

XL CAPITAL LTD  
Form 10-Q  
November 09, 2006

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

**FORM 10-Q**

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2006**

OR

**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

Commission file number 1-10804

**XL CAPITAL LTD**

**(Exact name of registrant as specified in its charter)**

CAYMAN ISLANDS  
(State or other jurisdiction of  
incorporation or organization)

98-0191089  
(I.R.S. Employer  
Identification No.)

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

**(441) 292-8515**

**(Registrant's telephone number, including area code)**

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

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

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

As of October 30, 2006, there were 180,573,133 outstanding Class A Ordinary Shares, \$0.01 par value per share, of the registrant.

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**XL CAPITAL LTD**

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## PART I FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

	(Unaudited) September 30, 2006	December 31, 2005
<b>ASSETS</b>		
Investments:		
Fixed maturities at fair value (amortized cost: 2006, \$34,564,249; 2005, \$31,984,076)	\$ 34,765,259	\$ 32,309,565
Equity securities, at fair value (cost: 2006, \$694,175; 2005, \$696,858)	847,308	868,801
Short-term investments, at fair value (amortized cost: 2006, \$3,105,784; 2005, \$2,552,589)	3,099,684	2,546,073
	<u>38,712,251</u>	<u>35,724,439</u>
Total investments available for sale	38,712,251	35,724,439
Investments in affiliates	2,112,353	2,046,721
Other investments	500,155	399,417
	<u>41,324,759</u>	<u>38,170,577</u>
Total investments	41,324,759	38,170,577
Cash and cash equivalents	2,128,221	3,693,475
Accrued investment income	432,176	391,660
Deferred acquisition costs	940,881	866,200
Prepaid reinsurance premiums	1,357,649	1,067,556
Premiums receivable	4,082,824	3,799,041
Reinsurance balances receivable	1,237,011	1,043,013
Unpaid losses and loss expenses recoverable	5,532,054	6,441,522
Goodwill and other intangible assets	1,817,229	1,814,544
Deferred tax asset, net	296,985	318,399
Other assets	630,210	848,914
	<u>59,779,999</u>	<u>58,454,901</u>
Total assets	\$ 59,779,999	\$ 58,454,901
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Liabilities:		
Unpaid losses and loss expenses	\$ 23,292,278	\$ 23,767,672
Deposit liabilities	8,103,553	8,240,987
Future policy benefit reserves	6,075,259	5,606,461
Unearned premiums	6,088,306	5,388,996
Notes payable and debt	3,368,132	3,412,698
Reinsurance balances payable	1,272,934	1,414,752
Net payable for investments purchased	246,593	639,034
Other liabilities	1,259,642	1,414,496
	<u>49,706,697</u>	<u>49,885,096</u>
Total liabilities	\$ 49,706,697	\$ 49,885,096

See accompanying Notes to Unaudited Consolidated Financial Statements

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

	<u>(Unaudited)</u> <u>September 30,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
<b>Commitments and Contingencies</b>		
Minority interest in equity of consolidated subsidiaries	\$ 549,327	\$ 50,518
<b>Shareholders' Equity:</b>		
Series A preference ordinary shares, 9,200,000 authorized, par value \$0.01 Issued and outstanding: 2006 and 2005, 9,200,000	\$ 92	\$ 92
Series B preference ordinary shares, 11,500,000 authorized, par value \$0.01 Issued and outstanding: 2006 and 2005, 11,500,000	115	115
Series C preference ordinary shares, 20,000,000 authorized, par value \$0.01 Issued and outstanding 2006 and 2005, nil		
Class A ordinary shares, 999,990,000 authorized, par value \$0.01 Issued and outstanding: 2006, 180,508,133; 2005, 179,528,593	1,805	1,795
Additional paid in capital	6,411,090	6,377,375
Accumulated other comprehensive (loss) income	240,556	268,243
Retained earnings	2,870,317	1,824,191
<b>Total shareholders' equity</b>	<b>\$ 9,523,975</b>	<b>\$ 8,471,811</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 59,779,999</b>	<b>\$ 58,454,901</b>

