

Edgar Filing: XL CAPITAL LTD - Form 424B3

XL CAPITAL LTD  
Form 424B3  
November 13, 2002

Filed Pursuant to Rule 424(b)(3)  
Registration Statement No. 333-75240

SUBJECT TO COMPLETION, DATED NOVEMBER 12, 2002.

PROSPECTUS SUPPLEMENT  
(TO PROSPECTUS DATED DECEMBER 20, 2001)

SHARES  
XL CAPITAL LTD  
% SERIES B PREFERENCE ORDINARY SHARES  
LIQUIDATION PREFERENCE \$25 PER SHARE  
[Logo Omitted]  
-----

We are selling \_\_\_\_\_ of our Series B Preference Ordinary Shares, par value \$0.01 per share.

Upon liquidation, dissolution or winding-up of XL Capital Ltd, the holders of the Series B Preference Shares will be entitled to receive from our assets legally available for distribution to shareholders a liquidation preference of \$25 per share, plus accrued and unpaid dividends, if any, to the date fixed for distribution. Dividends on the Series B Preference Shares will be payable, when, as and if declared by our Board of Directors, in an amount per share equal to % of the liquidation preference per annum (equivalent to \$ \_\_\_\_\_ per share). Dividends on the Series B Preference Shares will be cumulative from the date of original issuance and will be payable when, as and if declared by our Board of Directors, quarterly in arrears on March 31, June 30, September 30, and December 31 of each year, commencing March 31, 2003.

On and after \_\_\_\_\_, 2007, we may redeem the Series B Preference Shares, in whole or in part, at any time at a redemption price of \$25 per share, plus accrued and unpaid dividends, if any, to the date of redemption. We may not redeem the Series B Preference Shares before \_\_\_\_\_, 2007, except that we may redeem the Series B Preference Shares before that date at a redemption price of \$26 per share, plus accrued and unpaid dividends, if any, to the date of redemption, if we (1) submit a proposal to our ordinary shareholders concerning an amalgamation, merger or other similar transaction involving XL Capital Ltd that requires, or (2) submit any proposal for any other matter that, as a result of any change in Cayman Islands law after the date of this prospectus supplement, requires, in each case, a vote of the holders of our Series B Preference Shares voting separately as a single class (alone or with one or more class or series of preference ordinary shares). We may also redeem the Series B Preference Shares at any time upon the occurrence of specified tax events, at a redemption price of \$25 per share, plus accrued and unpaid dividends, if any, to the date of redemption. The Series B Preference Shares have no stated maturity and will not be subject to any sinking fund or mandatory redemption and will not be convertible into any of our other securities.

There is currently no public market for the Series B Preference Shares. We intend to apply to list the Series B Preference Shares on the New York Stock Exchange under the symbol "XL Pr B". If this application is approved, trading in the Series B Preference Shares is expected to commence within 30 days after the initial delivery of the Series B Preference Shares.

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

Edgar Filing: XL CAPITAL LTD - Form 424B3

	PER SHARE	TOTAL
	-----	-----
Public Offering Price (1)	\$	\$
Underwriting Discount	\$	\$
Proceeds to XL Capital Ltd (before expenses)	\$	\$

(1) Plus accrued dividends, if any, from the date of original issuance.

To the extent that the underwriters sell more than Series B Preference Shares, the underwriters have the option to purchase, within 20 days of the date of this prospectus supplement, up to an additional Series B Preference Shares from XL Capital Ltd at the public offering price less the underwriting discount.

The underwriters expect to deliver the Series B Preference Shares to purchasers on or about November , 2002.

-----  
JOINT BOOK-RUNNING MANAGERS

MERRILL LYNCH & CO.	-----	MORGAN STANLEY
A.G. EDWARDS & SONS, INC.		
GOLDMAN, SACHS & CO.		
	SALOMON SMITH BARNEY	
	UBS WARBURG	
		WACHOVIA SECURITIES

-----

BANC OF AMERICA SECURITIES LLC		
BEAR, STEARNS & CO. INC.		
	CREDIT SUISSE FIRST BOSTON	
	DEUTSCHE BANK SECURITIES	
		LEHMAN BROTHERS

November , 2002

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

YOU SHOULD CAREFULLY READ THIS PROSPECTUS SUPPLEMENT AND THE PROSPECTUS DELIVERED WITH THIS PROSPECTUS SUPPLEMENT. YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED OR INCORPORATED BY REFERENCE IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS. WE HAVE NOT AUTHORIZED ANYONE TO PROVIDE YOU WITH DIFFERENT INFORMATION. IF ANYONE PROVIDES YOU WITH DIFFERENT OR INCONSISTENT INFORMATION, YOU SHOULD NOT RELY ON IT. WE ARE OFFERING TO SELL, AND SEEKING OFFERS TO BUY, SERIES B PREFERENCE SHARES ONLY IN JURISDICTIONS WHERE OFFERS AND SALES ARE PERMITTED. THE INFORMATION CONTAINED IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS IS ACCURATE ONLY AS OF THE DATE OF THIS PROSPECTUS SUPPLEMENT OR THE DATE OF THE ACCOMPANYING PROSPECTUS AND THE INFORMATION IN THE DOCUMENTS INCORPORATED BY REFERENCE IN THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS IS ACCURATE ONLY AS OF THE DATE OF THOSE RESPECTIVE DOCUMENTS, REGARDLESS OF THE TIME OF DELIVERY OF THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS OR OF ANY SALE OF SERIES B PREFERENCE SHARES.

## Edgar Filing: XL CAPITAL LTD - Form 424B3

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

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

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

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

In this prospectus supplement, references to "XL Capital," "we," "us" and "our" refer to XL Capital Ltd and, unless the context otherwise requires or as otherwise expressly stated, its subsidiaries. In this prospectus supplement, references to "Series B Preference Shares" mean our " % Series B Preference Ordinary Shares." In this prospectus supplement and the accompanying prospectus, references to "dollar" and "\$" are to United States currency, and the terms "United States" and "U.S." mean the United States of America, its states, its territories, its possessions and all areas subject to its jurisdiction.

S-2

### TABLE OF CONTENTS

#### PROSPECTUS SUPPLEMENT

	PAGE
	----
XL Capital Ltd .....	S-4
The Offering .....	S-5
Capitalization .....	S-8
Use of Proceeds .....	S-9
Ratio of Earnings to Combined Fixed Charges and Preference Ordinary Share Dividends .....	S-9
Description of Series B Preference Shares .....	S-10
Certain Tax Considerations .....	S-18
Underwriting .....	S-24
Legal Matters .....	S-25
Experts .....	S-25
Cautionary Note Regarding Forward-Looking Statements .....	S-26
Incorporation of Documents by Reference .....	S-27

#### PROSPECTUS

## Edgar Filing: XL CAPITAL LTD - Form 424B3

About This Prospectus .....	1
Where You Can Find More Information .....	1
Incorporation of Documents by Reference .....	2
XL Capital Ltd .....	3
XL Capital Finance (Europe) plc .....	4
The Trusts .....	4
Use of Proceeds .....	5
Accounting Treatment Relating to Trust Securities .....	5
Ratio of Earnings to Fixed Charges and Preference Ordinary Share Dividends .....	5
General Description of the Offered Securities .....	6
Description of XL Capital Share Capital .....	6
Description of XL Capital Preference Ordinary Shares .....	7
Description of XL Capital Ordinary Shares .....	10
Description of XL Capital Ordinary Share Warrants .....	12
Description of XL Capital Ordinary Share Purchase Contracts and Ordinary Share Purchase Units .....	14
Description of XL Capital Debt Securities .....	14
Description of XL Capital Finance (Europe) plc Senior Debt Securities .....	27
Description of the Trust Preferred Securities .....	38
Description of the Trust Preferred Securities Guarantee .....	52
Description of the Subordinated Deferrable Interest Debentures .....	55
Plan of Distribution .....	63
Legal Matters .....	64
Experts .....	64
Enforcement of Civil Liabilities Under United States Federal Securities Laws .....	65

S-3

### XL CAPITAL LTD

We 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 HM11. Our telephone number is (441) 292-8515. Our website is [www.xlcapital.com](http://www.xlcapital.com). The information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus.

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

-----  
 THE OFFERING

The description of the terms of the Series B Preference Shares in this section is a summary of the terms of the Series B Preference Shares. Because the following summary is not complete, you should refer to the resolutions of the Special Committee of our Board of Directors designating the rights, preferences and other terms of the Series B Preference Shares for a complete description of the terms of the Series B Preference Shares. You should also refer to the sections entitled "Description of Series B Preference Shares" in this prospectus supplement and "Description of XL Capital Share Capital" and "Description of XL Capital Preference Ordinary Shares" in the accompanying prospectus. The information set forth in this section assumes that the underwriters do not exercise the over-allotment option granted by XL Capital Ltd to purchase up to additional Series B Preference Shares in connection with the offering, as discussed under "Underwriting" in this prospectus supplement.

