of Ordinary SharesOwnership and Dispositions of Ordinary SharesClassification as a Controlled Foreign Corporation) of a foreign corporation that is a "CFC" (as defined in "Certain Tax Consequences"Taxation of ShareholdersUnited StatesTaxation of U.S. Holders of Ordinary SharesOwnership and Dispositions of Ordinary SharesClassification as a Controlled Foreign Corporation) for an uninterrupted period of 30 days or more during a taxable year must include in gross income for U.S. federal income tax purposes such United States shareholder's pro rata share of the CFC's "subpart F income", even if the subpart F income is not distributed to such United States shareholder if such United States shareholder owns (directly or indirectly through foreign entities) any of our ordinary shares on the last day of our taxable year. "Subpart F income" of a foreign insurance corporation typically includes foreign personal holding company income (such as interest, dividends and other types of passive income), as well as insurance and reinsurance income (including underwriting and investment income) attributable to the insurance of risks situated outside the CFC's country of incorporation.

We believe that because of the dispersion of our ordinary share ownership, provisions in our organizational documents that limit voting power of our ordinary shares and other factors, no "U.S. holder" (as defined in "Certain Tax Consequences"Taxation of ShareholdersUnited States) who acquires our ordinary shares directly or indirectly through one or more foreign entities should be required to include our subpart F income in income under the CFC rules of the Internal Revenue Code of 1986, as amended (the "Code"). See "Description of XL Capital Ordinary

Shares in the accompanying prospectus for a description of these provisions. It is possible, however, that the IRS could challenge the effectiveness of these provisions and that a court could sustain such a challenge, in which case your investment could be materially adversely affected.

U.S. tax-exempt organizations that own our ordinary shares may recognize unrelated business taxable income.

A U.S. tax-exempt organization that owns any of our ordinary shares will be required to treat certain subpart F insurance income, including RPII (as defined below), as unrelated business taxable income. Although we do not believe that any U.S. holders, including any U.S. tax-exempt organization, should be allocated any subpart F insurance income, we cannot be certain that this will be the case. Potential U.S. tax-exempt investors are advised to consult their tax advisors.

U.S. holders who hold our ordinary shares may be subject to U.S. federal income taxation at ordinary income rates on their proportionate share of our [unrelated person insurance income] ([RPII]).

RPII is defined as any [insurance income] (as defined in the Code) attributable to policies of insurance or reinsurance with respect to which the person (directly or indirectly) insured is a [United States shareholder] or a [related person] to such a shareholder. If the RPII of any of our non-U.S. insurance subsidiaries (each a [Non-U.S. Insurance Subsidiary]) were to equal or exceed 20% of such subsidiary's gross insurance income in any taxable year and direct or indirect insureds (and persons related to those insureds) are treated as owning 20% or more of the voting power or value of the stock of XL Capital Ltd and any of its Non-U.S. Insurance Subsidiaries, then a U.S. holder who owns any of our ordinary shares (directly or indirectly through foreign entities) on the last day of the taxable year would be required to include in its income for U.S. federal income tax purposes such person's pro rata share of the RPII for the entire taxable year, determined as if all such RPII were distributed proportionately only to U.S. holders at that date regardless of whether such income is distributed. In addition, any RPII that is includible in the income of a U.S. tax-exempt organization may be treated as unrelated business taxable income. We believe that the gross RPII of each Non-U.S. Insurance Subsidiary did not in prior years of operation and is not expected in the foreseeable future to equal or exceed 20% of each such subsidiary's gross insurance income, and we do not expect the direct or indirect insureds of each Non-U.S. Insurance Subsidiary (and persons related to such insureds) to directly or indirectly own 20% or more of either the voting power or value of our shares, but we cannot be certain that this will be the case because some of the factors that determine the extent of RPII may be beyond our control. If these thresholds are met or exceeded, and if you are an affected U.S. holder, your investment could be materially adversely affected. See [Certain Tax Consequences]Taxation of Shareholders]United States]Taxation of U.S. Holders of Ordinary Shares]Ownership and Dispositions of Ordinary Shares]Related Person Insurance Income.

U.S. holders who hold our ordinary shares will be subject to adverse tax consequences if we are considered to be a passive foreign investment company ([PFIC]) for U.S. federal income tax purposes.

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

Changes in U.S. federal income tax law could materially adversely affect an investment in our ordinary shares.

Legislation is periodically introduced in the U.S. Congress intended to eliminate some perceived tax advantages of companies (including insurance companies) that have legal domiciles outside the United States but have certain U.S. connections. Other legislation would provide additional limits on the deductibility of interest by foreign-owned U.S. corporations. It is possible that legislative proposals could emerge in the future that could have an adverse impact on us or our shareholders.

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

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

On June 27, 2005 the Organisation for Economic Co-operation and Development ([OECD]) issued a discussion draft, [Attribution of Profits to a Permanent Establishment]Release of Discussion Draft of Part IV (Insurance)] (the [Draft]), which constitutes the fourth and final part of the report on OECD's project to establish a broad consensus regarding the interpretation and practical application of Article 7 ([Article 7]) of the OECD Model Tax Convention on Income and on Capital. Article 7 sets forth international tax principles for attributing profits to a permanent establishment and forms the basis of an extensive network of bilateral income tax treaties between OECD member countries and between many OECD member and non-member countries. Once finalized, the conclusions of Parts I-IV of the report will be implemented through revision of the Commentary on Article 7 and/or Article 7 itself. Section C of the Draft discusses the application of the 1995 OECD Transfer Pricing Guidelines to insurance business conducted between associated enterprises and, if adopted in its current form, might change the manner in which we are taxed and could therefore impact our future after-tax profitability. We cannot predict the effect of any such changes.

Risks Related to Our Ordinary Shares

The price and trading volume of our ordinary shares may be subject to significant fluctuations.

The price and trading volume of our ordinary shares may fluctuate in response to a number of events and factors, including:

- catastrophes or other events that may impact or be perceived by investors as impacting the insurance and reinsurance industries;
- quarterly variations in our operating results;
- changes in the market's expectations about our future operating results;
- changes in financial estimates and recommendations by securities analysts concerning us or the insurance and reinsurance industries generally;
- changes in the credit ratings assigned to our claims-paying ability by S&P, A.M. Best or other independent rating agencies;
- operating and stock price performance of other companies that investors may deem comparable to us;
- news reports relating to our business and trends in the markets in which we operate;

- changes in the laws and regulations affecting our business;
- acquisitions and financings by us or others in our industry; and
- sales or acquisitions of a substantial number of our ordinary shares by our directors and executive officers or significant shareholders, or the perception that such sales could occur.

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In addition, in recent years stock markets around the world have experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to their operating performance. These broad market fluctuations may materially adversely affect the price of our ordinary shares, regardless of our operating results.

Because we are a holding company and substantially all of our operations are conducted by our subsidiaries, our ability to pay dividends on our ordinary shares depends on our ability to obtain cash dividends or other cash payments or obtain loans from our subsidiaries.

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 dividends on our ordinary shares depends on our ability to obtain cash dividends or other cash payments or obtain loans from our subsidiaries, which are separate and distinct legal entities that will have no obligation to pay any dividends or to lend or advance us funds and which may be restricted from doing so by contract, including other financing arrangements, charter provisions or applicable legal or regulatory requirements and may also depend on the financial condition of our subsidiaries. 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. 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.

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

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

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

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

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

Our articles of association contain provisions that may make it more difficult for shareholders to replace directors and could delay or prevent a change of control that a shareholder might consider favorable. These provisions include a staggered board of directors, limitations on the ability of shareholders to remove directors,

limitations on voting rights and certain transfer restrictions on our ordinary shares. In addition, certain provisions in our Rights

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Agreement could delay or prevent a change of control that a shareholder might consider favorable. These provisions may prevent a shareholder from receiving the benefit of any premium over the market price of our ordinary shares offered by a bidder in connection with a potential takeover.

Even in the absence of a takeover attempt or an attempt to effect a change in management, these provisions may adversely affect the prevailing market price of our ordinary shares if they are viewed as discouraging takeover attempts in the future. See "Description of XL Capital Ordinary Shares" in the accompanying prospectus and "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" in our Annual Report 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, insurance regulations in certain jurisdictions may also delay or prevent a change of control or limit the ability of a shareholder to acquire in excess of specified amounts of our ordinary shares.

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

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

XL Capital Ltd has been advised by Appleby Spurling Hunter, its Cayman Islands counsel, that there is doubt as to whether the courts of the Cayman Islands would enforce:

- judgments of U.S. courts based upon the civil liability provisions of U.S. federal securities laws obtained in actions against XL Capital Ltd or its directors and officers, as well as experts named in this prospectus supplement or the accompanying prospectus, who reside outside the United States; or
- original actions brought in the Cayman Islands against these persons or XL Capital Ltd predicated solely upon U.S. federal securities laws.

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

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

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

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 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", 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 adequacy of rates and in terms and conditions may not be as sustainable as we are currently projecting;
- changes to the size of our claims relating to Hurricanes Katrina, Rita, Wilma and other natural catastrophes;
- our ability to realize the expected benefits of the quota share reinsurance treaty that we recently entered into with respect to specified portions of our property catastrophe and retrocessional lines of business;
- 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 WSIC (a) in connection with the independent actuarial process or (b) under other contractual arrangements;
- the projected amount of ceded reinsurance recoverables and the ratings and creditworthiness of reinsurers may change;
- 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 models, 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;

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- 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;

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- 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 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 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.

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USE OF PROCEEDS

We estimate our net proceeds from our sale of 33,846,000 ordinary shares in this offering, after deducting underwriting discounts and commissions and estimated offering expenses, to be approximately \$2.13 billion, or approximately \$2.45 billion if the underwriters' option to purchase additional ordinary shares is exercised in full.

We intend to use the net proceeds from this offering, together with the net proceeds from the concurrent offering of equity units (which we estimate to be approximately \$721.2 million), 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 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 consummation of the offering of equity units are not conditioned upon each other.

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PRICE RANGE OF ORDINARY SHARES AND DIVIDENDS

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

	<u>High</u>	<u>Low</u>	<u>Dividend</u>
2002			
First Quarter	\$97.11	\$86.05	\$0.47
Second Quarter	\$97.38	\$82.70	\$0.47
Third Quarter	\$83.03	\$61.00	\$0.47
Fourth Quarter	\$83.23	\$70.88	\$0.47
2003			
First Quarter	\$83.55	\$64.57	\$0.48
Second Quarter	\$88.00	\$72.58	\$0.48
Third Quarter	\$83.92	\$72.83	\$0.48
Fourth Quarter	\$79.83	\$68.11	\$0.48
2004			
First Quarter	\$81.54	\$72.44	\$0.49
Second Quarter	\$79.55	\$73.92	\$0.49
Third Quarter	\$75.99	\$68.87	\$0.49
Fourth Quarter	\$79.56	\$67.62	\$0.49
2005			
First Quarter	\$79.16	\$70.93	\$0.50
Second Quarter	\$75.66	\$67.70	\$0.50
Third Quarter	\$74.90	\$66.63	\$0.50
Fourth Quarter (through December 6, 2005)	\$73.89	\$60.26	\$0.50

On December 6, 2005, the last reported sale price for our ordinary shares was \$65.65 per ordinary share. As of November 29, 2005, there were 935 holders of record of our Class A Ordinary Shares.

Investors in this offering will not be entitled to receive the dividend declared by our board of directors for the fourth quarter of 2005 to the extent that the record date for such dividend occurs prior to the date of delivery of the ordinary shares to be sold in this offering.

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.

The declaration and payment of future dividends by us will be at the discretion of our board of directors and will depend upon many factors, including our earnings, financial condition, business needs, capital and surplus requirements of our operating subsidiaries and regulatory and contractual restrictions. As a holding company, our principal source of income is dividends or other statutorily permissible payments from our subsidiaries. The ability to pay such dividends is limited by the applicable laws and regulations of the various countries that we operate in, including the Cayman Islands, Bermuda, the United States and the U.K., and those of the Society of Lloyd's, and certain contractual provisions. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8, Note 24 to the Consolidated Financial Statements, in each case, 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.

CAPITALIZATION

The following table sets forth the consolidated capitalization of XL Capital as of September 30, 2005, on an actual basis and as adjusted to give effect to (i) the issuance of 33,846,000 ordinary shares in this offering, assuming no exercise of the underwriters' option to purchase additional ordinary shares and (ii) this offering, together with the issuance of 29,800,000 equity units in the concurrent offering of equity units.

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, 2005, which is incorporated by reference in this prospectus supplement and the accompanying prospectus.

	(Unaudited)		
	As of September 30, 2005		
	Actual	As adjusted for this offering	As adjusted for both offerings
	(U.S. dollars in thousands, except share and per share amounts)		
Debt:			
Five-year and three-year credit facilities (1)(2)	\$	\$	\$
Five-year revolver (1)(2)	□	□	□
7.15% Senior Notes due 2005 (3)	100,000	100,000	100,000
6.58% Guaranteed Senior Notes due 2011	255,000	255,000	255,000
6.50% Guaranteed Senior Notes due 2012	597,998	597,998	597,998
2.53% Senior Notes due 2009 (4)	825,000	825,000	825,000
5.25% Senior Notes due 2014	594,164	594,164	594,164
6.375% Senior Notes due 2024	350,000	350,000	350,000
5.25% Senior Notes due 2011 (5)	□	□	745,000
	<hr/>	<hr/>	<hr/>
Total debt	\$ 2,722,162	\$ 2,722,162	\$ 3,467,162
	<hr/>	<hr/>	<hr/>
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 and both offerings)	\$	\$	\$
	92	92	92
Series B Preference Ordinary Shares; \$0.01 par value per share, 11,500,000 shares issued and outstanding (actual and as adjusted for this offering and both offerings)			
	115	115	115
Series C Preference Ordinary Shares; \$0.01 par value per share, no shares issued and outstanding (actual and as adjusted for this offering and both offerings)			
	□	□	□

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Class A Ordinary Shares; \$0.01 par value per share,
140,525,466

shares issued and outstanding (actual); 174,371,466
shares

issued and outstanding (as adjusted for this offering
and

both offerings) (6)

Additional paid in capital

Accumulated other comprehensive income

Deferred compensation

Retained earnings

Total shareholders' equity

Total capitalization

	1,405	1,744	1,744
	4,067,479	6,200,881	6,142,892(7)
	358,673	358,673	358,673
	(104,385)	(104,385)	(104,385)
	2,715,921	2,715,921	2,715,921(8)
	<u>7,039,300</u>	<u>9,173,041</u>	<u>9,115,052(8)</u>
	<u>\$ 9,761,462</u>	<u>\$ 11,895,203</u>	<u>\$ 12,582,214(8)</u>

-
- (1) In June of 2004, we entered into a three-year \$2.0 billion credit and letter of credit facility that expires on June 22, 2007 and provides letter of credit capacity of up to \$2.0 billion and revolving credit of up to \$1.0 billion. In June of 2005, we replaced our 364-day revolver that expired on June 22, 2005 with a new five-year \$2.35 billion credit

and letter of credit facility that expires on June 22, 2010 and provides letter of credit capacity of up to \$2.25 billion and revolving credit of up to \$1.0 billion. The revolving credit sublimits of the five-year and three-year facilities are shared such that we can have no more than \$1.0 billion in aggregate in revolving credit outstanding under the five-year and three-year facilities. In addition, the five-year facility includes a revolving-credit-only sub-limit of \$100.0 million, which means that no more than \$2.25 billion of the total five-year facility of \$2.35 billion is available in the form of letters of credit. On August 3, 2005, we entered into a \$100.0 million five-year bilateral revolving credit facility that expires on August 3, 2010.