See accompanying Notes to Unaudited Consolidated Financial Statements

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

	(Unaudited) Three Months Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2006	2005	2006	2005
<b>Revenues:</b>				
Net premiums earned	\$ 1,855,064	\$ 1,800,054	\$ 5,658,203	\$ 7,412,257
Net investment income	518,281	366,692	1,455,645	1,042,298
Net realized (losses) gains on investments	(52,656)	53,223	(53,495)	203,949
Net realized and unrealized gains on derivative instruments	611	17,982	78,700	15,219
Net income from investment affiliates	39,370	56,735	174,612	116,473
Fee income and other	3,494	1,621	23,086	15,733
<b>Total revenues</b>	<b>\$ 2,364,164</b>	<b>\$ 2,296,307</b>	<b>\$ 7,336,751</b>	<b>\$ 8,805,929</b>
<b>Expenses:</b>				
Net losses and loss expenses incurred	\$ 1,040,167	\$ 2,590,969	\$ 3,256,852	\$ 4,995,737
Claims and policy benefits	156,028	142,957	531,361	2,289,248
Acquisition costs	260,877	296,018	823,476	901,400
Operating expenses	276,425	262,315	817,450	758,421
Exchange losses	21,943	5,159	75,385	5,388
Interest expense	150,388	89,748	412,889	275,800
Amortization of intangible assets	420	2,668	1,935	8,504
<b>Total expenses</b>	<b>\$ 1,906,248</b>	<b>\$ 3,389,834</b>	<b>\$ 5,919,348</b>	<b>\$ 9,234,498</b>
Income (loss) before minority interest, income tax charge (benefit) and equity in net (income) of insurance and financial affiliates	\$ 457,916	\$ (1,093,527)	\$ 1,417,403	\$ (428,569)
Minority interest in net income of subsidiary	8,355	2,411	10,613	6,765
Income tax charge (benefit)	43,655	(47,338)	176,728	47,312
Net (income) from operating affiliates	(19,964)	(9,479)	(51,560)	(42,525)
<b>Net income (loss)</b>	<b>425,870</b>	<b>(1,039,121)</b>	<b>1,281,622</b>	<b>(440,121)</b>
Preference share dividends	10,081	10,080	30,241	30,240
<b>Net income (loss) available to ordinary shareholders</b>	<b>\$ 415,789</b>	<b>\$ (1,049,201)</b>	<b>\$ 1,251,381</b>	<b>\$ (470,361)</b>
Weighted average ordinary shares and ordinary share equivalents outstanding basic	178,818	139,266	178,662	138,823
Weighted average ordinary shares and ordinary share equivalents outstanding diluted	179,439	139,266	179,298	138,823
Earnings (loss) per ordinary share and ordinary share equivalent basic	\$ 2.33	\$ (7.53)	\$ 7.00	\$ (3.39)
Earnings (loss) per ordinary share and ordinary share equivalent diluted	\$ 2.32	\$ (7.53)	\$ 6.98	\$ (3.39)

See accompanying Notes to Unaudited Consolidated Financial Statements



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

	(Unaudited) Three Months Ended September 30,		(Unaudited) Nine Months Ended September 30,	
	2006	2005	2006	2005
Net income (loss)	\$ 425,870	\$ (1,039,121)	\$ 1,281,622	\$ (440,121)
Change in net unrealized appreciation (depreciation) of investments, net of tax	641,548	(271,073)	(114,937)	(226,970)
Amortization of derivative loss on cash flow hedge	159	159	471	471
Foreign currency translation adjustments, net	(2,172)	36,528	94,826	115,850
Net unrealized (loss) gain on future policy benefit reserves	(1,685)	3,458	(14,595)	9,049
Minority interest share in change in accumulated other comprehensive loss in SCA	(7,676)		(7,676)	
Realization of loss on sale of SCA	14,224		14,224	
Comprehensive income (loss)	<u>\$ 1,070,268</u>	<u>\$ (1,270,049)</u>	<u>\$ 1,253,935</u>	<u>\$ (541,721)</u>

See accompanying Notes to Unaudited Consolidated Financial Statements



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

	(Unaudited) Nine Months Ended September 30,	
	2006	2005
<b>Series A and B Preference Ordinary Shares:</b>		
Balance beginning of year	\$ 207	\$ 207
Issue of shares		
	\$ 207	\$ 207
<b>Class A Ordinary Shares:</b>		
Balance beginning of year	\$ 1,795	\$ 1,389
Issue of shares	8	9
Exercise of stock options	3	8
Repurchase of shares		