Issuer.....	XL Capital Ltd.
Securities Offered.....	% Series B Preference Ordinary Shares.
Dividends.....	Dividends on the Series B Preference Shares will be cumulative from the date of original issuance and will be payable when, as and if declared by our Board of Directors, quarterly in arrears on March 31, June 30, September 30, and December 31 of each year (or, if this date is not a business day, on the business day immediately following this date), commencing March 31, 2003, in an amount per share equal to % of the liquidation preference (equivalent to \$ per share). See "Description of Series B Preference Shares -- Dividend Rights" in this prospectus supplement and "Description of XL Capital Preference Ordinary Shares -- Dividends" in the accompanying prospectus.
Payment of Additional Amounts.....	Subject to certain limitations, we will pay additional amounts to holders of the Series B Preference Shares, as additional dividends, to make up for any deduction or withholding for any taxes or other charges imposed on amounts we must pay with respect to the Series B Preference Shares, so that the net amounts paid will be equal to the amounts we would otherwise be required to pay had no such withholding or deduction been required. See "Description of Series B Preference Shares -- Payment of Additional Amounts" in this prospectus supplement.
Liquidation Rights .....	Upon liquidation, dissolution or winding-up of XL Capital, the holders of the Series B Preference Shares will be entitled to receive from our assets legally available for distribution to shareholders a liquidation preference of \$25 per share,

Edgar Filing: XL CAPITAL LTD - Form 424B3

plus accrued and unpaid dividends, if any, without interest on such unpaid dividends, to the date fixed for distribution. See "Description of Series B Preference Shares -- Liquidation Preference" in this prospectus supplement and "Description of XL Capital Preference Ordinary Shares -- Liquidation Rights" in the accompanying prospectus.

Conversion ..... The Series B Preference Shares are not convertible into or exchangeable for any of our other securities.

Redemption ..... On and after \_\_\_\_\_, 2007, we may redeem the Series B Preference Shares, in whole or in part, at any time at a redemption price of \$25 per share, plus accrued and unpaid dividends, if any, to the date of redemption. We may not redeem the Series B Preference Shares before \_\_\_\_\_, 2007, except as described under "Tax Redemption" and except that we may redeem the Series B Preference Shares before that date at a redemption price of \$26 per share, plus accrued and unpaid dividends, if any, to the date of redemption, if we

-----  
S-5  
-----

- o submit a proposal to our ordinary shareholders concerning an amalgamation, merger or other similar transaction involving XL Capital that requires; or
- o submit any proposal for any other matter that, as a result of any change in Cayman Islands law after the date of this prospectus supplement (whether by enactment or official interpretation), requires

in each case, a vote of the holders of our Series B Preference Shares, voting separately as a single class (alone or with one or more class or series of preference ordinary shares).

The Series B Preference Shares have no stated maturity and will not be subject to any sinking fund or mandatory redemption. See "Description of Series B Preference Shares -- Redemption" in this prospectus supplement and "Description of XL Capital Preference Ordinary Shares -- Redemption Provisions" in the accompanying prospectus.

Tax Redemption ..... We will have the option to redeem the Series B Preference Shares, at any time in

Edgar Filing: XL CAPITAL LTD - Form 424B3

whole or in part from time to time, at a redemption price of \$25 per share plus accrued and unpaid dividends, if any, to the date of redemption, if there is a change in tax law that would require us or any successor corporation to pay any additional amounts with respect to the Series B Preference Shares. See "Description of Series B Preference Shares -- Tax Redemption" in this prospectus supplement.

Voting Rights ..... Generally, the holders of the Series B Preference Shares will not have any voting rights. Whenever dividends on the Series B Preference Shares are in arrears in an amount equivalent to dividends for six full dividend periods (whether or not consecutive), holders of the Series B Preference Shares (voting as a single class with all other series of preference ordinary shares that are also in arrears and have such right) will have the right to elect two persons who will then be appointed as directors until such dividend arrearage is eliminated. In addition, unless previously redeemed or called for redemption, certain transactions that would vary the rights of holders of the Series B Preference Shares cannot be made without the approval of a special resolution in writing by the holders of 100% of the Series B Preference Shares or the sanction of a special resolution passed by two-thirds of the votes cast at a separate meeting of the holders of the Series B Preference Shares, subject to any requirements of Cayman Islands law. See "Description of Series B Preference Shares -- Voting Rights" in this prospectus supplement.

Ranking ..... The Series B Preference Shares will rank senior to our ordinary shares (other than a class or series of preference ordinary shares ranking senior to or on a parity with the Series B Preference Shares) with respect to payment of dividends and amounts upon liquidation, dissolution or winding-up. See "Description of Series B Preference Shares -- Dividend Rights" and "Description of Series B Preference Shares -- Liquidation Preference" in this prospectus supplement and "Description of XL Capital Preference Ordinary Shares -- Dividends," "Description of XL Capital Preference

---

	Ordinary Shares -- Liquidation Rights" in the accompanying prospectus. The Series B Preference Shares will rank on a parity with our outstanding Series A preference ordinary shares with respect to payment of dividends and amounts upon liquidation, dissolution or winding-up.
Limitations on Transfer and Ownership .....	Our Articles of Association provide that (1) our Board of Directors shall decline to register a transfer of shares if 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 or of the total issued shares or of the total voting power of XL Capital Ltd and (2) no person may vote any shares in excess of this limit. See "Description of Series B Preference Shares -- Limitations on Transfer and Ownership" in this prospectus supplement.
NYSE Listing .....	We intend to apply to list the Series B Preference Shares on the New York Stock Exchange under the symbol "XL Pr B". If this application is approved, trading in the Series B Preference Shares is expected to commence within 30 days after the initial delivery of the Series B Preference Shares. See "Description of Series B Preference Shares -- Market for the Series B Preference Shares" in this prospectus supplement.
Ratings .....	We have been advised that the Series B Preference Shares have been assigned ratings of "A3" by Moody's Investors Service, Inc., "A-" by Standard & Poor's Rating Services, "A" by Fitch, Inc. and "a-" by A.M. Best Company. These ratings have been obtained with the understanding that Moody's, Standard & Poor's, Fitch, Inc. and A.M. Best Company will continue to monitor our credit rating and will make future adjustment to the extent warranted. A rating reflects only the view of Moody's, Standard & Poor's, Fitch, Inc. and A.M. Best Company, as the case may be, and is not a recommendation to buy, sell, or hold the Series B Preference Shares. There is no assurance that any such rating will be retained for any given period of time or that it will not be revised downward or withdrawn entirely by Moody's, Standard & Poor's, Fitch, Inc. or A.M. Best Company, as the case may be, if, in their respective judgments, circumstances so warrant.
Use of Proceeds .....	General corporate purposes.



Edgar Filing: XL CAPITAL LTD - Form 424B3

Form of the Series B Preference

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

S-7

CAPITALIZATION

The following table sets forth the consolidated capitalization of XL Capital as of September 30, 2002, on an actual basis and as adjusted to give effect to the issuance of the Series B Preference Shares offered hereby. The following table assumes that the underwriters have not exercised their over-allotment option.

You should read the following information in conjunction with our consolidated financial statements and the notes to those financial statements in our Form 10-Q for the quarterly period ended September 30, 2002, which is incorporated by reference in this prospectus supplement and the accompanying prospectus.

	UNAUDITED	
	AS OF SEPTEMBER 30, 2002	
	ACTUAL	AS ADJU
	-----	-----
	(U.S. DOLLARS IN THOUSAND)	
DEBT:		
364-day revolver (1) (2) .....	--	
7.15% Senior Notes .....	\$ 99,976	\$ 99,
6.58% Guaranteed Senior Notes .....	255,000	255,
6.50% Guaranteed Senior Notes .....	597,043	597,
Zero Coupon Convertible Debentures (3) .....	621,703	621,
Liquid Yield Option(TM) Notes (3) (4) .....	296,488	296,
	-----	-----
Total debt .....	\$1,870,210	\$1,870,
	-----	-----
SHAREHOLDERS' EQUITY:		
Class A ordinary shares; \$0.01 par value per share, 135,824,297 shares issued and outstanding (actual) .....	1,358	1,
Class B ordinary shares; \$0.01 par value per share, no shares issued and outstanding .....	--	
Series A preference ordinary shares; \$0.01 par value per share, 9,200,000 shares issued and outstanding (actual) (5) .....	92	

## Edgar Filing: XL CAPITAL LTD - Form 424B3

Series B preference ordinary shares; \$0.01 par value per share, no shares issued and outstanding (actual) and                      shares issued and outstanding (as adjusted) .....	--	
Contributed surplus .....	3,665,693	
Accumulated other comprehensive income .....	35,937	35,
Deferred compensation .....	(34,770)	(34,
Retained earnings .....	2,280,366	2,280,
	-----	-----
Total shareholders' equity .....	5,948,676	
	-----	-----
Total capitalization .....	\$7,818,886	\$
	=====	=====

- 
- (1) Effective June 27, 2002, we renewed our combined \$2.0 billion letter of credit and revolving credit facility. Of this amount, \$500 million is available as revolving credit.
  