- (2) Does not include letters of credit outstanding as of September 30, 2005 in the amount of approximately \$2.7 billion. The three-year credit and letter of credit facility and five-year bilateral revolving credit facility were unutilized as of September 30, 2005, and approximately \$1.8 billion of the five-year credit and letter of credit facility was utilized to provide letters of credit as of September 30, 2005.
- (3) On November 15, 2005, all outstanding 7.15% Senior Notes due 2005 (the "2005 Notes") became due and payable and we irrevocably deposited with the trustee under the indenture governing the 2005 Notes funds sufficient to pay at maturity all outstanding 2005 Notes, including interest thereon.
- (4) The 2.53% Senior Notes due 2009 (the "2009 Notes") are a component of our 6.50% Equity Security Units (the "2007 Units") issued in March 2004. In addition to the coupon on the 2009 Notes of 2.53%, contract adjustment payments of 3.97% per annum are paid on forward purchase contracts for our ordinary shares contained in the 2007 Units for a total distribution per annum on the 2007 Units of 6.50%. The forward purchase contracts contained in the 2007 Units will be settled on May 15, 2007 and the 2009 Notes will mature on May 15, 2009.
- (5) The 5.25% Senior Notes due 2011 (the "2011 Notes") are a component of our 7.00% Equity Security Units (the "2009 Units") being offered concurrently with this offering. In addition to the coupon on the 2011 Notes of 5.25%, contract adjustment payments of 1.75% per annum will be paid on forward purchase contracts for our ordinary shares contained in the 2009 Units for a total distribution per annum on the 2009 Units of 7.00%. The forward purchase contracts contained in the 2009 Units will be settled on February 15, 2009 and the 2011 Notes will mature on February 15, 2011.
- (6) No adjustment is made for ordinary shares issuable upon settlement of the Purchase Contracts that are components of the equity units offered in the concurrent offering.
- (7) Includes an adjustment of \$36.9 million, which represents the present value of the contract adjustment payments payable in connection with the forward purchase contracts contained in the 2009 Units.
- (8) As adjusted for both offerings, Retained Earnings, Total Shareholders' Equity and Total Capitalization as of September 30, 2005 further adjusted for the estimated after tax imports of Hurricane Wilma and the expected loss of approximately \$830 million related to the determination by the independent actuary in connection with our post-closing reserve seasoning process with Winterthur Swiss Insurance Company would be \$1.68 billion, \$8.08 billion, and \$11.54 billion, respectively.

SELECTED CONSOLIDATED FINANCIAL DATA

Our selected consolidated financial, operating and supplemental data presented below as at and for the years ended December 31, 2004, 2003, 2002, 2001 and 2000 are derived from our audited consolidated financial statements, after giving effect to Note 7 below, which have been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm. Our audited consolidated balance sheets as at December 31, 2004 and 2003 and our audited consolidated statements of income and comprehensive income, consolidated statements of shareholders' equity and consolidated statements of cash flows for the years ended December 31, 2004, 2003 and 2002 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, 2005 and September 30, 2004 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, 2005, which is incorporated by reference in this prospectus supplement and the accompanying prospectus and reflect all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of our financial position and results of operations as at the end of and for the periods presented. The results of operations for the first nine months of 2005 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, 2004 and our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005 and the information set forth in our Current Reports on Form 8-K filed on October 5, October 26, November 28, December 1 and December 6, 2005, 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,			
	2005(1)	2004(1)(7)	2004(1)(7)	2003(1)(7)	2002(1)(7)	2001(1)(7)
(U.S. dollars in thousands, except share and per share amounts and ratios)						
Income Statement						
Data:						
Net premiums earned						
general operations	\$ 5,149,159	\$ 5,282,209	\$ 6,987,940	\$ 6,089,578	\$ 4,896,648	\$ 2,706,541
Net premiums earned						
financial operations	160,448	175,101	228,898	195,344	162,357	73,386
Life premiums earned						
life and annuity operations	2,102,650	1,171,849	1,365,176	708,994	990,736	695,595
Net investment income	1,042,298	747,538	1,035,012	815,487	758,358	624,914
Net realized gains (losses) on investments	203,949	181,115	246,547	120,195	(214,160)	(93,237)
Net realized and unrealized						

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gains (losses)							
on derivative							
instruments	15,219	34,814	73,493	6,073	(41,546)	13,041	
Net income from							
investment							
affiliates							
(2)(7)	116,473	76,680	124,008	119,199	54,143	75,590	
Fee income and							
other	15,733	25,870	35,317	41,745	54,963	18,247	
Net losses and							
loss expenses							
□general							
operations	4,940,061	3,615,957	4,796,855	4,595,992	3,358,955	2,885,339	
Net losses and							
loss expenses							
□financial							
operations	55,676	98,079	114,633	100,435	69,477	33,559	
Claims and							
policy benefits□							
life and							
annuity							
operations	2,289,248	1,253,411	1,480,535	791,454	1,031,704	698,675	
Acquisition							
costs, operating							
expenses and							
exchange gains							
and losses	1,665,209	1,707,909	2,277,321	1,926,393	1,549,440	1,073,903	
Interest expense	275,800	192,418	292,234	233,929	190,442	125,298	
Amortization of							
intangible							
assets	8,504	9,770	15,827	4,637	6,187	58,569	
(Loss) income							
before minority							
interest in net							
income of							
subsidiary,							
income tax							
benefits and							
charges							
and net							
income from							
operating							
affiliates	(428,569)	817,632	1,118,986	443,775	459,032	(756,276)	
Preference share							
dividends	30,240	30,240	40,321	40,321	9,620		
Net (loss)							
income available							
to							
ordinary							
shareholders	\$ (470,361)	\$ 838,244	\$ 1,126,292	\$ 371,658	\$ 395,951	\$ (576,135)	

	(Unaudited) Nine Month Period Ended September 30,				Year End
	2005(1)	2004(1)(7)	2004(1)(7)	2003(1)(7)	
(U.S. dollars in thousands, except share and per share amounts)					
Per Share Data:					
Net (loss) income per					
ordinary share - basic (3)	\$ (3.39)	\$ 6.08	\$ 8.17	\$ 2.71	\$
Net (loss) income per					
ordinary share - diluted (3)	\$ (3.39)	\$ 6.05	\$ 8.13	\$ 2.69	\$
Weighted average ordinary					
shares outstanding - diluted (3)	138,823	138,511	138,582	138,187	
Cash dividends per ordinary					
share	\$ 1.50	\$ 1.47	\$ 1.96	\$ 1.92	\$
Balance Sheet Data:					
Total investments available for sale	\$ 32,429,517	\$ 25,707,023	\$ 27,823,828	\$ 20,775,256	\$
Cash and cash equivalents	2,150,609	2,560,765	2,304,303	2,829,627	
Investments in affiliates	2,078,582	1,987,544	1,936,852	1,903,341	
Unpaid losses and loss expenses					
recoverable	7,604,187	6,343,969	6,971,356	6,045,025	
Premiums receivable	4,015,995	4,141,499	3,838,228	3,487,322	
Total assets	54,860,110	47,389,300	49,245,469	41,455,745	
Unpaid losses and loss expenses	22,664,845	18,457,134	19,837,669	16,763,124	
Unearned premiums	5,869,857	5,644,257	5,191,368	4,729,989	
Notes payable and debt	2,722,162	2,730,990	2,721,431	1,905,483	
Shareholders' equity	7,039,300	7,371,719	7,738,695	6,936,915	
Operating Ratios:					
Loss and loss expense ratio (4)	95.9%	68.5%	68.6%	75.5%	
Underwriting expense ratio (5)	26.3%	27.4%	27.3%	27.3%	
Combined ratio (6)	122.2%	95.9%	95.9%	102.7%	

- (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 has been accounted for as a subsidiary with effect from January 1, 2002. In the years ended December 31, 2001 and 2000, our share of net income of Le Mans Ré (now known as XL Re Europe) was included in equity in net income of operating affiliates. Our net income for the years ended December 31, 2003, 2002 and 2001 was impacted by the September 11 event. 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, 2004 for further discussion and analysis.
- (2) Net income from investment affiliates in 2003 includes income on the alternative investment portfolio for eleven months ended November 30, 2003 as compared to the twelve months ended December 31 in prior years and the twelve months ended November 30 in subsequent years. The fair market values of certain of these alternative investments often take longer to obtain as compared to the other of our investments and we record the investment affiliates on a one month lag in order for us to meet the accelerated filing deadlines as specified by the SEC.

- (3) Net income per ordinary share is based on the basic and diluted weighted average number of Class A ordinary shares and share equivalents outstanding for each period. Net loss per ordinary share is based on the basic weighted average number of ordinary shares outstanding.
- (4) The loss and loss expense ratio is calculated by dividing the losses and loss expenses incurred by the net premiums earned for general insurance and reinsurance operations.
- (5) 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 the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2004 for further information.
- (6) 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.
- (7) Certain reclassifications to prior period information have been made to conform to current year presentation.

CERTAIN TAX CONSEQUENCES

The following summary of the taxation of XL Capital and its Bermuda insurance subsidiaries (collectively, "XL") and the taxation of shareholders of XL Capital is based upon current law and is for general information only. Legislative, judicial or administrative changes may be forthcoming that could affect this summary.

The foregoing discussion (including and subject to the matters and qualifications set forth in such summary) of certain tax considerations (i) under "Taxation of XL Capital and XL Cayman Islands" and "Taxation of Shareholders Cayman Islands" is based upon the advice of Cayman Islands legal counsel, (ii) under "Taxation of XL Capital and XL Bermuda" is based upon the advice of Bermuda legal counsel and (iii) under "Taxation of XL Capital and XL United States" and "Taxation of Shareholders United States" is based upon the advice of Cahill Gordon & Reindel LLP, New York, New York (the advice of such firms does not include any factual or accounting matters, determinations or conclusions such as RPII amounts and computations and amounts of components thereof (for example, amounts or computations of income or expense items or reserves entering into RPII computations) or facts relating to XL Capital's business or activities). The summary is based upon current law and is for general information only.

The tax treatment of a holder of ordinary shares, or of a person treated as a holder of ordinary shares for U.S. federal income, state, local or non-U.S. tax purposes, may vary depending on the holder's particular tax situation. Legislative, judicial or administrative changes or interpretations may be forthcoming that could be retroactive and could affect the tax consequences to holders of ordinary shares. PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE FEDERAL, STATE, LOCAL AND NON-U.S. TAX CONSEQUENCES OF OWNING THE ORDINARY SHARES.

Taxation of XL Capital and XL

Cayman Islands

Under current Cayman Islands law, XL Capital is not obligated to pay any taxes in the Cayman Islands on its income or gains. XL Capital has received an undertaking from the Governor-in-Council of the Cayman Islands pursuant to the provisions of the Tax Concessions Law, as amended, that until June 2, 2018, (i) no subsequently enacted law imposing any tax on profits, income, gains or appreciation shall apply to XL Capital and (ii) no such tax and no tax in the nature of an estate duty or an inheritance tax shall be payable on any shares, debentures or other obligations of XL Capital. Under current law no tax will be payable on the transfer or other disposition of the ordinary shares of XL Capital. The Cayman Islands currently impose stamp duties on certain categories of documents; however, the current operations of XL Capital do not involve the payment of stamp duties in any material amount. The Cayman Islands currently impose an annual corporate fee upon all exempted companies incorporated in the Cayman Islands.

Bermuda

XL has received from the Ministry of Finance in Bermuda exemptions from any Bermuda taxes that might be imposed on profits, income or any capital asset, gain or appreciation, until March 28, 2016. The exemptions are subject to the proviso that they are not construed so as to prevent the application of any tax or duty to such persons as are ordinarily resident in Bermuda (XL Capital and XL are not so currently designated) and to prevent the application of any tax payable in accordance with the provisions of The Land Tax Act 1967 or otherwise payable in relation to the land leased to XL. XL Capital, as a permit company under The Companies Act 1981 of Bermuda, has received similar exemptions, which are effective until March 28, 2016. Both XL Capital and XL are required to pay certain annual Bermuda government fees and XL, additionally, is required to pay certain business fees as an insurer under The Insurance Act 1978 of Bermuda. Currently there is no Bermuda withholding tax on dividends paid by XL to XL Capital.

United States

XL Capital and XL intend to take the position that they are not engaged in a trade or business within the United States through a permanent establishment in the United States. However, because definitive identification of activities that constitute being engaged in a trade or business in the United States is not provided by the Internal Revenue Code

of 1986, as amended (the "Code"), or regulations or court decisions, there can be no assurance that the Internal Revenue Service ("IRS") will not contend successfully that XL Capital or XL is or will be engaged in a trade or business in the United States. A foreign corporation deemed to be so engaged would be subject to U.S. income tax, as well as the branch profits tax, on its income that is treated as effectively connected with the conduct of that trade or business unless the corporation is entitled to relief under the permanent establishment provision of a tax treaty, as discussed below. Such income tax, if imposed, would be based on effectively connected income computed in a manner generally analogous to that applied to the income of a domestic corporation. Under regulations, the foreign corporation would be entitled to deductions and credits only if the return is filed timely under rules set forth therein. Penalties may be assessed for failure to file tax returns. The 30% branch profits tax is imposed on net income after subtracting the regular corporate income taxes and making certain other adjustments.

Under the income tax treaty between Bermuda and the United States (the "Treaty"), XL is subject to U.S. income tax on any income found to be effectively connected with a U.S. trade or business only if that trade or business is conducted through a permanent establishment in the United States. No regulations interpreting the Treaty have been issued. While there can be no assurances, XL Capital does not believe XL has a permanent establishment in the United States. XL would not be entitled to the benefits of the Treaty if (i) 50% or less of XL's stock were beneficially owned, directly or indirectly, by Bermuda residents or U.S. citizens or residents, or (ii) XL's income were used in substantial part to make disproportionate distributions to, or to meet certain liabilities to, persons who are not Bermuda residents or U.S. citizens or residents. While there can be no assurances, XL Capital believes that XL will be eligible for Treaty benefits after the sale of ordinary shares offered hereby.

Foreign insurance companies carrying on an insurance business within the United States have a certain minimum amount of effectively connected net investment income, determined in accordance with a formula that depends, in part, on the amount of U.S. risk insured or reinsured by such companies. If XL Capital is considered to be engaged in the conduct of an insurance business in the United States and it is not entitled to the benefits of the Treaty in general (because it fails to satisfy one of the limitations on treaty benefits discussed above), the Code could subject a significant portion of XL Capital's investment income to U.S. income tax.

Foreign corporations not engaged in a trade or business in the United States are nonetheless subject to U.S. income tax on certain "fixed or determinable annual or periodic gains, profits and income" derived from sources within the United States as enumerated in section 881(a) of the Code (such as dividends and certain interest on investments). Such tax generally is imposed by withholding at a 30% rate. The Treaty does not provide for a reduction in such withholding tax rate.

The United States also imposes an excise tax on insurance and reinsurance premiums paid to foreign insurers or reinsurers with respect to risks located in the United States. The rates of tax applicable to premiums paid to XL are 4% for casualty insurance premiums and 1% for reinsurance premiums. Although payment of the tax generally is the responsibility of the person that pays the premium to the foreign insurer or reinsurer, in the event that the tax is not paid by the purchaser of the insurance or reinsurance, the foreign insurer or reinsurer generally is liable for the tax. In addition, the IRS has taken the position that when a foreign insurer or reinsurer cedes United States risks to a foreign insurer that is not eligible for the excise tax exemption under an applicable treaty, an additional excise tax may be imposed.