  - (2) Does not include letters of credit outstanding as of September 30, 2002 in the amount of approximately \$2.0 billion.
  
  - (3) The Zero Coupon Convertible Debentures and the Liquid Yield Option<sup>TM</sup> Notes (the "LYONs") were issued at a discount to their face amount. The amounts shown under "Actual" and "As Adjusted" are the accreted values at September 30, 2002. The Zero Coupon Convertible Debentures and the LYONs are convertible into Class A ordinary shares under certain circumstances.
  
  - (4) The decline in our ordinary share price in the period prior to the first "put" date for the LYONs on September 7, 2002 resulted in an increase in the accretion rate on the LYONs for the subsequent twelve month period of 50 basis points, for a total rate of 3.375%.
  
  - (5) In August 2002, we issued and sold 9,200,000 8% Series A preference ordinary shares for gross proceeds of \$230 million.

S-8

### USE OF PROCEEDS

We expect the net proceeds from this offering of Series B Preference Shares to be approximately \$193.3 million, after deducting underwriting discounts and estimated expenses of the offering, or \$222.3 million, after deducting underwriting discounts and estimated expenses of the offering, if the underwriters exercise their over-allotment option in full. We intend to use the net proceeds from the sale of the Series B Preference Shares for our general corporate purposes.

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

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

Edgar Filing: XL CAPITAL LTD - Form 424B3

	Nine Months Ended September 30, 2002*	Fiscal Year Ended Dec		
		2001	2000***	1999***
Ratio of Earnings to Fixed Charges .....	2.6x	**	6.5x	8.3x
Ratio of Earnings to Combined Fixed Charges and Preference Ordinary Share Dividends .....	2.5x	**	6.5x	8.3x

-----

\* On August 14, 2002, we issued and sold 8,000,000 of 8% Series A preference ordinary shares. We issued and sold an additional 1,200,000 of 8% Series A preference shares to the underwriters on August 16, 2002 pursuant to the exercise of the underwriters' over-allotment option. As a result, our ratio of earnings to combined fixed charges and preference ordinary share dividends for the nine months ended September 30, 2002 includes the Series A preference ordinary shares only for the period from their issuance through September 30, 2002.

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

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

We have computed the foregoing ratios by dividing (1) income from continuing operations before income taxes, minority interest and income or loss from equity investees plus the sum of fixed charges, amortization of capitalized interest and distributed income of equity investees, less minority interest, by (2) the sum of fixed charges and where indicated, preference ordinary share dividends. Fixed charges consist of interest expense on all indebtedness (including amortization of deferred financing costs) and the portion of operating lease rental expense that is representative of the interest factor (deemed to be 30% of operating lease rentals). Because XL Capital had no outstanding preference ordinary shares during any of the fiscal years ended December 31 that are presented, the ratio of earnings to fixed charges is identical to the ratio of earnings to combined fixed charges and preference ordinary share dividends for each of these periods presented.

S-9

DESCRIPTION OF SERIES B PREFERENCE SHARES

The following description of our Series B Preference Shares includes a summary of certain provisions of our Memorandum of Association and our Articles of Association, as well as the resolutions of the Special Committee of our Board of Directors designating the rights, preferences and other terms of the Series B Preference Shares being offered by this prospectus supplement. For a complete description of the terms and provisions of the Series B Preference Shares, you should refer to the accompanying prospectus, our Memorandum of Association, our Articles of Association and the resolutions, which are incorporated by reference herein. A copy of the resolutions will be filed as an exhibit to our

## Edgar Filing: XL CAPITAL LTD - Form 424B3

registration statement by means of a Current Report on Form 8-K. Copies of our Memorandum of Association and our Articles of Association were filed as exhibits to our Annual Report on Form 10-K filed for the year ended December 31, 2000 and are incorporated by reference into this prospectus supplement and the accompanying prospectus. See "Certain Tax Considerations" elsewhere in this prospectus supplement for a summary of certain material U.S. federal and Cayman Islands tax consequences applicable to the holders of Series B Preference Shares. In this section, references to "XL Capital Ltd," "we," "us" and "our" refer to XL Capital Ltd and not any of its subsidiaries.

### GENERAL

At a meeting held on November , 2002, the Special Committee of the Board of Directors approved the resolutions setting forth the specific rights, preferences, limitations and other terms of the Series B Preference Shares.

When issued and paid for as contemplated by this prospectus supplement, the Series B Preference Shares will be duly authorized, validly issued, fully paid and non-assessable. The holders of the Series B Preference Shares will have no preemptive rights with respect to any of our ordinary shares or any other securities convertible into or carrying rights or options to purchase any such shares. The Series B Preference Shares will not be subject to any sinking fund or other obligation of XL Capital to redeem or retire the Series B Preference Shares. Unless redeemed by us as provided herein, the Series B Preference Shares will have a perpetual term, with no maturity.

Our Board of Directors may from time to time create and issue preference ordinary shares of other series without the approval of our shareholders and fix their relative rights, preferences and limitations. At present, we have no issued preference ordinary shares which are senior to or junior to the Series B Preference Shares with respect to the payment of dividends and distribution of assets upon the liquidation, dissolution or winding-up of XL Capital Ltd. The Series B Preference Shares will rank on a parity with our outstanding Series A preference ordinary shares with respect to the payment of dividends and distribution of assets upon liquidation, dissolution or winding-up of XL Capital Ltd. We are presently exploring the issuance of one or more securities that may, under certain circumstances, require us to issue preference ordinary shares which in each case would rank on a parity with the Series B Preference Shares. Unless previously redeemed or called for redemption, certain transactions that would vary the rights of holders of the Series B Preference Shares cannot be made without the approval of a special resolution in writing by the holders of 100% of the Series B Preference Shares or the sanction of a special resolution passed by two-thirds of the votes cast at a separate meeting of the holders of the Series B Preference Shares, subject to any requirements of Cayman Islands law. Section 60 of the Cayman Islands Companies Law defines a resolution as a special resolution when (a) it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given; or (b) if so authorized by its articles of association, it has been approved in writing by all of the members entitled to vote at a general meeting of the company. Pursuant to our Articles of Association, at every separate meeting of the holders of the Series B Preference Shares, the necessary quorum shall be any one or more persons present in person or by proxy holding not less than 50% of the issued shares of that class. The rights conferred upon the holders of the Series B Preference Shares shall not be deemed to be varied by the creation or issue of any further class or series of shares ranking on a parity with or junior to the Series B Preference Shares or convertible into or exchangeable for any class or series of preference ordinary shares ranking on a parity with or junior to the Series B Preference Shares with respect to the payment of dividends and distribution of assets upon the

## Edgar Filing: XL CAPITAL LTD - Form 424B3

liquidation, dissolution or winding-up of XL Capital Ltd. See "--Voting Rights."

We currently conduct substantially all 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

S-10

subsidiaries are the principal source of funds necessary to meet our dividend, redemption and liquidation preference payment obligations. Contractual provisions or laws, as well as the financial condition and operating and regulatory requirements of our subsidiaries, may limit our ability to obtain the cash required to satisfy our obligations, including dividend, redemption and liquidation preference payments on the Series B Preference Shares. For a description of certain regulatory restrictions on the payment of dividends by our subsidiaries, see Note 22 of the notes to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2001, which is incorporated by reference in this prospectus supplement and the accompanying prospectus.

### DIVIDEND RIGHTS

Holders of the Series B Preference Shares will be entitled to receive, when, as and if declared by our Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends in an amount per share equal to % of the liquidation preference per annum (equivalent to \$ per share). Such dividends will begin to accrue and will be cumulative from the date of original issuance and will be payable quarterly, when, as and if declared by our Board of Directors, in arrears on March 31, June 30, September 30, and December 31 of each year or, if such date is not a business day, on the business day immediately after such date. The first dividend, which, if declared, will be payable on March 31, 2003, will represent the period from the original issue date up to March 31, 2003. The dividend for such initial dividend period and any other dividend payable on the Series B Preference Shares for any partial dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as they appear in our register of members at the close of business on the applicable record date, which will be one day prior to the dividend payment date as long as all of the Series B Preference Shares remain in book-entry form. If all of the Series B Preference Shares are not in book-entry form, the record date will be 15 days prior to the dividend payment date (whether or not such date is a business day).

No dividends on Series B Preference Shares 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 Series B Preference Shares will be declared or paid or set apart for payment if prohibited by law or regulation. Dividends on the Series B Preference Shares will accrue and will be fully cumulative, whether or not there are funds legally available for the payment of such dividends and whether or not the dividends are declared. Holders of the Series B Preference Shares will not be entitled to any dividends in excess of full cumulative dividends as described above. No interest or sum of money in lieu of interest will be payable on any dividend payment or on any payment on Series B Preference Shares which is in arrears.

## Edgar Filing: XL CAPITAL LTD - Form 424B3

As long as any Series B Preference Shares are outstanding, no dividends or other distributions may be declared or paid or set apart for payment on any class or series of shares ranking on parity with the Series B Preference Shares with respect to the payment of dividends and amounts upon liquidation, dissolution or winding-up of XL Capital Ltd (including, without limitation, the Series A preference ordinary shares), as further described in the resolutions creating the Series B Preference Shares (the "Parity Shares"), for any period unless either (1) full cumulative dividends have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for such payments on the Series B Preference Shares for all dividend periods terminating on or prior to the dividend payment date on such Parity Shares, or (2) all dividends declared upon the Series B Preference Shares and any Parity Shares are declared pro rata so that the amount of dividends declared per share on the Series B Preference Shares and any Parity Shares will in all cases bear to each other the same ratio that accrued and unpaid dividends per share on the Series B Preference Shares and such Parity Shares bear to each other.

As long as any Series B Preference Shares are outstanding, (1) no dividends (other than those paid in ordinary shares or other shares ranking junior in right of payment to the Series B Preference Shares as to dividends and as to the distribution of assets upon any liquidation, dissolution or winding-up of XL Capital Ltd (together with the ordinary shares, "Fully Junior Shares")) may be declared or paid or set apart for payment upon any ordinary shares or other shares ranking junior in right of payment to the Series B Preference Shares as to dividends or as to the distribution of assets upon any liquidation, dissolution or winding-up of XL Capital Ltd (together with the ordinary shares, "Junior Shares"), (2) no other distribution (other than those paid in Fully

S-11

Junior Shares) may be declared or paid or set apart for payment upon any Junior Shares, and (3) no Junior Shares will be redeemed, purchased or otherwise acquired (other than a redemption, purchase or other acquisition of ordinary shares made for purposes of any employee incentive, stock, benefit or any similar plan of XL Capital Ltd or any of its subsidiaries) for any consideration (or any moneys be paid to or made available for a sinking fund or the redemption of any Junior Shares) by XL Capital Ltd (except by conversion into or exchange for Fully Junior Shares), unless, in any such case, full cumulative dividends on the Series B Preference Shares and any Parity Shares have been or contemporaneously are declared and paid, or declared and a sum sufficient for the payment thereof set apart for payment, for all dividend periods terminating on or prior to the date such dividends or distributions are declared or paid on the Junior Shares, or such Junior Shares are redeemed, purchased or otherwise acquired.

Any dividend payment made on Series B Preference Shares will first be credited against the earliest accrued but unpaid dividend due with respect to Series B Preference Shares which remains payable.

Subject to applicable law, any dividend payment unclaimed for a period of six years from the date of declaration of such dividend shall be forfeited and shall revert to XL Capital Ltd, and the payment by our Board of Directors of any unclaimed dividend, interest or other sum payable on or in respect of the share into a separate account shall not constitute XL Capital Ltd a trustee in respect thereof.

### PAYMENT OF ADDITIONAL AMOUNTS

We will make all payments on the Series B Preference Shares free and clear

## Edgar Filing: XL CAPITAL LTD - Form 424B3

of and without deduction or withholding for or on account of any present or future taxes, assessments or other governmental charges imposed by any jurisdiction, political subdivision or taxing authority described in the second paragraph under "--Tax Redemption", unless the deduction or withholding of such taxes, assessments or other governmental charges is required by law, regulations or rulings or the application or official interpretation of such law, regulations or rulings. In that event, we will pay or cause to be paid additional amounts to the registered holders of the Series B Preference Shares as additional dividends to make up for any deduction or withholding for any present or future taxes, assessments or other governmental charges imposed by any jurisdiction, political subdivision or taxing authority described in the second paragraph under "--Tax Redemption" in respect of any amounts that we or a successor corporation must pay with respect to the Series B Preference Shares, so that the net amounts paid to the holders of the Series B Preference Shares, after that deduction or withholding, shall equal the respective amounts that would have been receivable by such holders had no such withholding or deduction been required. However, we will not be obligated to pay additional amounts to any holder that:

- o resides in or is a citizen of the jurisdiction, political subdivision or taxing authority imposing the taxes, assessments or other governmental charges that would otherwise trigger our obligation to pay additional amounts; or
- o is a fiduciary, partnership, limited liability company or other pass-thru entity if, and to the extent that, the payment of additional amounts would be required by a jurisdiction, political subdivision or taxing authority described in the second paragraph under "--Tax Redemption" to be included in the income for tax purposes of a beneficiary or settlor with respect to that fiduciary or a member of that partnership, limited liability company or other pass-thru entity who would not have been entitled to any additional amounts had that beneficiary, settlor or member held those Series B Preference Shares directly.

In addition, we will not be obligated to pay any additional amounts to a holder on account of:

- o any tax, assessment or other governmental charge that would not have been imposed but for the existence of any present or former connection between the holder, or certain other persons, and the taxing jurisdiction or political subdivision, or any Series B Preference Share presented for payment more than 30 days after the Relevant Date;
- o any estate, inheritance, gift, sales, transfer, personal property or similar tax, assessment or other governmental charge;
- o any tax, assessment or other governmental charge that is payable otherwise than by withholding or deduction from payment of the liquidation preference of or any dividends on the Series B Preference Shares;

S-12

- o any tax, assessment or other governmental charge that is imposed or withheld by reason of the failure by the holder or the beneficial owner of the Series B Preference Shares to promptly comply with a request by us to (a) provide information, documents, certifications or other evidence concerning the nationality, residence or identity of the holder or beneficial owner or (b) make and deliver any declaration or other

## Edgar Filing: XL CAPITAL LTD - Form 424B3

similar claim, other than a claim for refund of a tax, assessment or other governmental charge withheld by us, or satisfy any information or reporting requirements, which, in the case of clauses (a) or (b), is required or imposed by a statute, treaty, regulation or administrative practice of the taxing jurisdiction as a precondition to exemption from all or part of that tax, assessment or other governmental charge; or

- o any combination of the items identified by the bullet points above.

The "Relevant Date" means, in respect of any payment, the date on which such payment first becomes due and payable, but if the full amount of the moneys payable has not been received by the depository on or prior to such due date, it means the first date on which, the full amount of such moneys having been so received and being available for payment to holders, notice to that effect shall have been duly given to the holders of the Series B Preference Shares.

Our obligation to make any payments of such additional amounts with respect to dividends (including any accrued and unpaid dividends relating to any redemption payments or payments at liquidation, dissolution or winding-up of XL Capital Ltd) is subject to the limitation based on distributable profits described under "-- Certain Restrictions on Payment of Dividends and Redemption or Purchase of Shares" and to applicable law.

### CERTAIN RESTRICTIONS ON PAYMENT OF DIVIDENDS AND REDEMPTION OR PURCHASE OF SHARES

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 its reserves to a level that is not sufficient to meet the reserve requirements of our business.

Under Cayman Islands law, we may not redeem or purchase our Series B Preference Shares except out of our profits, from the proceeds of a fresh issue of shares made for the purpose of the redemption or purchase, out of capital or from the share premium account. A payment out of capital or the share premium account is not lawful unless immediately following the date on which the payment is proposed to be made, XL Capital Ltd is able to pay its debts as they fall due in the ordinary course of business. The premium, if any, payable on redemption or purchase must be provided for out of our profits which would otherwise be available for dividend or distribution or out of our share premium account before or at the time the Series B Preference Shares are redeemed or purchased.