Taxation of Shareholders

Cayman Islands

Payments by XL Capital to holders of ordinary shares are not subject to Cayman Islands withholding tax.

United States

The following is a discussion of the material U.S. federal income tax consequences of the purchase, ownership and disposition of the ordinary shares. Except where otherwise indicated, this discussion only applies to U.S. holders (as defined below) who purchase ordinary shares in the initial offering and hold the ordinary shares as capital assets (generally, assets held for investment). This discussion is based upon the Code, Treasury regulations (including pro-

posed Treasury regulations) issued thereunder, IRS rulings and pronouncements and judicial decisions now in effect, all of which are subject to change, possibly with retroactive effect.

This discussion does not address all aspects of U.S. federal income taxation that may be relevant to U.S. holders in light of their particular circumstances, such as U.S. holders who are subject to special tax treatment (for example, (1) financial institutions, regulated investment companies, real estate investment trusts, insurance companies, dealers in securities or currencies, tax-exempt organizations, partnerships or other pass-through entities or traders in securities who elect to mark to market their securities, (2) persons holding the ordinary shares as part of a straddle, hedge, conversion transaction or other integrated investment, (3) persons whose functional currency is not the U.S. dollar, or (4) persons owning (directly, indirectly or constructively) 10% or more of the total combined voting power or total value of the stock of XL Capital. In addition, this discussion does not address alternative minimum taxes or any state, local or foreign tax laws. We do not address any of the tax consequences to a holder that is a non-U.S. holder (as defined below).

If a partnership holds the ordinary shares, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding ordinary shares, you should consult your tax advisor.

For purposes of this discussion, "U.S. holder" means a holder who is, for U.S. federal income tax purposes, (1) an individual citizen or resident of the United States, (2) a domestic corporation, (3) an estate whose income is subject to U.S. federal income tax regardless of its source, or (4) a trust if a United States court is able to exercise primary supervision over the trust's administration and one or more United States persons are authorized to control all substantial decisions of the trust, or the trust has a valid election in effect to be treated as a United States person. A "non-U.S. holder" means a holder that is not a U.S. holder. **Prospective investors that are non-U.S. holders are urged to consult their own tax advisors with respect to the U.S. federal income tax consequences of an investment in ordinary shares.**

Taxation of U.S. Holders of Ordinary Shares

Dividends. Subject to the discussions below relating to the potential application of the controlled foreign corporation, related person insurance income and passive foreign investment company rules, distributions made with respect to the ordinary shares will constitute dividends for U.S. federal income tax purposes to the extent paid out of XL Capital's current or accumulated earnings and profits (as computed using U.S. federal income tax principles). Dividends paid by XL Capital to U.S. corporate shareholders will not be eligible for the dividends received deduction provided by section 243 of the Code. Unless we are a passive foreign investment company, if you are an individual or other noncorporate shareholder, dividends, if any, paid to you in taxable years beginning before January 1, 2009, that constitute qualified dividend income generally will be taxable at a maximum rate of 15%, provided you meet certain holding period requirements. Dividends paid, if any, with respect to the ordinary shares generally will be qualified dividend income, provided the ordinary shares are readily tradable on an established securities market in the United States in the year in which you receive the dividend and certain other conditions are satisfied. United States Treasury Department guidance indicates that our ordinary shares, which are listed on the New York Stock Exchange, are readily tradable on an established securities market in the United States. There can be no assurance that our ordinary shares will be considered readily tradable on an established securities market in any future year. Individuals that do not meet a minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as "investment income" pursuant to section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to dividends if the recipient of a dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. Dividends paid, if any, in taxable years beginning on or after January 1, 2009, will be taxed at then applicable ordinary income rates. The amount of any distribution in excess of our current and accumulated earnings and profits will first be applied to reduce your tax basis in the ordinary shares, and any amount in excess of tax basis will be treated as gain from the sale or exchange of your ordinary shares.

Ownership and Dispositions of Ordinary Shares

General. Subject to the discussions below relating to the potential application of the controlled foreign corporation, related person insurance income and passive foreign investment company rules, U.S. holders of ordinary shares generally will recognize U.S. source capital gain or loss for U.S. federal income tax purposes on the sale, exchange or other disposition of ordinary shares in the same manner as on the sale, exchange or other disposition of any other shares held as capital assets.

Classification as a Controlled Foreign Corporation. Under section 951(a) of the Code, each "United States shareholder" of a foreign corporation that is a "controlled foreign corporation" ("CFC") for an uninterrupted period of 30 days or more during the tax year who owns shares in the CFC, directly or indirectly through foreign entities, on the last day of the CFC's taxable year, must include in its gross income for United States federal income tax purposes its pro rata share of the CFC's "subpart F income" (which includes foreign insurance income and certain types of passive income), even if the subpart F income is not distributed. A foreign corporation's status as a CFC has no adverse U.S. federal income tax consequences for a U.S. holder that is not a "United States shareholder." Under Code section 951(b), any U.S. corporation, citizen, resident or other U.S. person who owns, directly or indirectly through foreign entities, or is considered to own (by application of the rules of constructive ownership set forth in Code section 958(b), generally applying to family members, partnerships, estates, trusts or controlled corporations) 10% or more of the total combined voting power of all classes of stock of the foreign corporation will be considered to be a "United States shareholder". In general, a foreign corporation is treated as a CFC only if such "United States shareholders" collectively own (directly, indirectly or constructively) more than 50% (more than 25% for certain insurance companies) of the total combined voting power or total value of the corporation's stock. We believe that because of the wide dispersion of our share ownership and the restrictions incorporated in our Articles of Association, we are not a CFC under the foregoing general rules.

Related Person Insurance Income. Different definitions of "United States shareholder" and "controlled foreign corporation" are applicable in the case of a foreign corporation which earns related person insurance income ("RPII"). RPII is defined as any "insurance income" (as defined in the Code) attributable to policies of insurance or reinsurance with respect to which the person (directly or indirectly) insured or reinsured is a "United States shareholder" or a "related person" to such a shareholder.

RPII Exceptions. The special RPII rules do not apply if (A) direct and indirect insureds and persons related to such insureds, whether or not U.S. persons, are treated as owning directly or indirectly less than 20% of the voting power and less than 20% of the value of the stock of a non-U.S. insurance company, (B) the RPII of a non-U.S. insurance company, determined on a gross basis, is less than 20% of such company's gross insurance income for the taxable year, (C) the non-U.S. insurance company elects to be taxed on its RPII as if the RPII were effectively connected with the conduct of a United States trade or business, or (D) the non-U.S. insurance company elects to be treated as a United States corporation. Where none of these exceptions applies, each United States person owning directly or indirectly stock of any of our non-U.S. insurance subsidiaries on the last day of our taxable year will be required to include in its gross income for United States federal income tax purposes its share of the RPII for the entire taxable year, determined as if all such RPII were distributed proportionately only to such United States shareholders at that date, but limited by such subsidiary's current-year earnings and profits and by the U.S. shareholder's share, if any, of prior-year deficits in earnings and profits. We believe that currently the direct or indirect insureds (and persons related to such insureds) of our non-U.S. insurance subsidiaries do not, and in the future will not, directly or indirectly own 20% or more of either the voting power or value of our stock or that of any of our non-U.S. insurance subsidiaries and we believe that currently the gross RPII of each of our non-U.S. insurance subsidiaries does not, and in the future will not, equal or exceed 20% of such subsidiary's gross insurance income in any taxable year for the foreseeable future. Consequently, XL Capital does not expect any U.S. holder owning ordinary shares to be required to include in gross income for U.S. federal income purposes RPII income. However, as discussed below, there is limited guidance regarding the RPII provisions and the related Treasury regulations are in proposed form. Accordingly, there is uncertainty with respect to the meaning and application of the RPII provisions and there is a possibility that future guidance could have retroactive effect.

General. Gross and net RPII and gross insurance income have been computed by us on an unconsolidated basis, without reference to the income of our investment subsidiaries. We believe, based on the advice of counsel, that the exclusion of the investment subsidiaries' income is consistent with both existing and proposed Treasury regulations under section 953 of the Code. However, there can be no assurance that the IRS may not, by rule, regulation, interpretation or otherwise, require a portion or all of the income of such subsidiaries to be treated as includable in our insurance income or that a court might not uphold such action by the IRS.

Generally, the term "related person" for RPII purposes means someone who controls or is controlled by the U.S. shareholder or someone who is controlled by the same person or persons which control the U.S. shareholder. Control is measured by either more than 50% in value or more than 50% in voting power of stock applying constructive ownership principles similar to the rules of section 958 of the Code. For purposes of inclusion of RPII in the income of United States shareholders, unless an exception applies, the term "United States shareholder" includes all U.S. persons who own, directly or indirectly, any amount (rather than 10% or more) of our stock or the stock of any of our non-U.S. insurance subsidiaries. Each non-U.S. insurance subsidiary will be treated as a CFC for RPII purposes if such persons are treated as owning (directly, indirectly or constructively) 25% by vote or by value or more of the stock of such non-U.S. insurance subsidiary on any day during a taxable year.

In determining "United States shareholders," for purposes of including RPII, stock held indirectly by U.S. persons is treated as held by United States shareholders, but the constructive ownership rules of section 958(b) of the Code do not apply. Accordingly, U.S. persons holding options to subscribe for unissued shares in us are not treated as "United States shareholders."

Computation of RPII. In order to determine how much RPII we or any of our non-U.S. insurance subsidiaries has earned in each taxable year, we may obtain and rely upon information from insureds to determine whether any of the insureds or persons related to such insureds own shares in us (directly or indirectly) and are U.S. persons. For any year in which we believe neither of the exceptions described in (A) or (B) above is met, we may also seek information from our shareholders as to whether direct or indirect owners of ordinary shares at the end of the year are U.S. persons so that the RPII may be determined and apportioned among such persons; to the extent we are unable to determine whether a direct or indirect owner of shares is a U.S. person we may assume that such owner is not a U.S. person, thereby increasing the per share RPII amount for all U.S. shareholders.

If, as believed, RPII is less than 20% of our gross insurance income and the gross income of each of our non-U.S. insurance subsidiaries, U.S. shareholders will not be required to include RPII in their taxable income. The amount of RPII includable in the income of a U.S. shareholder is based upon the net RPII income for the year after deducting related expenses such as losses, loss reserves and operating expenses.

Apportionment of RPII to U.S. Shareholders. Every U.S. person who owns, directly or indirectly, ordinary shares on the last day of our taxable year in which we or any of our non-U.S. insurance subsidiaries does not meet any of the RPII exceptions described above should expect that for such year it will be required to include in gross income its share of our or such subsidiary's RPII for the entire year, whether or not distributed even though such U.S. holder may not have owned the shares for the entire year. A U.S. person who owns, directly or indirectly, ordinary shares during such taxable year but not on the last day of the taxable year is not required to include in gross income any part of our or such subsidiary's RPII.

Basis Adjustments. A U.S. shareholder's tax basis in its ordinary shares will be increased by the amount of any RPII that the shareholder includes in income. The shareholder may exclude from income the amount of any distributions by us to the extent of the RPII included in income for the year in which the distribution was paid or for any prior year. The U.S. shareholder's tax basis in its ordinary shares will be reduced by the amount of such distributions that are excluded from income.

Dispositions of Ordinary Shares. Code section 1248 provides that if a U.S. person sells or exchanges shares in a foreign corporation and such person owned (directly, indirectly or constructively) 10% or more of the voting power of the corporation at any time during the five-year period ending on the date of disposition when the corporation was a CFC, any gain from the sale or exchange of the shares may be treated as dividend income to the extent of

the CFC's earnings and profits during the period that the shareholder held the shares and while the corporation was a CFC (with certain adjustments). A 10% U.S. shareholder may in certain circumstances be required to report a disposition of shares of a CFC by attaching IRS Form 5471 to the U.S. income tax or information return that it would normally file for the taxable year in which the disposition occurs. Code section 953(c)(7) generally provides that section 1248 also will apply to the sale or exchange of shares in a foreign corporation that earns RPII if the foreign corporation would be taxed as an insurance company if it were a domestic corporation, regardless of whether the shareholder is a 10% shareholder, whether RPII constitutes 20% or more of the corporation's gross insurance income or whether direct and indirect insureds and the persons related to such insureds are treated as owning directly or indirectly 20% or more of the voting power or value of the corporation's stock. Existing Treasury Department regulations do not address whether Code section 1248 and the requirement to file Form 5471 would apply when the foreign corporation (such as us) is not a CFC but the foreign corporation has a subsidiary that is a CFC or that would be taxed as an insurance company if it were a domestic corporation.

We believe, based on the advice of counsel, that Code section 1248 and the requirement to file Form 5471 will not apply to dispositions of ordinary shares because we do not have any 10% shareholders and we are not directly engaged in the insurance business, and that the proposed regulations issued by the U.S. Treasury Department should be interpreted in this manner. There can be no assurance, however, that the IRS will interpret the proposed regulations in this manner or that the Treasury Department will not amend the proposed regulations to provide that Code section 1248 and the requirement to file Form 5471 will apply to dispositions of ordinary shares.

If the IRS or Treasury Department were to take such action, we intend to notify shareholders that Code section 1248 and the requirement to file Form 5471 will apply to dispositions of ordinary shares. Thereafter, we intend to send a notice after the end of each calendar year to all persons who were shareholders during the year notifying them that Code section 1248 and the requirement to file Form 5471 apply to dispositions of ordinary shares. We intend to attach to this notice a copy of Form 5471 completed with all company information and instructions for completing the shareholder information.

Uncertainty as to Application of RPII. The RPII provisions of the Code have never been interpreted by the courts or the U.S. Treasury Department. Regulations interpreting the RPII provisions of the Code exist only in proposed form. It is not certain whether these regulations will be adopted in their proposed form or what changes or clarifications might ultimately be made thereto or whether any such changes, as well as any interpretation or application of RPII by the IRS, the courts or otherwise, might have retroactive effect. The description of RPII herein is therefore qualified. Accordingly, the meaning of the RPII provisions and the application thereof to us and our subsidiaries is uncertain. These provisions include the grant of authority to the U.S. Treasury Department to prescribe "such regulations as may be necessary to carry out the purposes of this subsection including . . . regulations preventing the avoidance of this subsection through cross insurance arrangements or otherwise." In addition, there can be no assurance that the amounts of the RPII inclusions will not be subject to adjustment based upon subsequent IRS examination. Each U.S. person who is considering an investment in ordinary shares should consult his tax advisor as to the effects of these uncertainties.

Passive Foreign Investment Companies. Sections 1291 through 1298 of the Code contain special rules applicable with respect to foreign corporations that are "passive foreign investment companies" ("PFICs"). In general, a foreign corporation will be a PFIC if 75% or more of its income constitutes "passive income" or 50% or more of its assets produce passive income. If we were to be characterized as a PFIC, United States shareholders would be taxable at ordinary income tax rates and subject to a penalty tax at the time of their sale or other disposition at a gain of (or receipt of an "excess distribution" with respect to) its shares. In general, a shareholder receives an "excess distribution" if the amount of the distribution is more than 125% of the average distribution with respect to the stock during the three preceding taxable years (or shorter period during which the taxpayer held the stock). In general, the penalty tax is equivalent to an interest charge on taxes that are deemed due during the period the United States shareholder owned the shares, computed by assuming that the excess distribution or gain (in the case of a sale) with respect to the shares was taxed in equal portions throughout the holder's period of ownership. The interest charge is equal to the applicable rate imposed on underpayments of U.S. federal income tax for such period. In addition, a dividend paid by a PFIC is not eligible for the reduced rate of tax on qualified dividend income.