### LIQUIDATION PREFERENCE

Upon any voluntary or involuntary liquidation, dissolution or winding-up of the affairs of XL Capital Ltd, the holders of Series B Preference Shares will be entitled to receive from our assets legally available for distribution to shareholders \$25 per share plus all accrued but unpaid dividends (whether or not earned or declared) to the date fixed for distribution before any distribution is made to holders of any Junior Shares, without interest on such unpaid dividends.

After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series B Preference Shares will have no right or claim to any of our remaining assets. In the event that upon any such voluntary or involuntary liquidation, dissolution or winding-up of XL Capital



## Edgar Filing: XL CAPITAL LTD - Form 424B3

Ltd, our available assets are insufficient to pay the amount of the liquidating distributions on all outstanding Series B Preference Shares and the corresponding amounts payable on all Parity Shares, then the holders of the Series B Preference Shares and all such Parity Shares shall share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

S-13

If liquidating distributions shall have been made in full to all holders of Series B Preference Shares and all Parity Shares, our remaining assets will be distributed among the holders of any Junior Shares according to their respective rights and preferences and, in each case, according to their respective number of shares. For such purposes, a consolidation, amalgamation, merger, arrangement or reconstruction involving XL Capital Ltd or the sale or transfer of all or substantially all of the shares or the property or business of XL Capital Ltd will not be deemed to constitute a liquidation, dissolution or winding-up.

### REDEMPTION

The Series B Preference Shares are not redeemable prior to \_\_\_\_\_, 2007, except as discussed below and under "--Tax Redemption". On or after such date, we, at our option, upon not less than 30 nor more than 60 days prior written notice, may redeem the Series B Preference Shares in whole at any time or from time to time in part, for cash at a redemption price of \$25 per share plus all accrued and unpaid dividends, if any, thereon to the date of redemption, without interest on such unpaid dividends. Holders of the Series B Preference Shares to be redeemed will be entitled to the redemption price following the surrender of certificates for such shares at the place designated in the notice.

If fewer than all of the outstanding Series B Preference Shares are to be redeemed, the number of shares to be redeemed will be determined by us and such shares may be redeemed pro rata from the holders of record in proportion to the number of such shares held by such holders (with adjustments to avoid redemption of fractional shares) or by lot.

Unless full cumulative dividends on all Series B Preference Shares and all Parity Shares shall have been declared and paid, or declared and a sum sufficient for the payment thereof set apart for payment for all past dividend periods terminating on or prior to the date of such redemption, purchase or other acquisition, no Series B Preference Shares or Parity Shares may be redeemed, purchased or otherwise acquired by us unless all outstanding Series B Preference Shares and any Parity Shares are redeemed; provided, that, we may acquire fewer than all of the outstanding Series B Preference Shares or Parity Shares pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding Series B Preference Shares and Parity Shares.

At any time prior to \_\_\_\_\_, 2007, if we shall have submitted to the holders of our ordinary shares a proposal for an amalgamation, consolidation, merger, arrangement, reconstruction, reincorporation, de-registration or any other similar transaction involving XL Capital Ltd that requires or shall have submitted any proposal for any other matter that, as a result of any change in Cayman Islands law after the date of this prospectus supplement (whether by enactment or official interpretation) requires, in each case, a vote of the holders of the Series B Preference Shares at the time outstanding, voting separately as a single class (alone or with one or more class or series of preference ordinary shares, including our Series A preference ordinary shares), then we will have the option upon not less than 30 nor more than 60 days prior written notice to redeem all of the outstanding Series B Preference Shares for cash at a redemption price of \$26 per share, plus all accrued and unpaid

## Edgar Filing: XL CAPITAL LTD - Form 424B3

dividends, if any, to the date of redemption, without interest on such unpaid dividends.

Notice of any redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each holder of record of Series B Preference Shares to be redeemed at the address shown in the register of members of XL Capital. Each notice will state, as appropriate: (1) the redemption date; (2) the number of Series B Preference Shares to be redeemed; (3) the redemption price; (4) the place or places where certificates for Series B Preference Shares are to be surrendered for payment of the redemption price if any such certificates are outstanding; and (5) where applicable, that dividends on the Series B Preference Shares to be redeemed will cease to accrue on such redemption date. If fewer than all Series B Preference Shares are to be redeemed, the notice mailed to each such holder thereof will also specify the number of Series B Preference Shares to be redeemed from such holder. If notice of redemption of any Series B Preference Shares has been given and if the funds necessary for such redemption have been set apart by us in trust for the benefit of the holders of Series B Preference Shares so called for redemption, then from and after the redemption date, dividends will cease to accrue on the Series B Preference Shares being redeemed, the Series B Preference Shares will no longer be deemed to be outstanding and all rights of the holders of such shares will terminate, except the right to receive the redemption price.

S-14

If a redemption date falls after a dividend record date and prior to the corresponding dividend payment date, the holders of the Series B Preference Shares at the close of business on the dividend record date will be entitled to receive the dividend payable with respect to such Series B Preference Shares on the corresponding dividend payment date notwithstanding the redemption thereof between the dividend record date and the corresponding dividend payment date or a default in the payment of the dividend due on such dividend payment date.

Subject to (1) certain limitations contained in our Articles of Association, (2) the special rights granted to any of our issued and outstanding shares, (3) applicable law, and (4) our requirement to make a purchase or exchange offer on the same terms to holders of all outstanding Series B Preference Shares and Parity Shares, we may, at any time and from time to time, purchase outstanding Series B Preference Shares, in the open market, by tender to all holders of Series B Preference Shares, by private agreement or otherwise as we see fit. Any Series B Preference Shares that we purchase for our own account (other than in the ordinary course of business of dealing in securities) will be cancelled by us and will no longer be issued and outstanding.

### TAX REDEMPTION

We will have the option to redeem for cash the Series B Preference Shares at any time in whole or from time to time in part, upon not less than 30 nor more than 60 days prior written notice in accordance with the procedures described under "--Redemption", at a redemption price of \$25 per share plus accrued and unpaid dividends, if any, to the date of redemption, without interest on such unpaid dividends, if there is a "change in tax law" that would require us or any successor corporation to pay any additional amounts with respect to the Series B Preference Shares.

A "change in tax law" that would trigger the provisions of the preceding paragraph would be (a) a change in or amendment to laws, regulations or rulings of any jurisdiction, political subdivision or taxing authority described in the next sentence, (b) a change in the official application or interpretation of those laws, regulations or rulings or (c) any execution of or amendment to any

## Edgar Filing: XL CAPITAL LTD - Form 424B3

treaty affecting taxation to which any jurisdiction, political subdivision or taxing authority described in the next sentence is party after the date of this prospectus supplement. The jurisdictions, political subdivisions and taxing authorities referred to in the previous sentence are (a) the Cayman Islands or any political subdivision or governmental authority of or in the Cayman Islands with the power to tax, (b) any jurisdiction from or through which XL Capital Ltd or our paying agent is making payments on the Series B Preference Shares or any political subdivision or governmental authority of or in that jurisdiction with the power to tax or (c) any other jurisdiction in which XL Capital Ltd or a successor corporation is organized or generally subject to taxation or any political subdivision or governmental authority of or in that jurisdiction with the power to tax.

In addition, we will have the option to redeem for cash any or all Series B Preference Shares at any time in whole or from time to time in part, upon not less than 30 nor more than 60 days prior written notice in accordance with the procedures set forth under "--Redemption" at a redemption price of \$25 per share plus accrued and unpaid dividends, if any, to the date of redemption, without interest on such unpaid dividends, if the entity formed by a consolidation, merger or amalgamation involving XL Capital Ltd or the entity to which we convey, transfer or lease substantially all our properties and assets is required to pay additional amounts in respect of any tax, assessment or governmental charge imposed on any holder of Series B Preference Shares as a result of a change in tax law that occurred after the date of the consolidation, merger, amalgamation, conveyance, transfer or lease.

### VOTING RIGHTS

Generally, the Series B Preference Shares have no voting rights. Whenever dividends payable on the Series B Preference Shares are in arrears (whether or not such dividends have been earned or declared) in an aggregate amount equivalent to dividends for six full dividend periods (whether or not consecutive), the holders of Series B Preference Shares, voting as a single class with all other series of preference ordinary shares that are also in arrears and have such a right, will have the right to elect two persons who will then be appointed as additional directors to our Board of Directors. Whenever all arrearages in dividends on the Series B Preference Shares have been paid in full, then the right of holders of the Series B Preference Shares to be represented by directors will cease (but subject always to the same provision for the vesting of such rights in the case of any future arrearages in an amount equivalent to dividends for six full dividend periods).

Unless previously redeemed or called for redemption, certain transactions that would vary the rights of holders of the Series B Preference Shares cannot be made without the approval of a special resolution in writing

S-15

by the holders of 100% of the Series B Preference Shares or the sanction of a special resolution passed by two-thirds of the votes cast at a separate meeting of the holders of the Series B Preference Shares, subject to any requirements of Cayman Islands law. Section 60 of the Cayman Islands Companies Law defines a resolution as a special resolution when (a) it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given; or (b) if so authorized by its articles of association, it has been approved in writing by all of the members entitled to vote at a general meeting of the company. Pursuant to our Articles of

## Edgar Filing: XL CAPITAL LTD - Form 424B3

Association, at every separate meeting of the holders of the Series B Preference Shares, the necessary quorum shall be any one or more persons present in person or by proxy holding not less than 50% of the issued shares of that class. The rights conferred upon the holders of the Series B Preference Shares shall not be deemed to be varied by the creation or issue of any further class or series of shares ranking pari passu therewith. Notwithstanding the foregoing, holders of the Series B Preference Shares are not entitled to vote on any sale of all or substantially all of the assets of XL Capital, and the issuance of any shares that are in parity with the Series B Preference Shares with respect to payment of dividends and distribution of assets in liquidation.

### CONVERSION

The Series B Preference Shares are not convertible into or exchangeable for any other securities of XL Capital.

### LIMITATIONS ON TRANSFER AND OWNERSHIP

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

### MARKET FOR THE SERIES B PREFERENCE SHARES

Prior to this offering, there has not been an established public market for the Series B Preference Shares. We intend to apply to list the Series B Preference Shares on the New York Stock Exchange under the symbol "XL Pr B". An active or any trading market may not develop or be maintained. In addition to factors related to XL Capital and the Series B Preference Shares, the market price of the Series B Preference Shares will be determined by such factors as relative demand for and supply of the Series B Preference Shares in the market, general market and economic conditions, interest rates and other factors beyond our control. We cannot predict at what price the Series B Preference Shares will trade, and the price may be less than its liquidation value at any point in time.

### TRANSFER AGENT

Our registrar and transfer agent for the Series B Preference Shares is Mellon Investor Services LLC.

### BOOK-ENTRY ISSUANCE

## Edgar Filing: XL CAPITAL LTD - Form 424B3

The Series B Preference Shares will be represented by one or more global securities that will be deposited with and registered in the name of The Depository Trust Company ("DTC") or its nominee. This means that we will not issue certificates to you for the Series B Preference Shares except in limited circumstances. The global securities will be issued to DTC, the depository for the Series B Preference shares, who will keep a computerized

S-16

record of its participants (for example, your broker) whose clients have purchased the Series B Preference Shares. Each participant will then keep a record of its clients. Unless exchanged in whole or in part for a certificated security, a global security may not be transferred. However, DTC, its nominees, and their successors may transfer a global security as a whole to one another. Beneficial interests in the global securities will be shown on, and transfers of the global securities will be made only through, records maintained by DTC and its participants.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered under the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants (direct participants) deposit with DTC. DTC also records the settlement among direct participants of securities transactions, such as transfers and pledges, in deposited securities through computerized records for direct participants' accounts. This eliminates the need to exchange certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations.

DTC's book-entry system is also used by other organizations such as securities brokers and dealers, banks and trust companies that work through a direct participant. The rules that apply to DTC and its participants are on file with the Securities and Exchange Commission.

DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc.

When you purchase Series B Preference Shares through the DTC system, the purchases must be made by or through a direct participant, who will receive credit for the Series B Preference Shares on DTC's records. Since you actually own the Series B Preference Shares, you are the beneficial owner and your ownership interest will only be recorded in the direct (or indirect) participants' records. DTC has no knowledge of your individual ownership of the Series B Preference Shares. DTC's records only show the identity of the direct participants and the amount of the Series B Preference Shares held by or through them. You will not receive a written confirmation of your purchase or sale or any periodic account statement directly from DTC. You will receive these from your direct (or indirect) participant. Thus, the direct (or indirect) participants are responsible for keeping accurate account of the holdings of their customers like you.

We will wire dividend payments to DTC's nominee and we will treat DTC's nominee as the owner of the global securities for all purposes. Accordingly, we will have no direct responsibility or liability to pay amounts due on the global securities to you or any other beneficial owners in the global securities.

Any redemption notices will be sent by us directly to DTC, who will in turn

## Edgar Filing: XL CAPITAL LTD - Form 424B3

inform the direct participants, who will then contact you as a beneficial holder.

It is DTC's current practice, upon receipt of any payment of dividends or liquidation amount, to credit direct participants' accounts on the payment date based on their holdings of beneficial interests in the global securities as shown on DTC's records. In addition, it is DTC's current practice to assign any consenting or voting rights to direct participants whose accounts are credited with preferred securities on a record date, by using an omnibus proxy. Payments by participants to owners of beneficial interests in the global securities, and voting by participants, will be based on the customary practices between the participants and owners of beneficial interests, as is the case with the Series B Preference Shares held for the account of customers registered in "street name." However, payments will be the responsibility of the participants and not of DTC or us.

Series B Preference Shares represented by global securities will be exchangeable for certificated securities with the same terms in authorized denominations only if:

- o DTC is unwilling or unable to continue as depositary or if DTC ceases to be a clearing agency registered under applicable law and a successor depositary is not appointed by us within 90 days; or
- o we determine not to require all of the Series B Preference Shares to be represented by global securities.

If the book-entry-only system is discontinued, the transfer agent will keep the registration books for the Series B Preference Shares at its corporate office.

S-17

### CERTAIN TAX CONSIDERATIONS

The following summary of the taxation of XL Capital Ltd and its Bermuda insurance subsidiaries (such Bermuda insurance subsidiaries are hereafter referred to as "XL") and the taxation of shareholders of XL Capital Ltd 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 following discussion (including and subject to the matters and qualifications set forth in such summary) of certain tax considerations (1) under "Taxation of XL Capital Ltd and XL -- Bermuda" and "Taxation of Shareholders -- Bermuda Taxation" is based upon the advice of Bermuda legal counsel, (2) under "Taxation of XL Capital Ltd and XL -- Cayman Islands" and "Taxation of Shareholders -- Cayman Islands Taxation" is based upon the advice of Cayman Islands legal counsel, and (3) under "Taxation of XL Capital Ltd and XL -- United States" and "Taxation of Shareholders -- United States Taxation of U.S. Shareholders" is based upon the advice of Cahill Gordon & Reindel, New York, New York (the advice of such firms does not include any factual or accounting matters, determinations or conclusions such as related person insurance income ("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 Ltd's business or activities). The summary is based upon current law and is for general information only. The tax treatment of a holder of Series B Preference Shares, or of a person treated as a holder of Series B Preference Shares for U.S. federal income, state, local or non-U.S. tax purposes, may vary depending

## Edgar Filing: XL CAPITAL LTD - Form 424B3

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 Series B Preference Shares. PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE FEDERAL, STATE, LOCAL AND NON-U.S. TAX CONSEQUENCES OF OWNING THE SERIESB PREFERENCE SHARES.

### TAXATION OF XL CAPITAL LTD AND XL

#### BERMUDA

XL has received from the Bermuda Ministry of Finance assurances under The Exempted undertakings Tax Protection Act, 1966 of Bermuda, that if there is enacted in Bermuda any legislation imposing tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax shall not be applicable to XL or any of their operations or their shares, debentures or other obligations, until March 28, 2016. This assurance does not exempt from any tax or duty any persons who are ordinarily resident in Bermuda (XL Capital Ltd and XL are not so currently designated) or provide an exemption from taxation under The Land Tax Act 1967 of Bermuda or from tax otherwise payable in relation to any property leased to XL. XL Capital Ltd, as a permit company under the Companies Act 1981 of Bermuda, has received a similar assurance which is effective until March 28, 2016. Both XL Capital Ltd 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 Ltd.

#### CAYMAN ISLANDS

Under current Cayman Islands law, XL Capital Ltd is not obligated to pay any taxes in the Cayman Islands on its income or gains. XL Capital Ltd 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, (1) no subsequently enacted law imposing any tax on profits, income, gains or appreciation shall apply to XL Capital Ltd and (2) 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 Ltd. Under current law no tax will be payable on the transfer or other disposition of the shares of XL Capital Ltd. The Cayman Islands currently impose stamp duties on certain categories of documents; however, the current operations of XL Capital Ltd 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.