The PFIC statutory provisions contain an express exception for income derived in the active conduct of an insurance business by a corporation which is predominantly engaged in an insurance business This exception is intended to ensure that income derived by a bona fide insurance company is not treated as passive income, except to the extent such income is attributable to financial reserves in excess of the reasonable needs of the insurance business. We believe, based on the advice of counsel, that we and our wholly-owned direct and indirect subsidiaries, taken as a whole, are predominantly engaged in an insurance business and do not have financial reserves in excess of the reasonable needs of our insurance business. The PFIC statutory provisions (unlike the RPII provisions of the Code) contain a look-through rule that states that, for purposes of determining whether a foreign corporation is a PFIC, such foreign corporation shall be treated as if it received directly its proportionate share of the income and as if it held its proportionate share of the assets of any other corporation in which it owns at least 25% of the stock. While no explicit guidance is provided by the statutory language, we believe that under the look-through rule we would be deemed to own the assets and to have received the income of our insurance and investment subsidiaries directly for purposes of determining whether we qualify for the aforementioned insurance exception. We believe, based upon the advice of counsel, that our interpretation of the PFIC rules, including the look-through rule is consistent with the legislative intention generally to exclude bona fide insurance companies from the application of PFIC provisions; there can, of course, be no assurance as to what positions the IRS or a court might take in the future. Although each of our investment subsidiaries meets the definition of a PFIC, if we are not a PFIC, the PFIC statutory provisions state that a shareholder of ours will not be treated as a shareholder of such investment subsidiaries for PFIC tax purposes as long as the shareholder does not own 50% or more of the value of our shares.

However, no regulations interpreting the substantive PFIC provisions have yet been issued. Therefore, substantial uncertainty exists with respect to their application or their possible retroactivity. Each U.S. person who is considering an investment in ordinary shares should consult his tax advisor as to the effects of these rules and as to the availability of any elections that may ameliorate the effects of the PFIC provisions.

Foreign Tax Credit. In the event, as expected, that U.S. holders own at least 50% of our shares, only a portion of the dividends paid by us and current income inclusions, if any, under the CFC, RPII and PFIC rules (including sales of ordinary shares treated as a dividend under Code section 1248) will be treated as foreign source income for purposes of computing a shareholder's U.S. foreign tax credit limitation. It is likely that substantially all of any such income that is foreign source income will constitute either passive or financial services income for foreign credit limitation purposes (and for taxable years beginning after December 31, 2006 will constitute either passive or general income). The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific classes of income. Thus, it may not be possible for most U.S. holders to utilize excess foreign tax credits to reduce U.S. tax on such income unless such credits can be applied against tax due on other foreign source income in the appropriate class.

Backup Withholding Tax and Information Reporting

Unless a U.S. holder is an exempt recipient, such as a corporation, payments on ordinary shares and the proceeds received from the sale of ordinary shares may be subject to information reporting and may also be subject to U.S. federal backup withholding tax if such U.S. holder fails to supply an accurate taxpayer identification number or otherwise fails to comply with applicable U.S. information reporting or certification requirements. Any amounts so withheld generally will be allowed as a credit against the U.S. holder's U.S. federal income tax liability (and may entitle such holder to a refund), provided that the required information is timely furnished to the IRS.

UNDERWRITING

We and the underwriters named below have entered into an underwriting agreement with respect to the ordinary shares being offered. Subject to certain conditions, each underwriter has severally agreed to purchase the number of ordinary shares indicated in the following table. Goldman, Sachs & Co. and Citigroup Global Markets Inc. are the representatives of the underwriters.

<u>Underwriters</u>	<u>Number of Ordinary Shares</u>
Goldman, Sachs & Co	10,153,800
Citigroup Global Markets Inc	6,769,200
J.P. Morgan Securities Inc	2,115,376
Lehman Brothers Inc	2,115,376
Merrill Lynch, Pierce, Fenner & Smith Incorporated	2,115,376
Wachovia Capital Markets, LLC	2,115,376
ABN AMRO Rothschild LLC	609,228
Banc of America Securities LLC	609,228
Barclays Capital Inc	609,228
Calyon Securities (USA) Inc	609,228
Deutsche Bank Securities Inc	609,228
HSBC Securities (USA) Inc	609,228
ING Financial Markets LLC	609,228
KeyBanc Capital Markets, a Division of McDonald Investments Inc	609,228
Lazard Capital Markets LLC	609,228
UBS Securities LLC	609,228
Bear, Stearns & Co. Inc	296,152
BNP Paribas Securities Corp	296,152
BNY Capital Markets, Inc	296,152
Comerica Securities, Inc	296,152
Dowling & Partners Securities, LLC	296,152
Mizuho International plc	296,152
PNC Capital Markets LLC	296,152
Scotia Capital (USA) Inc	296,152
Total	<u>33,846,000</u>

The underwriters are committed to take and pay for all of the ordinary shares being offered, if any are taken, other than the ordinary shares covered by the option described below unless and until this option is exercised.

If the underwriters sell more ordinary shares than the total number set forth in the table above, the underwriters have an option to buy up to an additional 5,076,900 ordinary shares from us to cover such sales. They may exercise that option for 30 days. If any ordinary shares are purchased pursuant to this option, the underwriters will severally purchase ordinary shares in approximately the same proportion as set forth in the table above.

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The following table shows the per ordinary share and total underwriting discounts and commissions to be paid to the underwriters by us. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase 5,076,900 additional ordinary shares.

<u>Paid by XL Capital Ltd</u>	<u>No Exercise</u>	<u>Full Exercise</u>
Per Ordinary Share.	\$ 1.95	\$ 1.95
Total	\$65,999,700	\$75,899,655

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Ordinary shares sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus supplement. Any ordinary shares sold by the underwriters to securities dealers may be sold at a discount of up to \$1.17 per ordinary share from the initial public offering price. Any such securities dealers may resell any ordinary shares purchased from the underwriters to certain other brokers or dealers at a discount of up to \$0.10 per ordinary share from the initial public offering price. If all the ordinary shares are not sold at the initial public offering price, the representatives may change the offering price and the other selling terms.

We, our Chairman of the Board and our Chief Executive Officer have agreed with the underwriters, subject to certain exceptions, not to dispose of or hedge any ordinary shares or securities convertible into or exchangeable for ordinary shares other than, (i) with respect to us, sales of our ordinary shares pursuant to (a) existing employee benefit plans or (b) the dividend reinvestment and stock purchase plan that we expect to establish and (ii) with respect to our Chairman of the Board and Chief Executive Officer, transfers of our ordinary shares (a) pursuant to Rule 10b5-1 programs, if any, for such person existing on the date of this prospectus supplement, (b) at any time after the date on which such person ceases to be a director or officer of ours, or (c) in an amount not greater than 10% of the number of shares owned by such person on the date of this prospectus supplement, in each case, without the prior written consent of the representatives, during the period from the date of this prospectus supplement and continuing through the date that is 60 days after the date of this prospectus supplement. The representatives, in their sole discretion, may release any of the securities subject to these lock-up agreements at any time without notice.

At our request, the underwriters have reserved up to \$2.0 million in ordinary shares for sale at the initial price to public to persons who are directors and advisory council members (mostly executive officers) through a directed share program. The number of ordinary shares available for sale to the general public will be reduced by the number of directed shares purchased by participants in the program. Any directed shares not purchased will be offered by the underwriters to the general public on the same basis as all other ordinary shares offered. We have agreed to indemnify the underwriters against certain liabilities and expenses, including liabilities under the Securities Act, in connection with the sales of the directed shares.

In connection with the offering, the underwriters may purchase and sell ordinary shares in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of ordinary shares than they are required to purchase in the offering. Covered short sales are sales made in an amount not greater than the underwriters' option to purchase additional ordinary shares from us in the offering. The underwriters may close out any covered short position by either exercising their option to purchase additional ordinary shares or purchasing ordinary shares in the open market. In determining the source of ordinary shares to close out the covered short position, the underwriters will consider, among other things, the price of ordinary shares available for purchase in the open market as compared to the price at which they may purchase additional ordinary shares pursuant to the option granted to them. Naked short sales are any sales in excess of such option. The underwriters must close out any naked short position by purchasing ordinary shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of our ordinary shares in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of ordinary shares made by the underwriters in the open market prior to the completion of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased ordinary shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or retarding a decline in the market price of our ordinary shares, and together with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of our ordinary shares. As a result, the price of our ordinary shares may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time. These transactions may be effected on the New York Stock Exchange, in the over-the-counter market or otherwise.

Each of the underwriters has represented and agreed that:

- (a) it has not made or will not make an offer of the ordinary shares to the public in the United Kingdom within the meaning of section 102B of the Financial Services and Markets Act 2000 (as amended) (FSMA) except to legal entities that are authorised or regulated to operate in the financial markets or, if not so authorised or regu-

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lated, whose corporate purpose is solely to invest in securities or otherwise in circumstances that do not require the publication by XL Capital of a prospectus pursuant to the Prospectus Rules of the Financial Services Authority;

- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) to persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or in circumstances in which section 21 of FSMA does not apply to XL Capital; and
- (c) it has complied with, and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the ordinary shares in, from or otherwise involving the United Kingdom.

In relation to each Member State of the European Economic Area that has implemented the Prospectus Directive (each, a "Relevant Member State"), each underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of ordinary shares to the public in that Relevant Member State prior to the publication of a prospectus in relation to the ordinary shares that has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of the ordinary shares to the public in that Relevant Member State at any time:

- (a) to legal entities that are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity that has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than £43,000,000 and (3) an annual net turnover of more than £50,000,000, as shown in its last annual or consolidated accounts; or
- (c) in any other circumstances that do not require the publication by XL Capital of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of ordinary shares to the public" in relation to any ordinary shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the ordinary shares to be offered so as to enable an investor to decide to purchase or subscribe the ordinary shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

The ordinary shares may not be offered or sold by means of any document other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances that do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong, and no advertisement, invitation or document relating to the ordinary shares may be issued, whether in Hong Kong or elsewhere, that is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to ordinary shares that are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

This prospectus supplement has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus supplement and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the ordinary shares may not be circulated or distributed, and the ordinary shares may not be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other

applicable provision of the SFA.

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Where the ordinary shares are subscribed or purchased under Section 275 by a relevant person that is: (a) a corporation (that is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the ordinary shares under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

The ordinary shares have not been and will not be registered under the Securities and Exchange Law of Japan (the Securities and Exchange Law) and each underwriter has agreed that it will not offer or sell any ordinary shares, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

We estimate that the total expenses of the offering, excluding underwriting discounts and commissions, will be approximately \$1.5 million. The underwriters have agreed to reimburse us up to \$1.25 million.

We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

Lazard Capital Markets LLC has entered into an agreement with Mitsubishi UFJ Securities (USA), Inc. (MUS (USA)) pursuant to which MUS (USA) provides certain advisory and/or other services to Lazard Capital Markets LLC, including in respect of this offering. In return for this provision of such services by MUS (USA) to Lazard Capital Markets LLC, Lazard Capital Markets LLC will pay to MUS (USA) a mutually agreed upon fee.

Certain of the underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment or commercial banking services for us, for which they received or will receive customary fees and expenses.

Certain of the underwriters and/or their respective affiliates are agents and lenders under our revolving credit facilities and letter of credit facilities.

Certain of the underwriters are acting as underwriters in connection with the offering of our equity units.

LEGAL MATTERS

Certain U. S. legal matters with respect to the ordinary shares will be passed upon for us by Cahill Gordon & Reindel LLP, New York, New York. Certain matters with respect to the ordinary shares under the laws of the Cayman Islands will be passed upon for us by Appleby Spurling Hunter, Grand Cayman, Cayman Islands. Certain U.S. legal matters with respect to the ordinary shares will be passed upon for the underwriters by Simpson Thacher & Bartlett LLP, New York, New York. Simpson Thacher & Bartlett LLP has in the past performed, and continues to perform, certain legal services for us and our affiliates.

EXPERTS

The financial statements and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in this prospectus supplement and the accompanying prospectus by reference to the Annual Report on Form 10-K of XL Capital Ltd for the year ended December 31, 2004 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

INCORPORATION OF DOCUMENTS BY REFERENCE

The SEC allows us to "incorporate by reference" into this prospectus supplement the information we file with the SEC, which means that we can disclose important information to you by referring to another document filed separately with the SEC. The information that we file after the date of this prospectus supplement with the SEC will automatically be deemed to be incorporated by reference and will update and supersede this information. We incorporate by reference into this prospectus supplement the documents listed below and under "Incorporation of Certain Information by Reference" in the accompanying prospectus, and any future filings made by us pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, prior to the termination of the ordinary shares offering described in this prospectus supplement.

- Annual Report on Form 10-K for the year ended December 31, 2004, filed on March 11, 2005;
- Proxy Statement dated March 24, 2005, filed on March 24, 2005;
- Quarterly Report on Form 10-Q for the period ended March 31, 2005, filed on May 6, 2005;
- Quarterly Report on Form 10-Q for the period ended June 30, 2005, filed on August 4, 2005;
- Quarterly Report on Form 10-Q for the period ended September 30, 2005, filed on November 9, 2005; and
- Current Reports on Form 8-K filed on January 21, February 10 (other than Item 2.02 and Exhibit 99.1 thereof), February 23, March 8, April 15, May 2, May 20, June 8, June 16, June 27, July 8, September 13, September 14, October 5, October 26, November 28, December 1 and December 6, 2005.

Any statement contained in a document incorporated or considered to be incorporated by reference in this prospectus supplement shall be considered to be modified or superseded for purposes of this prospectus supplement to the extent that a statement contained in this prospectus supplement or in any subsequently filed document that is or is considered to be incorporated by reference modifies or supersedes such statement. Any statement that is modified or superseded will not, except as so modified or superseded, constitute a part of this prospectus supplement. Nothing herein shall be deemed to incorporate information furnished to, but not filed with, the SEC. We will provide to each person, including any beneficial owner, to whom this prospectus supplement is delivered, at no cost upon his or her written or oral request, a copy of any of the documents that are incorporated by reference in this prospectus supplement or the accompanying prospectus, other than exhibits to such documents that are not specifically incorporated by reference into such documents, and XL Capital Ltd's constitutional documents. You may request such documents by contacting us at:

Investor Relations
XL House
One Bermudiana Road

Hamilton, Bermuda HM 11
Telephone: (441) 292-8515

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PROSPECTUS

XL Capital Ltd

Ordinary Shares
Preference Ordinary Shares
Debt Securities
Ordinary Share Warrants
Ordinary Share Purchase Contracts
Ordinary Share Purchase Units
Subordinated Deferrable Interest Debentures

XL Capital Finance (Europe) plc

Senior Debt Securities fully and unconditionally guaranteed by XL Capital Ltd

XL Capital Trust I XL Capital Trust II XL Capital Trust III

Trust Preferred Securities fully and unconditionally guaranteed to the extent provided in this Prospectus
by XL Capital Ltd

The following are types of securities that may be offered and sold from time to time under this prospectus:

XL Capital Ltd Ordinary Shares	XL Capital Finance (Europe) plc Senior Debt Securities
XL Capital Ltd Preference Ordinary Shares	Trust Preferred Securities
XL Capital Ltd Debt Securities	XL Capital Ltd Subordinated Deferrable Interest Debentures
XL Capital Ltd Ordinary Share Warrants	
XL Capital Ltd Ordinary Share Purchase Contracts	
XL Capital Ltd Ordinary Share Purchase Units	

XL Capital Ltd's Ordinary Shares are traded on the New York Stock Exchange under the symbol XL .

A prospectus supplement, which must accompany this prospectus, will describe the securities XL Capital Ltd, XL Capital Finance (Europe) plc and/or the trusts are offering and selling, as well as the specific terms of the securities. Those terms may include, among others, as applicable:

Maturity	Redemption terms
Interest rate	Conversion terms
Dividend rate	Listing on a securities exchange
Sinking fund terms	Amount payable at maturity
Ranking	

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. Any representation to the contrary is a criminal offense.

The securities may be offered in amounts, at prices and on terms determined at the time of offering. The securities may be sold directly to you, through agents that XL Capital Ltd, XL Capital Finance (Europe) plc and/or the applicable trust may elect, or through underwriters and dealers that XL Capital Ltd, XL Capital Finance (Europe) plc and/or the applicable trust may select, in each case on a continuous or delayed basis. If XL Capital Ltd, XL Capital Finance (Europe) plc and/or the applicable trust use agents, underwriters or dealers to sell the securities, XL Capital Ltd, XL Capital Finance (Europe) plc and/or the applicable trust, as applicable, will name them and describe their compensation in a prospectus

supplement.

December 1, 2005

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that XL Capital Ltd, XL Capital Finance (Europe) plc and the trusts filed with the Securities and Exchange Commission (the SEC) utilizing a shelf registration process, relating to:

- (1) XL Capital Ltd's ordinary shares, preference ordinary shares, debt securities (which may include medium term notes), ordinary share warrants, ordinary share purchase contracts, ordinary share purchase units, subordinated deferrable interest debentures, guarantees of XL Capital Finance (Europe) plc senior debt securities and guarantees of trust preferred securities;
- (2) XL Capital Finance (Europe) plc's senior debt securities; and
- (3) the trust preferred securities of XL Capital Trust I, XL Capital Trust II and XL Capital Trust III described in this prospectus.

Under this shelf process, XL Capital Ltd, XL Capital Finance (Europe) plc and the trusts may sell the securities described in this prospectus in one or more offerings in an unlimited dollar amount. This prospectus provides you with a general description of the securities that XL Capital Ltd, XL Capital Finance (Europe) plc and the trusts may offer. This prospectus does not contain all of the information set forth in the registration statement as permitted by the rules and regulations of the SEC. For additional information regarding XL Capital Ltd, XL Capital Finance (Europe) plc or the trusts and the offered securities, please refer to the registration statement. Each time XL Capital Ltd, XL Capital Finance (Europe) plc or a trust sells securities it will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also supplement or update information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with additional information described under the heading **Where You Can Find More Information**.

In this prospectus, and in the accompanying prospectus supplement, unless the context requires otherwise, we, us and our refer to XL Capital Ltd and its subsidiaries, XL Capital refers to XL Capital Ltd and not any of its subsidiaries, XL Finance refers to XL Capital Finance (Europe) plc and XL Capital trusts or the trusts refer, collectively, to XL Capital Trust I, XL Capital Trust II and XL Capital Trust III.

WHERE YOU CAN FIND MORE INFORMATION

XL Capital, the trusts and XL Finance have filed with the SEC under the Securities Act of 1933, as amended (the Securities Act), a combined registration statement on Form S-3 (herein, together with all amendments and exhibits, referred to as the registration statement) relating to the offered securities.

XL Capital

XL Capital is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), and in accordance therewith files annual, quarterly and current reports, proxy statements and other information with the SEC. The public may read and copy any materials that XL Capital files with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, such material can be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005. The SEC also maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers, including XL Capital, that file electronically with the SEC. The address of the SEC's Internet site is www.sec.gov.

XL Capital Finance (Europe) plc

XL Capital Finance (Europe) plc is not currently subject to the information reporting requirements of the Exchange Act. XL Capital Finance (Europe) plc is an indirect wholly-owned subsidiary of XL Capital and currently has no operations. XL Capital Finance (Europe) plc is not engaged in any activities other than those incidental to its formation, the issuance of a series of its senior debt securities in January 2002 and the lending or contributing of the proceeds of those senior debt securities to XL Capital and activities incidental to or connected with the foregoing. The outstanding senior debt securities of XL Capital Finance (Europe) plc are, and any future issuances of debt securities of XL Capital Finance (Europe) plc will be, fully and unconditionally guaranteed by XL Capital and by no other subsidiary of XL Capital. See Description of XL Capital Finance (Europe) plc Senior Debt Securities.

The Trusts

None of the trusts is currently subject to the information reporting requirements of the Exchange Act. No separate financial statements of the trusts have been included herein. We do not believe that such financial statements would be material to holders of the trust preferred securities because:

- (1) all of the voting securities of the trusts will be owned, directly or indirectly, by XL Capital, a reporting company under the Exchange Act;
- (2) the trusts have no independent operations and each trust exists for the sole purpose of issuing securities representing undivided beneficial interests in the assets of such trust and investing the proceeds thereof in subordinated deferrable interest debentures issued by XL Capital; and
- (3) the obligations of each trust under its trust preferred securities are fully and unconditionally guaranteed by XL Capital to the extent that such trust has funds available to meet such obligations.

See The Trusts, Description of the Trust Preferred Securities, Description of the Trust Preferred Securities Guarantees and Description of the Subordinated Deferrable Interest Debentures.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The SEC allows XL Capital to incorporate by reference into this prospectus the information it files with the SEC, which means that it can disclose important information to you by referring to another document filed separately with the SEC. The information that XL Capital files after the date of the initial registration statement and prior to the termination of this offering shall be deemed to be incorporated by reference into this prospectus. The information that XL Capital files after the date of this prospectus with the SEC will automatically update and supersede this information. XL Capital incorporates by reference into this prospectus the documents listed below, which have been filed by XL Capital with the SEC (SEC file number 1-10804), and any future filings made by XL Capital pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act prior to the termination of this offering.

Annual Report on Form 10-K for the year ended December 31, 2004, filed on March 11, 2005;

Proxy Statement dated March 24, 2005, filed on March 24, 2005;

Quarterly Report on Form 10-Q for the period ended March 31, 2005, filed on May 6, 2005;

Quarterly Report on Form 10-Q for the period ended June 30, 2005, filed on August 4, 2005;

Quarterly Report on Form 10-Q for the period ended September 30, 2005, filed on November 9, 2005; and

Current Reports on Form 8-K filed on January 21, February 10 (other than Item 2.02 and Exhibit 99.1 thereof), February 23, March 8, April 15, May 2, May 20, June 8, June 16, June 27, July 8, September 13, September 14, October 5, October 26 and November 28, 2005.

Any statement contained in a document incorporated or considered to be incorporated by reference in this prospectus shall be considered to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus or in any subsequently filed document that is or is considered to be incorporated by reference modifies or supersedes such statement. Any statement that is modified or superseded shall not, except as so modified or superseded, constitute a part of this prospectus.

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We will provide to each person, including any beneficial owner, to whom this prospectus is delivered, at no cost upon his or her written or oral request, a copy of any of the documents that are incorporated by reference in this prospectus, other than exhibits to such documents that are not specifically incorporated by reference into such documents, and XL Capital s, XL Capital Finance (Europe) plc s and the trusts constitutional documents. You may request such documents by contacting us at:

Investor Relations
XL Capital Ltd
XL House
One Bermudiana Road
Hamilton HM 11, Bermuda
Telephone: (441) 292-8515

None of XL Capital, XL Finance or the trusts have authorized anyone to give any information or to represent anything not contained in this prospectus or in any of the materials that XL Capital, XL Finance or the trusts have incorporated by reference in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the securities offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of the date of this prospectus.

XL CAPITAL LTD

XL Capital, together with its subsidiaries, is 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.

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

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

XL CAPITAL FINANCE (EUROPE) PLC

XL Capital Finance (Europe) plc (formerly known as XL Finance (UK) plc) was incorporated as a public limited company under the laws of England and Wales on August 29, 2001 under the number 4278406. XL Capital Finance (Europe) plc s registered offices are located at XL House, 70 Gracechurch Street, London EC3V 0XL, England. XL Capital Finance (Europe) plc s telephone number is (44) 20 7933 7000. XL Capital Finance (Europe) plc is a wholly-owned subsidiary of XL Capital.

THE TRUSTS

Each of XL Capital Trust I, XL Capital Trust II and XL Capital Trust III is a statutory trust formed under Delaware law pursuant to (i) a separate declaration of trust, executed by XL Capital, as sponsor for such trust (the sponsor), and the trustees (as defined herein) as of that date of such trust and (ii) the filing of a separate certificate of trust with the Delaware Secretary of State. The declaration of trust of each trust will be amended and restated in its entirety (as so amended and restated, the declaration) substantially in the form incorporated by reference in the registration statement of which this prospectus forms a part.

Each trust exists for the exclusive purposes of (1) issuing and selling the trust preferred securities representing preferred undivided beneficial interests in the assets of such trust and trust common securities representing common undivided beneficial interests in the assets of such trust (the trust common securities and, together with the trust preferred securities, the trust securities), (2) investing the gross proceeds of the trust securities in a series of subordinated deferrable interest debentures and (3) engaging in only those other activities necessary or incidental thereto.

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All of the trust common securities will be directly or indirectly owned by XL Capital. The trust common securities will rank equal with, and payments will be made thereon *pro rata*, with the trust preferred securities except that upon an event of default under the declaration, the rights of the holders of the trust common securities to payment in respect of distributions and payments upon liquidation, redemption and otherwise will be subordinated to the rights of the holders of the trust preferred securities. Each trust has a term of approximately 55 years, but may terminate earlier as provided in the applicable declaration.

Each trust's business and affairs will be conducted by the trustees (the "trustees") appointed by XL Capital, as the direct or indirect holder of all the trust common securities. The holder of the trust common securities will be entitled to appoint, remove or replace any of, or increase or reduce the number of, the trustees of a trust. The duties and obligations of such trustees shall be governed by the declaration of such trust, the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"), and the Delaware Statutory Trust Act. A majority of the trustees (the "regular trustees") of each trust will be persons who are employees or officers of, or affiliated with, XL Capital.

One trustee of each trust will be a financial institution that will be unaffiliated with XL Capital and that shall act as property trustee and as indenture trustee for purposes of the Trust Indenture Act, pursuant to the terms set forth in a prospectus supplement (the "property trustee"). In addition, unless the property trustee maintains a principal place of business in the State of Delaware and otherwise meets the requirements of applicable law, another trustee of each trust will be an entity that resides or has its principal place of business in the State of Delaware (the "Delaware Trustee"). XL Capital will pay all fees, expenses, debts and obligations (other than the trust securities) related to the trusts and the offering of trust securities. The office of the Delaware trustee for each trust in the State of Delaware is First Union Trust Company, National Association, One Rodney Square, 920 King Street, Suite 102, Wilmington, Delaware 19801. The principal place of business of each trust shall be c/o XL Capital Ltd, XL House, One Bermudiana Road, Hamilton HM 11, Bermuda (telephone number (441) 292-8515).

USE OF PROCEEDS

Except as may otherwise be described in the prospectus supplement relating to an offering of securities, the net proceeds from the sale of the securities included in this prospectus will be used for general corporate purposes. Each trust will invest all proceeds received from the sale of its trust securities in a particular series of subordinated deferrable interest debentures of XL Capital, which will use such funds for general corporate purposes. Any specific allocation of the net proceeds of an offering of securities to a specific purpose will be determined at the time of such offering and will be described in the related prospectus supplement.

ACCOUNTING TREATMENT RELATING TO TRUST SECURITIES

The precise terms of the transaction, including the amount and type of ownership interests of XL Capital in the trust, and an analysis of the relevant accounting rules and interpretations (including FASB Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN 46")) will dictate the accounting treatment of the trust preferred securities. Such accounting treatment may involve, among other possibilities, consolidating the trust with XL Capital's consolidated financial statements or reflecting only the subordinated deferrable interest debentures issued to each trust. The prospectus supplement relating to an offering of trust preferred securities will describe the accounting treatment expected to apply to any such offering.

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

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

	Fiscal Year Ended December 31,					
	(Unaudited) Nine Months Ended September 30, 2005 ⁽²⁾	2004 ⁽²⁾	2003 ⁽²⁾	2002 ⁽²⁾	2001 ⁽¹⁾⁽²⁾	2000 ⁽²⁾
Ratio of Earnings to Fixed Charges		4.8x	2.8x	3.0x		5.6x
Ratio of Earnings to Combined Fixed Charges and Preference Dividends		4.2x	2.4x	2.9x		5.6x

- (1) For the nine months ended September 30, 2005 and the year ended December 31, 2001, earnings were insufficient to cover fixed charges by \$520.2 million and \$832.2 million, respectively and insufficient to cover combined fixed charges and preference dividends by \$550.4 million and \$832.4 million, respectively.
- (2) The ratios for the years ended December 31, 2004, 2003, 2002, 2001 and 2000 reflect the restatement of fixed charges based on the re-presentation of certain line items in the consolidated statements of income of XL Capital. This representation had no impact on net income.

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 in pre-tax income of subsidiaries that have not incurred fixed charges, by (2) the sum of fixed charges and, where indicated, preference dividends. Fixed charges consist of interest expense on all indebtedness (including amortization of deferred financing costs), an estimate of the interest within rental expense and accretion of deposit liability transactions. Because we had no outstanding preference ordinary shares during any of the years ended December 31, 2001 and 2000, the ratio of earnings to fixed charges is identical to the ratio of earnings to combined fixed charges and preference dividends for each of these periods.

XL Capital Finance (Europe) plc and the trusts had no operations during the periods set forth above.

GENERAL DESCRIPTION OF THE OFFERED SECURITIES

XL Capital may offer from time to time under this prospectus, separately or together:

ordinary shares;

preference ordinary shares;

unsecured senior or subordinated debt securities;

warrants to purchase ordinary shares of XL Capital;

ordinary share purchase contracts; and

ordinary share purchase units, each representing ownership of one or more ordinary share purchase contracts and, as security for the holder's obligation to purchase ordinary shares under the share purchase contract, any one or more of (1) debt securities of XL Capital (which may be senior or subordinated), (2) senior debt securities of XL Capital Finance (Europe) plc, fully and unconditionally guaranteed by XL Capital, (3) debt obligations of third parties, including U.S. Treasury securities, (4) preference ordinary shares of XL Capital or (5) preferred securities of a trust.

XL Capital Finance (Europe) plc may offer from time to time under this prospectus unsecured senior debt securities, which will be fully and unconditionally guaranteed by XL Capital.

Each trust may offer from time to time under this prospectus trust preferred securities representing undivided beneficial interests in its respective assets, which will be fully and unconditionally guaranteed to the extent described in this prospectus by XL Capital.

References to XL Capital, we, our or us in Description of XL Capital Preference Ordinary Shares, Description of XL Capital Ordinary Shares, Description of XL Capital Ordinary Share Warrants and Description of XL Capital Debt Securities, refer solely to XL Capital Ltd and not its subsidiaries.