S-18

#### UNITED STATES

XL Capital Ltd 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. However, because definitive identification of activities which constitute being engaged in a trade or business in the United States is not provided by the United States 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

## Edgar Filing: XL CAPITAL LTD - Form 424B3

Ltd or one or more of its subsidiaries, including 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 United States federal income tax, as well as the branch profits tax, on its income which 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 Treasury 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 tax and making certain other adjustments.

Under the income tax treaty between Bermuda and the United States (the "Treaty"), XL is subject to United States federal income tax on any income found to be effectively connected with a United States 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 Ltd does not believe XL has a permanent establishment in the United States. XL would not be entitled to the benefits of the Treaty if (1) less than 50% of XL's stock were beneficially owned, directly or indirectly, by Bermuda residents or United States citizens or residents, or (2) 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 United States citizens or residents. While there can be no assurances, XL believes that it will be eligible for Treaty benefits after the sale of shares offered hereby.

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 would generally be 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 is generally the responsibility of the person who pays the premium to XL, under the Code and recently proposed regulations, in the event that the tax is not paid by the purchaser of the insurance, XL would be 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 reinsurer that is not eligible for the excise tax exemption under an applicable treaty, an additional excise tax may be imposed.

### TAXATION OF SHAREHOLDERS

The following summary sets forth certain United States federal income tax considerations related to the purchase, ownership and disposition of Series B Preference Shares. Unless otherwise stated, this summary deals only with shareholders that are U.S. Persons (as defined below) who hold their Series B Preference Shares as capital assets. The following discussion is only a general summary of the United States federal income tax matters described herein and does not purport to address all of the United States federal income tax consequences that may be relevant to a particular shareholder in light of such shareholder's specific circumstances. In addition, the following summary does not describe the United States federal income tax consequences that may be relevant to certain types of shareholders, such as banks, insurance companies,



## Edgar Filing: XL CAPITAL LTD - Form 424B3

regulated investment companies, real estate investment trusts, financial asset securitization investment trusts, dealers in securities or traders that adopt a mark-to-market method of tax accounting, tax exempt organizations or persons who hold the Series B Preference Shares as part of a hedging or conversion transaction or as part of a short-sale or straddle, who may be subject to special rules or treatment under United States tax laws. This discussion is based upon the Code, the Treasury regulations

S-19

promulgated thereunder and any relevant administrative rulings or pronouncements or judicial decisions, all as in effect on the date hereof and as currently interpreted, and does not take into account possible changes in such tax laws or interpretations thereof, which may apply retroactively. This discussion does not include any description of the tax laws of any state or local governments within the United States, or of any foreign government, that may be applicable to the Series B Preference Shares or the shareholders. Persons considering making an investment in the Series B Preference Shares should consult their own tax advisors concerning the application of the United States federal tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction prior to making such investment.

If a partnership holds the Series B Preference 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 Series B Preference Shares, you should consult your tax advisor.

For purposes of this discussion, the term "U.S. Person" means (1) a citizen or resident of the United States, (2) a corporation or entity treated as a corporation created or organized in or under the laws of the United States, or any political subdivision thereof, (3) an estate the income of which is subject to United States federal income taxation regardless of its source or (4) a trust if either (x) a court within the United States is able to exercise primary supervision over the administration of such trust and one or more United States Persons have the authority to control all substantial decisions of such trust or (y) the trust has a valid election in effect to be treated as a United States Person for United States federal income tax purposes. A "U.S. Holder" refers to a U.S. Person that is a beneficial owner of our Series B Preference Shares.

### CAYMAN ISLANDS TAXATION

Dividends paid by XL Capital Ltd are not subject to Cayman Islands withholding tax.

### BERMUDA TAXATION

Currently, there is no Bermuda withholding tax on dividends paid by XL Capital Ltd to shareholders who are not ordinarily resident in Bermuda.

### UNITED STATES TAXATION OF UNITED STATES SHAREHOLDERS

CLASSIFICATION OF XL AS A CONTROLLED FOREIGN CORPORATION. Under section 951(a) of the Code, each "United States shareholder" of a "controlled foreign corporation" ("CFC") must include in its gross income for United States federal income tax purposes its pro rata share of the CFC's "subpart F income", even if the subpart F income is not distributed. Under Code section 951(b), any United States corporation, citizen, resident or other United States person who owns, directly or indirectly through foreign persons, or is considered to own (by

## Edgar Filing: XL CAPITAL LTD - Form 424B3

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 "U.S. 10% Shareholder". In general, a foreign corporation is treated as a CFC only if such U.S. 10% Shareholders collectively own more than 50% (more than 25% for certain insurance companies) of the total combined voting power or total value of the corporation's stock for an uninterrupted period of 30 days or more during any tax year. XL Capital Ltd believes that because of the wide dispersion of its share ownership and because under its Articles of Association no single shareholder is permitted to hold as much as 10% of its total combined voting power, it is not a CFC under the foregoing general rules.

RELATED PERSON INSURANCE INCOME. A different definition of "controlled foreign corporation" is applicable in the case of a foreign corporation which earns 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 RPII Shareholder (as defined below) or a "related person" to such a shareholder.

Generally, the term "related person" for this purpose means someone who controls or is controlled by a RPII Shareholder or someone who is controlled by the same person or persons which control the RPII 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 XL's

S-20

RPII in the income of RPII Shareholders, unless an exception applies, the term "RPII Shareholder" includes all United States persons who beneficially own any amount (rather than 10% or more) of XL's stock. XL would be treated as a CFC for purposes of application of the RPII rules if such persons were treated as owning 25% or more of the stock of XL.

The special RPII rules do not apply if direct and indirect insureds and persons related to such insureds, whether or not United States persons, are treated as owning less than 20% of the voting power and less than 20% of the value of the stock of XL or RPII, determined on a gross basis, is less than 20% of XL's gross insurance income for the taxable year. Where neither of these exceptions applies, each U.S. Person owning or treated as owning Series B Preference Shares (and therefore, indirectly, in XL) on the last day of XL Capital Ltd's fiscal year generally 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 RPII Shareholders at that date, but limited by XL's current-year earnings and profits and by the RPII Shareholder's share, if any, of prior-year deficits in earnings and profits. XL Capital Ltd does not expect the direct or indirect insureds (and related persons) of XL to directly or indirectly own 20% or more of either the voting power or value of XL's stock and does not expect the gross RPII of XL to equal or exceed 20% of XL's gross insurance income in any taxable year for the foreseeable future. Consequently, XL Capital Ltd does not expect any U.S. Person owning Series B Preference Shares to be required to include in gross income for U.S. federal income tax purposes RPII income, but there can be no assurance that this will be the case.

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

## Edgar Filing: XL CAPITAL LTD - Form 424B3

a possibility that future guidance could have retroactive effect.

DISPOSITIONS OF SERIES B PREFERENCE SHARES. Subject to the discussion elsewhere relating to redemption or the potential application of the CFC or passive foreign investment company rules, upon a sale or other disposition of Series B Preference Shares a U.S. Holder generally will recognize capital gain or loss for U.S. federal income tax purposes equal to the difference, if any, between the amount realized on the sale or other disposition and the U.S. Holder's adjusted tax basis in the Series B Preference Shares. This capital gain or loss will be long term capital gain or loss if the U.S. Holder's holding period in the Series B Preference Shares exceeds one year. Any gain will generally be U.S. source gain, but all or part of a loss may be allocated to foreign source income by reference to the source of dividend income on the Series B Preference Shares. Code section 1248 provides that if a U.S. Person owns 10% or more of the voting shares of a corporation that is a CFC, any gain from the sale or exchange of the shares may be treated as ordinary income to the extent of the CFC's earnings and profits during the period that the shareholder held the shares (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 United States 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% U.S. Shareholder or whether RPII constitutes 20% or more of the corporation's gross insurance income. 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 XL Capital Ltd) is not a CFC but the foreign corporation has one or more subsidiaries (such as XL) that is a CFC or that would be taxed as an insurance company if it were a domestic corporation.

XL Capital Ltd believes, based on the advice of counsel, that Code section 1248 and the requirement to file Form 5471 will not apply to dispositions of Series B Preference Shares because XL Capital Ltd does not have any 10% U.S. Shareholders and XL Capital Ltd is 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 Series B Preference Shares.

If the IRS or Treasury Department were to take such action, XL Capital Ltd would notify shareholders that Code section 1248 and the requirement to file Form 5471 will apply to dispositions of Series B Preference Shares.

S-21

Thereafter, XL Capital Ltd will 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 Series B Preference Shares. XL Capital Ltd will attach to this notice a copy of Form 5471 completed with all Company information and instructions for completing the shareholder information.