DESCRIPTION OF XL CAPITAL SHARE CAPITAL

General

The Articles of Association and Memorandum of Association of XL Capital provide that its authorized share capital is US\$9,999,900 divided into 999,990,000 ordinary shares, par value \$0.01 per share. The XL Capital ordinary shares are currently divided into five classes: Class A Ordinary Shares and Class B Ordinary Shares (together, the

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ordinary shares) and Series A Preference Ordinary Shares, Series B Preference Ordinary Shares and Series C Preference Ordinary Shares.

As of November 29, 2005, XL Capital s issued and outstanding shares were approximately as follows:

<u>Class of Shares*</u>	<u>Shares</u>
Class A Ordinary Shares	140,576,462
Series A Preference Ordinary Shares	9,200,000
Series B Preference Ordinary Shares	11,500,000

All issued and outstanding shares are fully paid and nonassessable.

* Class B Ordinary Shares and Series C Preference Ordinary Shares are authorized. No Class B Ordinary Shares are outstanding and no Series C Preference Ordinary Shares have been issued.

DESCRIPTION OF XL CAPITAL PREFERENCE ORDINARY SHARES

General

We are authorized to issue up to 999,990,000 ordinary shares of our company, par value \$0.01 per share. Without prejudice to any special rights previously conferred on the holders of existing shares, the board of directors has the power to issue our ordinary shares with such preferred, deferred or other special rights, terms or conditions, or such restrictions, whether in regard to dividends, voting, return of share capital, exchange for other classes of shares, exchangeability for other securities or otherwise as the board of directors may from time to time determine.

The following is a description of certain general terms and provisions of the preference ordinary shares that, following appropriate resolutions of the board of directors, we may issue with preferred rights (preference ordinary shares). The particular terms of any class or series of preference ordinary shares will be described in the applicable prospectus supplement. The applicable prospectus supplement may also state that any of the terms set forth herein are inapplicable to such series of preference ordinary shares; *provided*, that the information set forth in such prospectus supplement does not constitute material changes to the information herein such that it alters the nature of the offering or the securities offered.

The following summary of terms of our preference ordinary shares is not complete. You should refer to the provisions of our Memorandum of Association, our Articles of Association and the terms of each class or series of the preference ordinary shares which will be filed with the SEC at or prior to the time of issuance of such class or series of the preference ordinary shares and described in the applicable prospectus supplement.

Terms

The terms of each series of preference ordinary shares will be described in any prospectus supplement related to such class or series of preference ordinary shares.

The board of directors in approving the issuance of a class or series of preference ordinary shares shall determine, and the applicable prospectus supplement will set forth with respect to such class or series, the following:

whether dividends on that class or series of preference ordinary shares will be cumulative or non-cumulative;

the dividend rate and rights in respect of dividends on the preference ordinary shares of that class or series and whether the dividend rate is subject to reset (up to a specified maximum) under certain circumstances described, if applicable, in such prospectus supplement;

the liquidation preference per share of that class or series of preference ordinary shares, if any;

the voting powers, if any, of the preference ordinary shares of that class or series;

any redemption and sinking fund provisions applicable to that class or series of preference ordinary shares;

any conversion provisions applicable to that class or series of preference ordinary shares; and

the terms of any other preferences or other rights and limitations, if any, applicable to that class or series of preference ordinary shares.

Dividends

Holders of preference ordinary shares will be entitled to receive, when, as and if declared by the board of directors, cash dividends at the rates and on the dates as set forth in the applicable prospectus supplement. Except as set forth below, no dividends will be declared or paid on any class or series of preference ordinary shares unless full dividends for all classes or series of preference ordinary shares which have the same rank as, or rank senior to, such class or series of preference ordinary shares (including cumulative dividends still owing, if any) have been or contemporaneously are declared and paid. When those dividends are not paid in full, dividends will be declared *pro rata* so that the amount of dividends declared per share on that class or series of preference ordinary shares and on each other class or series of preference ordinary shares having the same rank as, or ranking senior to, that class or series of preference ordinary shares will in all cases bear to each other the same ratio that accrued dividends per share on that class or series of preference ordinary shares and the other preference ordinary shares bear to each other. In addition, generally, unless all dividends on the preference ordinary shares have been paid, no dividends will be declared or paid on the ordinary shares and generally we may not redeem or purchase any ordinary shares.

Voting Rights

The holders of the preference ordinary shares shall not, except as required by law or as set forth in the applicable prospectus supplement, have any right or power to vote on any question or in any proceeding or to be represented at, or to receive notice of, any meeting of shareholders. On any matters on which the holders of the preference ordinary shares shall be entitled to vote, they shall be entitled to one vote for each share held.

Unless otherwise stated in the applicable prospectus supplement, if six or more full quarterly dividends (whether consecutive or not) on any series of preference ordinary shares shall be in arrears, then during such period, which we refer to herein as the voting period, the holders of a majority of the outstanding preference ordinary shares of all series so in arrears and having such right represented in person or by proxy at any meeting of our shareholders held for the election of directors during such voting period shall be entitled, as a class, to the exclusion of the holders of all other classes of our shares, to elect two of our directors, each preference ordinary share entitling the holder thereof to one vote.

Any director who shall have been elected by holders of preference ordinary shares, or by any director so elected as herein contemplated, may be removed at any time during a voting period, either for or without cause, by, and only by, the affirmative votes of the holders of record of a majority of the outstanding preference ordinary shares of all series given at a special meeting of such shareholders called for the purpose. Any vacancy thereby created may be filled during such voting period by the holders of preference ordinary shares of all series, present in person or represented by proxy at such meeting. Any director elected by holders of preference ordinary shares, or by any director so elected as herein contemplated, who dies, resigns or otherwise ceases to be a director shall, except as otherwise provided in the preceding sentence, be replaced by the remaining director theretofore elected by the holders of preference ordinary shares. At the end of the voting period, the holders of preference ordinary shares of all series shall be automatically divested of all voting power vested in them under this provision but subject always to the subsequent vesting of voting power in the holders of preference ordinary shares in the event of any similar cumulated arrearage in payment of quarterly dividends occurring thereafter. The term of all directors elected pursuant to this provision shall in all events expire at the end of the voting period.

In addition, unless a particular series of preference ordinary shares has been previously redeemed or called for redemption, certain transactions that would vary the rights of the holders of such series cannot be made without the

approval of a special resolution in writing by the holders of 100% of such series or the sanction of a special resolution passed by two-thirds of the votes cast at a separate meeting of the holders of such series, subject to any requirements of Cayman Islands law.

Ranking

The preference ordinary shares will rank senior to our ordinary shares with respect to payment of dividends and amounts upon liquidation, dissolution or winding-up of XL Capital. Without the requisite vote of holders of the preference ordinary shares, as described above under Voting Rights, no class or series of capital shares can be created ranking senior to the preference ordinary shares as to dividend rights or liquidation preference.

Liquidation Rights

In the event of our liquidation, dissolution or winding-up, the holders of preference ordinary shares of each series are entitled to receive out of our assets available for distribution to shareholders, before any distribution of assets is made to holders of ordinary shares or any other class or series of our capital shares (including any preferred shares) which is junior as to liquidation rights to our preference ordinary shares of such series, liquidating distributions in the amount set forth in the applicable prospectus supplement, plus dividends accrued and accumulated but unpaid to the date of such distribution. If, upon our liquidation, dissolution or winding-up, the amounts payable with respect to our preference ordinary shares of such series and any of our other preference ordinary shares ranking as to any such distribution on a parity with our preference ordinary shares of such series are not paid in full, the holders of our preference ordinary shares of such series and of such of our other preference ordinary shares will share ratably in any such distribution of assets in proportion to the full respective preferential amounts to which they are entitled. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of preference ordinary shares will not be entitled to any further participation in any distribution of assets by us. Neither our consolidation or merger with another corporation nor a sale or transfer of all or part of our assets for cash or securities shall be considered a liquidation, dissolution or winding-up of XL Capital.

Redemption Provisions

The preference ordinary shares of each series will have such optional or mandatory redemption terms, if any, as shall be set forth in the applicable prospectus supplement.

Conversion and Exchange Rights

The preference ordinary shares, if convertible, will only be convertible into our ordinary shares, and will not be convertible into or exchangeable for securities of a third party. The terms and conditions, if any, upon which any series of our preference ordinary shares is convertible into ordinary shares or exchangeable into debt securities will be set forth in the applicable prospectus supplement relating to such series of preference ordinary shares. Such terms will include:

- (1) in the case such series of preference ordinary shares is convertible into ordinary shares:
 - (a) the number of ordinary shares into which preference ordinary shares of such series are convertible;
 - (b) the conversion price (or manner of calculation thereof);
 - (c) the conversion period;
 - (d) provisions as to whether conversion will be at the option of the holders of such series of preference ordinary shares or at our option or automatic;
 - (e) the events requiring an adjustment of the conversion price; and
 - (f) provisions affecting conversion in the event of the redemption of such series of preference ordinary shares; and

- (2) in the case such series of preference ordinary shares is exchangeable into debt securities:
- (a) the principal amount of debt securities into which preference ordinary shares of such series are exchangeable;
 - (b) the exchange period; and
 - (c) provisions as to whether the exchange will be at the option of the holders of such series of preference ordinary shares or at our option or automatic.

Miscellaneous

Our preference ordinary shares will have no preemptive rights. All of our preference ordinary shares, upon payment in full therefor, will be fully paid and nonassessable.

DESCRIPTION OF XL CAPITAL ORDINARY SHARES

General

The following description of our ordinary shares is a summary. This summary is not complete and is subject to the complete text of applicable laws and our Memorandum and Articles of Association.

Voting

The holders of our Class A Ordinary Shares are entitled to one vote per share while our Class B Ordinary Shares carry no voting rights. Our Articles of Association restrict the voting power of any shareholder to less than approximately 10% of total voting power.

Under the Cayman Islands Companies Law (the Law) and our Memorandum and Articles of Association, some matters, such as altering the Memorandum or the Articles of Association, changing the name of a company, voluntarily winding-up a company or removing a director, require approval of shareholders by a special resolution. A special resolution is a resolution (1) passed by a majority of not less than two-thirds of such shareholders as, being entitled to do so, vote in person or by proxy at a general meeting or (2) approved in writing by all shareholders entitled to vote at a general meeting of the company.

Dividend Rights

Subject to the Law and any rights and restrictions of any other class or series of shares, including our preference ordinary shares, the board of directors may from time to time declare dividends on the shares issued and authorize payment of the dividends out of our profit realized or unrealized or out of monies otherwise available for dividends in accordance with the Law. The board of directors may declare that any dividend be paid wholly or partly by the distribution of our shares and/or specific assets.

No dividends on the shares issued will be declared by our board of directors, or paid or set apart for payment by us, at any time during which the terms and provisions of any of our agreements, including any agreement relating to our indebtedness, or Cayman Islands law prohibit a declaration, payment or setting apart for payment of a dividend or provide that such a declaration, payment or setting apart for payment would constitute a breach or a default or not be permitted thereunder. No dividends on the shares issued will be declared or paid or set apart for payment if prohibited by law or regulation.

Our Articles of Association provide that no dividend shall be payable except out of our profits, realized or unrealized, or out of monies otherwise available for dividends in accordance with Cayman Islands law. Under Cayman Islands law, we may not lawfully declare or pay a dividend out of the share premium account if there are reasonable grounds for believing that we are, or would immediately following the payment of the dividend be, unable to pay our debts as they fall due in the ordinary course of business. In addition, our directors are, as a matter of prudence,

required to ensure that any dividend declared or paid is not of an amount that reduces our reserves to a level that is not sufficient to meet the reserve requirements of our business.

Rights upon Liquidation

Upon our liquidation, after the payments to be made in accordance with the Law and the full amounts that holders of any issued shares ranking senior to the ordinary shares, including our preference ordinary shares, as to distribution on liquidation or winding-up are entitled to receive have been paid or set aside for payment, the holders of the ordinary shares are entitled to receive, *pro rata*, any remaining assets available for distribution to the holders of ordinary shares. The liquidator may deduct from the amount payable in respect of those ordinary shares any liabilities the holder has to or with us. The assets received by the holders of ordinary shares in a liquidation may consist in whole or in part of property. That property is not required to be of the same kind for all shareholders.

Stock Plans

Our incentive stock plan, the 1991 Performance Incentive Program, provides for grants of non-qualified or incentive stock options, restricted stock awards, restricted stock units, performance shares, performance units and stock appreciation rights (SARs). The plan is administered by a Committee designated by the board of directors (the Committee). Stock options may be granted with or without SARs. Exercise prices (which cannot be less per share than the fair market value per share on the grant date) are established by the Committee at the date of grant. Options and SARs have a life of not longer than 10 years and vest as set forth by the Committee.

Restricted stock awards issued under the 1991 Performance Incentive Program vest over such period as the Committee may approve. These shares contain certain restrictions, prior to vesting, relating to, among other things, forfeiture in the event of termination of employment and transferability. Restricted stock issued under the plan totaled 596,411 shares, 496,671 shares and 225,960 shares in 2004, 2003 and 2002, respectively. Vesting for such shares generally occurs over a four year period from the date of issue.

We also have stock plans in place for our non-employee directors. We maintain the Directors Stock & Option Plan, which provides for annual automatic grants of options to purchase 5,000 ordinary shares to each non-employee director in office immediately following our annual meeting. It also provides for automatic grants of options to purchase 5,000 shares to each non-employee director when he or she is first elected to the Board. The exercise price per share of each of the options is equal to the fair market value per ordinary share on the date of grant, the options vest immediately on the date of grant, and they are exercisable for ten years. Discretionary stock option grants may also be made to non-employee directors under the plan. The Directors Stock & Option Plan also provides for discretionary grants of restricted stock and restricted stock units to non-employee directors. Non-employee directors may also make an irrevocable election preceding the beginning of each calendar year to defer cash compensation that would otherwise be payable as their annual retainer in increments of 10% or receive their annual retainer fee currently in the form of shares instead of cash. Any deferred payments will be credited in the form of shares calculated by dividing 110% of the deferred payment by the market value of our stock on the date the fees would otherwise be payable. The shares are distributed in accordance with the terms of the plan. Shares issued under the plan totaled 3,819, 3,153 and 3,622 in 2004, 2003, and 2002, respectively.

A second stock plan, the Stock Plan for Non-employee Directors, provides for the crediting of share units, as of the day of each year that annual retainer fees are payable, determined by dividing the annual retainer fee by the fair market value of an ordinary share on the date the units are credited. These units receive dividends in the form of additional units equal to the cash value divided by the market price on the payment date. Benefits under the plan will be distributed in the form of our ordinary shares following termination of the director's service on the Board. Share units totaling 8,351, 8,598 and 6,659 were issued in 2004, 2003 and 2002, respectively.

In 1999, we adopted our 1999 Performance Incentive Program under which 1,250,000 options were available and issued to employees who were not directors or executive officers. Our 1999 Performance Incentive Program is substantially similar to our 1991 Performance Incentive Program.

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The Employee Share Purchase Plan (the ESPP) was approved by our shareholders on May 10, 2002. The ESPP has two six-month offering periods per year, commencing July 1 and January 1. All employees of XL Capital and its designated participating subsidiaries are eligible to participate in the ESPP, *provided* they have been employed at least one month prior to the start of the offering period. Employees can invest up to 20% of their total monthly cash compensation towards the purchase of our shares up to a total market value (measured on the first day of the applicable offering period) of U.S.\$25,000 in any calendar year. Employees who enroll in the ESPP may purchase our shares at a 15% discount on the lesser of the market price at the beginning or at the end of the six-month offering period. A total of 1,255,000 ordinary shares may be issued under the ESPP. The number of shares issued during the year ended December 31, 2004, 2003 and 2002 was 167,890, 66,848 and 47,399, respectively. We currently anticipate that the ESPP will be terminated effective as of December 31, 2005.

Share Rights Plan

Rights to purchase ordinary shares (the Rights) were distributed as a dividend at the rate of one Right for each ordinary share held of record as of the close of business on October 31, 1998. Each Right entitles holders of ordinary shares to buy one ordinary share at an exercise price of \$350. The Rights would be exercisable, and would detach from the ordinary shares, only if a person or group were to acquire 20% or more of our outstanding ordinary shares, or were to announce a tender or exchange offer that, if consummated, would result in a person or group beneficially owning 20% or more of our outstanding ordinary shares. Upon a person or group without prior approval of the board of directors acquiring 20% or more of our outstanding ordinary shares, each Right would entitle the holder (other than such an acquiring person or group) to purchase ordinary shares (or, in certain circumstances, ordinary shares of the acquiring person) with a value of twice the Rights exercise price upon payment of the Rights exercise price. We will be entitled to redeem the Rights at \$0.01 per Right at any time until the close of business on the tenth day after the Rights become exercisable. The Rights will expire at the close of business on September 30, 2008, and do not initially have a fair value. We have initially reserved 119,073,878 authorized ordinary shares for issuance upon exercise of Rights.

Classified Board

Our board of directors is divided into three classes that are elected for staggered three-year terms. A director may be removed by the shareholders without cause only by special resolution of the total voting power of our issued shares determined in accordance with our Articles of Association.

DESCRIPTION OF XL CAPITAL ORDINARY SHARE WARRANTS

General

XL Capital may issue ordinary share warrants independently or together with any securities offered by any prospectus supplement and such ordinary share warrants may be attached to or separate from such securities. Each series of ordinary share warrants will be issued under a separate warrant agreement to be entered into between XL Capital and a bank or trust company, as warrant agent, all as set forth in the applicable prospectus supplement. The warrant agent will act solely as our agent in connection with the certificates representing the ordinary share warrants and will not assume any obligation or relationship of agency or trust for or with any holders of ordinary share warrant certificates or beneficial owners of ordinary share warrants.

The following summaries of certain provisions of the warrant agreement and ordinary share warrant certificate are not complete. You should look at the warrant agreement relating to, and the ordinary share warrant certificate representing, a series of ordinary share warrants.

The applicable prospectus supplement may also state that any of the terms set forth herein are inapplicable to such series; *provided*, that the information set forth in such prospectus supplement does not constitute material changes to the information herein such that it alters the nature of the offering or the securities offered. Ordinary share warrants for the purchase of ordinary shares will be offered and exercisable for U.S. dollars only and will be in registered form only.

Terms

An applicable prospectus supplement will set forth and describe other specific terms regarding each series of ordinary share warrants offered hereby, including:

- (1) the offering price;
- (2) the number of ordinary shares purchasable upon exercise of each such ordinary share warrant and the price at which such number of ordinary shares may be purchased upon such exercise;
- (3) the date on which the right to exercise such ordinary share warrants shall commence and the date on which such right shall expire; and
- (4) any other terms of such ordinary share warrants.

Exercise of Ordinary Share Warrants

Each ordinary share warrant will entitle the holder thereof to purchase such ordinary shares at such exercise price as shall in each case be set forth in, or calculable from, the prospectus supplement relating to the offered ordinary share warrants. After the close of business on the expiration date of each ordinary share warrant or such later date to which such expiration date may be extended by us, unexercised ordinary share warrants will become void.

Ordinary share warrants may be exercised by delivering to the warrant agent payment as provided in the applicable prospectus supplement of the amount required to purchase the ordinary shares purchasable upon such exercise, together with certain information set forth on the reverse side of the ordinary share warrant certificate. Upon receipt of such payment and the ordinary share warrant certificate properly completed and duly executed at the corporate trust office of the warrant agent or any other office indicated in the applicable prospectus supplement, we will, as soon as practicable, issue and deliver the ordinary shares purchasable upon such exercise. If fewer than all of the ordinary share warrants represented by such ordinary share certificate are exercised, a new ordinary share warrant certificate will be issued for the remaining amount of ordinary share warrants.

Amendments and Supplements to Warrant Agreement

The warrant agreement for a series of ordinary share warrants may be amended or supplemented without the consent of the holders of the ordinary share warrants issued thereunder to effect changes that are not inconsistent with the provisions of the ordinary share warrants and that do not adversely affect the interests of the holders of the ordinary share warrants.

Ordinary Share Warrant Adjustments

Unless otherwise indicated in the applicable prospectus supplement, the exercise price of, and the number of ordinary shares covered by, an ordinary share warrant are subject to adjustment in certain events, including:

- (1) the issuance of ordinary shares as a dividend or distribution on the ordinary shares;
- (2) certain subdivisions and combinations of the ordinary shares;
- (3) the issuance to all holders of ordinary shares of certain rights or warrants entitling them to subscribe for or purchase ordinary shares at less than the current market value, as defined in the applicable warrant agreement for such series of ordinary share warrants; and
- (4) the distribution to all holders of ordinary shares of certain evidences of our indebtedness or assets, other than certain cash dividends and distributions described below.

No adjustment in the exercise price of, and the number of ordinary shares covered by, an ordinary share warrant will be made for regular quarterly or other periodic or recurring cash dividends or distributions or for cash dividends or

distributions to the extent paid from retained earnings. No adjustment will be required unless such adjustment would require a change of at least one percent in the exercise price and exercise rate then in effect; *provided, however*, that any such adjustment not so made will be carried forward and taken into account in any subsequent adjustment; *provided, further*, that any such adjustment not so made shall be made no later than three years after the occurrence of the event requiring such adjustment to be made or carried forward. Except as stated above, the exercise price of, and the number of ordinary shares covered by, an ordinary share warrant will not be adjusted for the issuance of ordinary shares or any securities convertible into or exchangeable for ordinary shares, or securities carrying the right to purchase any of the foregoing.

In the case of:

- (1) a reclassification or change of the ordinary shares;
- (2) certain consolidation or merger events involving us; or

(3) a sale or conveyance to another corporation of our property and assets as an entirety or substantially as an entirety; in each case as a result of which holders of our ordinary shares shall be entitled to receive stock, securities, other property or assets (including cash) with respect to or in exchange for such ordinary shares, the holders of the ordinary share warrants then outstanding will be entitled thereafter to convert such ordinary share warrants into the kind and amount of ordinary shares and other securities or property which they would have received upon such reclassification, change, consolidation, merger, sale or conveyance had such ordinary share warrants been exercised immediately prior to such reclassification, change, consolidation, merger, sale or conveyance.

DESCRIPTION OF XL CAPITAL ORDINARY SHARE PURCHASE CONTRACTS AND ORDINARY SHARE PURCHASE UNITS

XL Capital may issue share purchase contracts, representing contracts obligating holders to purchase from XL Capital, and obligating XL Capital to sell to the holders, or holders to sell to XL Capital and XL Capital to purchase from the holders, a fixed or varying number of ordinary shares at a future date or dates. The price per ordinary share may be fixed at the time the share purchase contracts are entered into or may be determined by reference to a specific formula set forth in the share purchase contracts. Any share purchase contract may include anti-dilution provisions to adjust the number of shares to be delivered pursuant to such share purchase contract upon the occurrence of certain events. The share purchase contracts may be entered into separately or as a part of share purchase units consisting of one or more share purchase contracts and any one or more of:

- (1) debt securities of XL Capital (which may be senior or subordinated);
- (2) senior debt securities of XL Capital Finance (Europe) plc, fully and unconditionally guaranteed by XL Capital;
- (3) preference ordinary shares of XL Capital;
- (4) trust preferred securities of an XL Capital Trust; or
- (5) debt or equity obligations of third parties, including U.S. Treasury securities.

The share purchase contracts may require us to make periodic payments to the holders of the share purchase units or vice versa, and such payments may be unsecured or prefunded and may be paid on a current or on a deferred basis. The share purchase contracts may require holders to secure their obligations in a specified manner and in certain circumstances we may deliver newly issued prepaid share purchase contracts upon release to a holder of any collateral securing such holder's obligations under the original share purchase contract. Any one or more of the above securities, ordinary shares or the share purchase contracts or other collateral may be pledged as security for the holders

obligations to purchase or sell, as the case may be, the ordinary shares under the share purchase contracts. The share purchase contracts may also allow the holders, under certain circumstances, to obtain the release of the security for their obligations under such contracts by depositing with the collateral agent, as substitute collateral, treasury securities with a principal amount at maturity equal to the collateral so released or the maximum number of ordinary shares deliverable by such holders under ordinary share purchase contracts requiring the holders to sell ordinary shares to XL Capital.

The applicable prospectus supplement will describe the terms of any share purchase contracts or share purchase units and, if applicable, prepaid share purchase contracts. The description in the prospectus supplement will be qualified in its entirety by reference to (1) the share purchase contracts, (2) the collateral arrangements and depositary arrangements, if applicable, relating to such share purchase contracts or share purchase units and (3) if applicable, the prepaid share purchase contracts and the document pursuant to which such prepaid share purchase contracts will be issued.

DESCRIPTION OF XL CAPITAL DEBT SECURITIES

General

XL Capital may issue debt securities from time to time in one or more series, under one or more indentures, each dated as of a date on or prior to the issuance of the debt securities to which it relates. Senior debt securities and subordinated debt securities may be issued pursuant to separate indentures, a senior indenture and a subordinated indenture, respectively, in each case between us and a trustee qualified under the Trust Indenture Act. Such indentures are subject to such amendments or supplements as may be adopted from time to time. The senior indenture and the subordinated indenture, as amended or supplemented from time to time, are sometimes referred to individually as an indenture and collectively as the indentures. Each indenture is subject to and governed by the Trust Indenture Act. The aggregate principal amount of debt securities which may be issued under each indenture is unlimited and each indenture provides that the specific terms of any series of debt securities will be set forth in, or determined pursuant to, an authorizing resolution, as defined in the applicable prospectus supplement, and/or a supplemental indenture, if any, relating to such series.

The statements made below relating to the debt securities and the indentures are summaries of the material provisions thereof and are subject to, and are qualified by reference to, the provisions of the applicable indenture and any applicable U.S. federal income tax considerations as well as any applicable supplements to the terms described below in the applicable prospectus supplement. The applicable prospectus supplement may also state that any of the terms set forth herein are inapplicable to such series of debt securities; *provided*, that the information set forth in such prospectus supplement does not constitute material changes to the information herein such that it alters the nature of the offering or the securities offered.

Terms

The debt securities will be our unsecured obligations.

The senior debt securities will rank equal in right of payment with all our other unsecured and unsubordinated indebtedness.

The subordinated debt securities will be subordinated in right of payment to the prior payment in full of all our senior indebtedness, which is defined in the section called *Ranking of Debt Securities* below.

The specific terms of each series of debt securities will be set forth in the applicable prospectus supplement relating thereto, including the following, as applicable:

- (1) the title of such debt securities, whether such debt securities are offered pursuant to a medium term notes program, and whether such debt securities are senior debt securities or subordinated debt securities and, if subordinated debt securities, the specific subordination provisions applicable thereto;
- (2) the aggregate principal amount of such debt securities and any limit on such aggregate principal amount;

- (3) the price (expressed as a percentage of the principal amount thereof) at which such debt securities will be issued and, if other than the principal amount thereof, the portion of the principal amount thereof payable upon declaration of acceleration of the maturity thereof, or, if applicable, the portion of the principal amount of such debt securities that is convertible into ordinary shares or preference ordinary shares or the method by which any such portion shall be determined;
- (4) if convertible into our ordinary shares or preference ordinary shares or another entity's common stock or preferred stock, as the case may be, the terms on which such debt securities are convertible, including the initial conversion price, the conversion period, any events requiring an adjustment of the applicable conversion price and any requirements relating to the reservation of such ordinary shares or preference ordinary shares for purposes of conversion;
- (5) the date(s), or the method for determining such date or dates, on which the principal of such debt securities will be payable and, if applicable, the terms on which such maturity may be extended;
- (6) the rate(s) (which may be fixed or floating), or the method by which such rate or rates shall be determined, at which such debt securities will bear interest, if any, including, if applicable, that such debt securities will bear interest at an increased rate (up to a specified maximum) upon the occurrence of an event of default and/or under certain circumstances described in the applicable prospectus supplement (which may include, among other things, a reduction in the trading price of our ordinary shares below certain levels for a minimum period of time);
- (7) the date(s), or the method for determining such date or dates, from which any such interest will accrue, the dates on which any such interest will be payable, the record dates for such interest payment dates, or the method by which such dates shall be determined, the persons to whom such interest shall be payable, and the basis upon which interest shall be calculated if other than that of a 360-day year of twelve 30-day months;
- (8) the place(s) where the principal of and interest, if any, on such debt securities will be payable, where such debt securities may be surrendered for registration of transfer or exchange and where notices or demands to or upon us in respect of such debt securities and the applicable indenture may be served;
- (9) the period(s), if any, within which, the price or prices at which and the other terms and conditions upon which such debt securities may, pursuant to any optional or mandatory redemption provisions, be redeemed, as a whole or in part, at our option;
- (10) our obligation, if any, to redeem, repay or repurchase such debt securities pursuant to any sinking fund (as defined in the applicable supplemental indenture) or analogous provision or at the option of a holder thereof, and the period or periods within which, the price or prices at which and the other terms and conditions upon which such debt securities will be redeemed, repaid or purchased, as a whole or in part, pursuant to such obligations;
- (11) if other than U.S. dollars, the currency or currencies in which the principal of and interest, if any, on such debt securities are denominated and payable, which may be a foreign currency or units of two or more foreign currencies or a composite currency or currencies, and the terms and conditions relating thereto;
- (12) whether the amount of payments of principal of or interest, if any, on such debt securities may be determined with reference to an index, formula or other method (which index, formula or method may, but need not, be based on the yield on or trading price of other securities, including United States Treasury securities, or on a currency, currencies, currency unit or units, or composite currency or currencies) and the manner in which such amounts shall be determined;

- (13) whether the principal of or interest, if any, on the debt securities of the series is to be payable, at our election or the election of a holder thereof, in a currency or currencies, currency unit or units or composite currency or currencies other than that in which such debt securities are denominated or stated to be payable and the period or periods within which, and the terms and conditions upon which, such election may be made;
- (14) provisions, if any, granting special rights to the holders of debt securities of the series upon the occurrence of such events as may be specified;
- (15) any deletions from, modifications of or additions to the events of default or our covenants with respect to debt securities of the series, whether or not such events of default or covenants are consistent with the events of default or covenants described herein;
- (16) whether debt securities of the series are to be issuable initially in temporary global form and whether any debt securities of the series are to be issuable in permanent global form and, if so, whether beneficial owners of interests in any such security in permanent global form may exchange such interests for debt securities of such series and of like tenor of any authorized form and denomination and the circumstances under which any such exchanges may occur, if other than in the manner provided in the applicable indenture, and, if debt securities of the series are to be issuable as a global security, the identity of the depository for such series;
- (17) the applicability, if any, of the defeasance and covenant defeasance provisions of the applicable indenture to the debt securities of the series;
- (18) if exchangeable into another series of debt securities of XL Capital, the terms on which such debt securities are exchangeable; and
- (19) any other terms of the series of debt securities and any additions to the applicable indenture.

The debt securities, if convertible or exchangeable, will not be convertible into or exchangeable for securities of a third party.

If the applicable prospectus supplement provides, the debt securities may be issued at a discount below their principal amount and provide for less than the entire principal amount thereof to be payable upon declaration of acceleration of the maturity thereof. In such cases, all material U.S. federal income tax considerations will be described in the applicable prospectus supplement.

Except as may be set forth in the applicable prospectus supplement, the debt securities will not contain any provisions that would limit our ability to incur indebtedness or that would afford holders of debt securities protection from transactions involving us, including a highly leveraged transaction involving us or a change in control. The applicable prospectus supplement will contain information with respect to any additions to the events of default or covenants described below, including any addition of a covenant or other provision providing event risk or similar protection.

Denomination, Interest, Registration and Transfer

We will issue the debt securities of each series only in registered form, without coupons, in denominations of \$1,000, or in such other currencies or denominations as may be set forth in the applicable supplemental indenture or specified in, or pursuant to, an authorizing resolution, if any, relating to such series of debt securities.

The principal of and interest, if any, on any series of debt securities will be payable at the corporate trust office of the trustee, the address of which will be stated in the applicable prospectus supplement. However, at our option, interest payment may be made by check mailed to the address of the person entitled thereto as it appears in the applicable register for such debt securities.

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Subject to certain limitations imposed upon debt securities issued in book-entry form, the debt securities of any series:

will be exchangeable for any authorized denomination of other debt securities of the same series and of a like aggregate principal amount and tenor upon surrender of such debt securities at the trustee's corporate trust office or at the office of any registrar designated by us for such purpose; and

may be surrendered for registration of transfer or exchange thereof at the corporate trust office of the trustee or at the office of any registrar designated by us for such purpose.

No service charge will be made for any registration of transfer or exchange, but we may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with certain transfers and exchanges. We may act as registrar and may change any registrar without notice.

Certain Covenants

The applicable prospectus supplement will describe any material covenants in respect of a series of debt securities that are not described in this prospectus.

Provisions Applicable to All Debt Securities

Unless otherwise indicated in the applicable prospectus supplement, senior debt securities and subordinated debt securities will include the provisions described below.

Merger, Consolidation or Sale of Assets

We may not (1) consolidate with or merge into any other person or convey, transfer, sell or lease our properties and assets substantially as an entirety to any person, (2) permit any person to consolidate with or merge into us or (3) permit any person to convey, transfer, sell or lease that person's properties and assets substantially as an entirety to us unless:

in the case of (1) and (2) above, if we are not the surviving person, such surviving person is an entity organized and existing under the laws of the United States of America (including any State thereof or the District of Columbia), the United Kingdom, the Cayman Islands, Bermuda or any country which is, on the date of the applicable prospectus supplement and supplemental indenture, a member of the Organisation for Economic Co-operation and Development or the European Union and the surviving person assumes the payment of the principal of, premium, if any, and interest on the debt securities and the performance of our other covenants under the applicable indenture; and

in all cases, immediately after giving effect to the transaction, no event of default, and no event that, after notice or lapse of time or both, would become an event of default, will have occurred and be continuing.

Provisions Applicable to Senior Debt Securities Only

Unless otherwise indicated in the applicable prospectus supplement, senior debt securities will include the provisions described below.

A change in control will be deemed to have occurred at such time as:

- (1) any person, including any syndicate or group deemed to be a person under Section 13(d)(3) of the Exchange Act, acquires beneficial ownership, directly or indirectly, through a purchase, merger or other acquisition transaction or series of transactions, of shares of our capital stock entitling the person to exercise 50% or more of the total voting power of all shares of our capital stock that is entitled to vote generally in elections of directors, other than an acquisition by us, any of our subsidiaries or any of our employee benefit plans and other than any transaction contemplated by the second bullet point of clause (2) below; or

- (2) we merge or consolidate with or into any other person (other than a subsidiary), another person (other than a subsidiary) merges into us, or we convey, sell, transfer or lease all or substantially all of our assets to another person (other than a subsidiary), other than any transaction:

that does not result in a reclassification, conversion, exchange or cancellation of our outstanding ordinary shares (other than the cancellation of any of our outstanding ordinary shares held by the person with whom we merge or consolidate), or

pursuant to which the holders of our ordinary shares immediately prior to the transaction are entitled to exercise, directly or indirectly, 50% or more of the total voting power of all shares of capital stock entitled to vote generally in the election of directors of the continuing or surviving corporation immediately after the transaction, or

which is effected solely to change our jurisdiction of incorporation and results in a reclassification, conversion or exchange of our outstanding ordinary shares solely into shares of common stock of the surviving entity.

However, a change in control will not be deemed to have occurred if either:

(A) in the case of debt securities that are convertible into ordinary shares of XL Capital, the closing price for our ordinary shares for any five trading days within the period of 10 consecutive trading days ending immediately after the later of the change in control or the public announcement of the change in control, in the case of a change in control relating to an acquisition of capital stock, or the period of 10 consecutive trading days ending immediately before the change in control, in the case of a change in control relating to a merger, consolidation or asset sale, equals or exceeds 105% of the average of the closing prices for such convertible debt securities on each of such trading days; or

(B) all of the consideration (excluding cash payments for fractional shares and cash payments made pursuant to dissenters' appraisal rights) in a merger or consolidation otherwise constituting a change in control under clause (1) and/or clause (2) above consists of shares of common stock traded on a national securities exchange or quoted on the Nasdaq National Market (or will be so traded or quoted immediately following the merger or consolidation).

Ranking of Debt Securities

General

We currently conduct substantially all of our operations through our subsidiaries and our subsidiaries generate substantially all of our operating income and cash flow. As a result, distributions and advances from our subsidiaries are the principal source of funds necessary to meet our debt service obligations. Contractual provisions or laws, as well as our subsidiaries' financial condition and operating and regulatory requirements, may limit our ability to obtain cash from our subsidiaries that we require to pay our debt service obligations. For a description of certain regulatory restrictions on the payment of dividends by our subsidiaries, see Note 24 of the Notes to Consolidated Financial Statements of XL Capital included in our Form 10-K for the year ended December 31, 2004, which is incorporated by reference in this Prospectus. In addition, because we are a holding company, holders of the debt securities will have a junior position to the claims of creditors of our subsidiaries on their assets and earnings.

Senior debt securities

The senior debt securities will be our unsecured unsubordinated obligations and will:

rank equal in right of payment with all our other unsecured and unsubordinated indebtedness;

be effectively subordinated in right of payment to all our secured indebtedness to the extent of the value of the assets securing such indebtedness; and

be effectively subordinated to all of our subsidiaries' indebtedness and all mandatorily redeemable preferred stock of our subsidiaries.

As of September 30, 2005, 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, 2005, 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 debt issued under the senior debt indenture, was approximately \$355.0 million.

Except as otherwise set forth in the applicable senior indenture or specified in an authorizing resolution and/or supplemental indenture, if any, relating to a series of senior debt securities to be issued, there are no limitations in the senior indenture on the amount of additional indebtedness which may rank equal with the senior debt securities or on the amount of indebtedness, secured or otherwise, which may be incurred or preferred stock which may be issued by any of our subsidiaries.

Subordinated debt securities

The subordinated debt securities will be our unsecured subordinated obligations. Unless otherwise provided in the applicable prospectus supplement, the payment of principal of, interest on and all other amounts owing in respect of the subordinated debt securities will be subordinated in right of payment to the prior payment in full in cash of principal of, interest on and all other amounts owing in respect of all of our senior indebtedness. Upon any payment or distribution of our assets of any kind or character, whether in cash, property or securities, to creditors upon any total or partial liquidation, dissolution, winding-up, reorganization, assignment for the benefit of creditors or marshaling of our assets or in a bankruptcy, reorganization, insolvency, receivership or other similar proceeding relating to us or our property, whether voluntary or involuntary, all principal of, interest on and all other amounts due or to become due shall be paid, first, to all senior indebtedness in full in cash, or such payment duly provided for to the satisfaction of the holders of senior indebtedness, before any payment or distribution of any kind or character is made on account of any principal of, interest on or other amounts owing in respect of the subordinated debt securities, or for the acquisition of any of the subordinated debt securities for cash, property or otherwise.

As of September 30, 2005, 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, 2005, 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 subordinated debt that may be issued under the subordinated debt indenture, was approximately \$355.0 million.

If any default occurs and is continuing in the payment when due, whether at maturity, upon any redemption, by declaration or otherwise, of any principal of, interest on, unpaid drawings for letters of credit issued in respect of, or regularly accruing fees with respect to, any senior indebtedness, no payment of any kind or character shall be made by us or any other person on our or their behalf with respect to any principal of, interest on or other amounts owing in respect of the subordinated debt securities or to acquire any of the subordinated debt securities for cash, property or otherwise.

If any other event of default occurs and is continuing with respect to any senior indebtedness, as such event of default is defined in the instrument creating or evidencing such senior indebtedness, permitting the holders of such senior indebtedness then outstanding to accelerate the maturity thereof and if the representative (as defined in the applicable indenture) for the respective issue of senior indebtedness gives written notice of the event of default to the trustee (a "default notice"), then, unless and until all events of default have been cured or waived or have ceased to exist or the trustee receives notice from the representative for the respective issue of senior indebtedness terminating the blockage period (as defined below), during the 179 days after the delivery of such default notice (the "blockage period"), neither we nor any other person on our behalf shall:

- (1) make any payment of any kind or character with respect to any principal of, interest on or other amounts owing in respect of the subordinated debt securities; or

- (2) acquire any of the subordinated debt securities for cash, property or otherwise.

Notwithstanding anything herein to the contrary, in no event will a blockage period extend beyond 179 days from the date the payment on the subordinated debt securities was due and only one such blockage period may be commenced within any 360 consecutive days. No event of default which existed or was continuing on the date of the commencement of any blockage period with respect to the senior indebtedness shall be, or be made, the basis for commencement of a second blockage period by the representative of such senior indebtedness whether or not within a period of 360 consecutive days unless such event of default shall have been cured or waived for a period of not less than 90 consecutive days (it being acknowledged that any subsequent action, or any breach of any financial covenants for a period commencing after the date of commencement of such blockage period that, in either case, would give rise to an event of default pursuant to any provisions under which an event of default previously existed or was continuing shall constitute a new event of default for this purpose).

The subordinated indentures do not, and any supplemental subordinated indenture will not, restrict the amount of our or our subsidiaries senior indebtedness or other indebtedness. As a result of the foregoing provisions, in the event of our insolvency, holders of the subordinated debt securities may recover ratably less than our general creditors.

senior indebtedness, unless otherwise specified in one or more applicable supplemental indentures or approved pursuant to a board resolution in accordance with the applicable indenture, means, with respect to us,

- (1) the principal (including redemption payments), premium, if any, interest and other payment obligations in respect of (A) our indebtedness for money borrowed and (B) our indebtedness evidenced by securities, debentures, bonds, notes or other similar instruments issued by us, including any such securities issued under any deed, indenture or other instrument to which we are a party (including, for the avoidance of doubt, indentures pursuant to which senior debt securities have been or may be issued);
- (2) all of our capital lease obligations;
- (3) all of our obligations issued or assumed as the deferred purchase price of property, all of our conditional sale obligations, all of our hedging agreements and agreements of a similar nature thereto and all agreements relating to any such agreements, and all of our obligations under any title retention agreement (but excluding trade accounts payable arising in the ordinary course of business);
- (4) all of our obligations for reimbursement on any letter of credit, banker's acceptance, security purchase facility or similar credit transaction;
- (5) all obligations of the type referred to in clauses (1) through (4) above of other persons for the payment of which we are responsible or liable as obligor, guarantor or otherwise;
- (6) all obligations of the type referred to in clauses (1) through (5) above of other persons secured by any lien on any of our property or assets (whether or not such obligation is assumed by us); and
- (7) any deferrals, amendments, renewals, extensions, modifications and refundings of all obligations of the type referred to in clauses (1) through (6) above, in each case whether or not contingent and whether outstanding at the date of effectiveness of the applicable supplemental indenture or thereafter incurred;

except, in each case, for the subordinated debt securities and any such other indebtedness or deferral, amendment, renewal, extension, modification or refunding that contains express terms, or is issued under a deed, indenture or other instrument that contains express terms, providing that it is subordinate to or ranks equal with the subordinated debt securities.

Such senior indebtedness shall continue to be senior indebtedness and be entitled to the benefits of the subordination provisions of the applicable indenture irrespective of any amendment, modification or waiver of any

term of such senior indebtedness and notwithstanding that no express written subordination agreement may have been entered into between the holders of such senior indebtedness and the trustee or any of the holders.

Discharge and Defeasance

Under the terms of the indentures, we will be discharged from any and all obligations in respect of the debt securities of any series and the applicable indenture (except in each case for certain obligations to register the transfer or exchange of debt securities, replace stolen, lost or mutilated debt securities, maintain paying agencies and hold moneys for payment in trust) if:

- (1) we deliver all outstanding debt securities of such series to the trustee for cancellation and pay all sums payable by us under such debt securities and the indenture with respect to such series; or
- (2) such debt securities either have become due and payable or will become due and payable within one year (or are scheduled for redemption within one year) and we deposit with the debt securities trustee, in trust:
 - (a) in the case of any debt securities of any series denominated in U.S. dollars, cash or U.S. government obligations sufficient to pay all principal of and interest and premium, if any, on such debt securities; and
 - (b) in the case of any debt securities of any series denominated in any currency other than U.S. dollars, an amount of the applicable currency in which such debt securities are denominated sufficient to pay all principal of and interest and premium, if any, on such debt securities.

In addition, unless the applicable prospectus supplement and supplemental indenture provide otherwise, we may elect either (1) to defease and be discharged from any and all obligations with respect to such debt securities (defeasance) or (2) to be released from our obligations with respect to such debt securities under certain covenants in the applicable indenture, and any omission to comply with such obligations will not constitute a default or an event of default with respect to such debt securities (covenant defeasance):

- (1) by delivering all outstanding debt securities of such series to the trustee for cancellation and paying all sums payable by us under such debt securities and the indenture with respect to such series;
- (2) by delivering to the trustee an officers certificate as to solvency and the absence of intent of preferring holders of the debt securities over our other creditors; and
- (3) after giving notice to the trustee of our intention to defease all of the debt securities of such series, by irrevocably depositing with the trustee or a paying agent
 - (a) in the case of any debt securities of any series denominated in U.S. dollars, cash or U.S. government obligations sufficient to pay all principal of and interest on such debt securities; and
 - (b) in the case of any debt securities of any series denominated in any currency other than U.S. dollars, an amount of the applicable currency in which the debt securities are denominated sufficient to pay all principal of and interest on such debt securities.

Such a trust may only be established if, among other things:

- (1) the applicable defeasance or covenant defeasance does not result in a breach or violation of, or constitute a default under, any material agreement or instrument to which we are a party or by which we are bound;
- (2) no event of default or event which with notice or lapse of time or both would become an event of default with respect to the debt securities to be defeased will have occurred and be continuing on the date of establishment of such a trust after giving effect to such establishment and, with respect to defeasance only,

no bankruptcy proceeding with respect to us will have occurred and be continuing at any time during the period ending on the 91st day after such date; and

- (3) we have d