REDEMPTION OF SERIES B PREFERENCE SHARES. A redemption of Series B Preference Shares will be treated under section 302 of the Code as a dividend to the extent of current and accumulated earnings and profits, unless the

## Edgar Filing: XL CAPITAL LTD - Form 424B3

redemption satisfies the test set forth in section 302(b) enabling the redemption to be treated as a sale or exchange, subject to the discussion herein relating to the potential application of the "related person insurance income" and "passive foreign investment company" rules. The redemption will satisfy this test only if it (1) is "substantially disproportionate," (2) constitutes a "complete termination of the holder's stock interest" in us or (3) is "not essentially equivalent to a dividend," each within the meaning of section 302(b). In determining whether any of these tests are met, shares considered to be owned by the U.S. Person by reason of certain constructive ownership rules set forth in the Code, as well as shares actually owned, must generally be taken into account. Because the determination as to whether any of the alternative tests of section 302(b) of the Code is satisfied with respect to a particular holder of Series B Preference Shares will depend on the facts and circumstances as of the time the determination is made, U.S. shareholders are advised to consult their own tax advisors to determine their tax treatment in light of their own particular investment circumstances.

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 XL Capital Ltd were to be characterized as a PFIC, its United States shareholders would be subject to a penalty tax at the time of their sale of its shares 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.

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. XL Capital Ltd believes, based on the advice of counsel, that it and its 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 their insurance business such that it is not a PFIC. 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, XL Capital Ltd believes that under the look-through rule, XL Capital Ltd would be deemed to own the assets and to have received the income of its insurance and investment subsidiaries directly for purposes of determining whether XL Capital Ltd qualifies for the aforementioned insurance company exception. XL Capital Ltd believes, based upon the advice of counsel, that its 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 XL Capital Ltd's investment subsidiaries meets the definition of a PFIC, if XL Capital Ltd is not a PFIC,

## Edgar Filing: XL CAPITAL LTD - Form 424B3

the PFIC statutory provisions state that a shareholder of XL Capital Ltd 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 XL Capital Ltd's shares.

S-22

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 Series B Preference Shares should consult his tax advisor as to the effects of these rules.

DIVIDENDS. Subject to the discussion relating to the potential application of the CFC and PFIC rules, cash distributions made with respect to our Series B Preference Shares will constitute dividends for U.S. federal income tax purposes to the extent paid out of current or accumulated earnings and profits. U.S. Holders generally will be subject to U.S. federal income tax on the receipt of such dividends, and dividends received by U.S. Holders that are corporations generally will not be eligible for a dividends received deduction. To the extent that a distribution exceeds earnings and profits, it will be treated first as a return of the U.S. Holder's basis to the extent of such basis, and then as a gain from the sale of a capital asset. The character of such gain is described under "Dispositions of Series B Preference Shares."

### INFORMATION REPORTING AND BACKUP WITHHOLDING.

Information reporting to the IRS by paying agents and custodians located in the United States will be required with respect to dividends on the Series B Preference Shares or proceeds received on the sale, exchange or redemption of the Series B Preference Stock paid within the United States (and in certain cases outside the United States) to U.S. Persons. In addition, a holder of Series B Preference Shares may be subject to backup withholding with respect to such amounts, unless such holder (a) is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact; or (b) provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding and otherwise complies with applicable requirements of the backup withholding rules. The backup withholding tax is not an additional tax and may be credited against a holder's regular United States federal income tax liability.

### UNITED STATES TAXATION OF PERSONS OTHER THAN U.S. PERSONS

Subject to certain exceptions, persons that are not U.S. Persons will be subject to United States federal income tax on dividend distributions with respect to, and gain realized from the sale or exchange of, Series B Preference Shares only if such dividends or gains are effectively connected with the conduct of a trade or business within the United States.

S-23

Edgar Filing: XL CAPITAL LTD - Form 424B3

UNDERWRITING

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Morgan Stanley & Co. Incorporated are acting as representatives for the underwriters named below. Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus supplement, each underwriter named below has agreed to purchase, and we have agreed to sell to that underwriter, the number of Series B Preference Shares set forth opposite the underwriter's name.

UNDERWRITER -----	NUMBER OF SERIES B PREFERENCE SHARES -----
Merrill Lynch, Pierce, Fenner & Smith Incorporated .....	
Morgan Stanley & Co. Incorporated .....	
A.G. Edwards & Sons, Inc. ....	
Goldman, Sachs & Co. ....	
Salomon Smith Barney Inc. ....	
UBS Warburg LLC .....	
Wachovia Securities, Inc. ....	
Banc of America Securities LLC .....	
Bear, Stearns & Co. Inc. ....	
Credit Suisse First Boston Corporation .....	
Deutsche Bank Securities Inc. ....	
Lehman Brothers Inc. ....	
	-----
Total .....	=====

The underwriting agreement provides that the obligations of the underwriters to purchase the Series B Preference Shares are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the Series B Preference Shares if they purchase any of the Series B Preference Shares.

If the underwriters sell more Series B Preference Shares than the total number set forth in the table above, the underwriters have an option to buy up to an additional Series B Preference Shares from us to cover such sales at the public offering price on the cover page of this prospectus supplement, less the underwriting discount. The underwriters may exercise that option for 20 days from the date of this prospectus supplement. If any Series B Preference Shares are purchased pursuant to this option, the underwriters will severally purchase Series B Preference Shares in approximately the same proportion as set forth in the table above.

The underwriters propose to offer some of the Series B Preference Shares directly to the public at the public offering price set forth on the cover page of this prospectus supplement and some of the Series B Preference Shares to dealers at the public offering price less a concession not to exceed \$ per share. The underwriters may allow and dealers may reallow, a concession not to exceed \$ per share on sales to other dealers. If all of the Series B Preference Shares are not sold at the initial offering price, the representatives may change the public offering price and the other selling terms.

We have agreed that for a period of 30 days from the date of this prospectus supplement, we will not, without the prior written consent of Merrill Lynch and Morgan Stanley, issue or dispose of any Series B Preference Shares or

## Edgar Filing: XL CAPITAL LTD - Form 424B3

any retail preference ordinary shares or securities convertible into or exchangeable for Series B Preference Shares or retail preference ordinary shares. Merrill Lynch and Morgan Stanley in their sole discretion may release any of the securities subject to these limitations at any time without notice. For purposes of the foregoing, the term "retail preference ordinary shares" shall not include preference ordinary shares sold as part of a unit with share purchase contracts or similar securities.

We intend to apply to have our Series B Preference Shares listed on the New York Stock Exchange under the symbol "XL Pr B". The underwriters have undertaken to sell a minimum number of Series B Preference Shares to a minimum number of beneficial owners as required by the New York Stock Exchange.

S-24

The following table shows the underwriting discounts and commissions that we are to pay to the underwriters in connection with this offering. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional Series B Preference Shares.

Per share .....	\$
Total without over-allotment option .....	\$
Total with over-allotment option .....	\$

If the underwriters create a short position in our Series B Preference Shares in connection with the offering, i.e., if the underwriters sell more Series B Preference Shares than are listed on the cover of this prospectus supplement, the underwriters may reduce the short position by either exercising their over-allotment option to purchase additional Series B Preference Shares or by purchasing Series B Preference Shares in the open market. In determining the source of Series B Preference Shares to reduce the short position, the underwriters will consider, among other things, the price of Series B Preference Shares available for purchase in the open market as compared with the price at which they may purchase Series B Preference Shares through their over-allotment option. Purchases of the Series B Preference Shares to stabilize their price or to reduce a short term position may cause the price of the Series B Preference Shares to be higher than it might be in the absence of such purchases.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the underwriters repurchase Series B Preference Shares originally sold by that syndicate member in order to cover syndicate short positions or make stabilizing purchases.

Any of these activities may have the effect of preventing or retarding a decline in the market price of Series B Preference Shares. They may also cause the price of Series B Preference Shares to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriters may conduct these transactions on the New York Stock Exchange or in the over-the-counter market, or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

We estimate that our total expenses of this offering will be \$435,000.

In the ordinary course of their respective businesses, the underwriters and their affiliates have engaged and may in the future engage in investment and

## Edgar Filing: XL CAPITAL LTD - Form 424B3

commercial banking transactions with us and our affiliates for which they have received customary fees and expenses. Affiliates of certain of the underwriters are agents and lenders under our credit facilities, for which they have received customary compensation. Certain of the underwriters or their affiliates were also underwriters for the public offering of our Series A preference ordinary shares, for which they have received customary compensation.

This prospectus supplement and the accompanying prospectus in electronic format may be made available on the websites maintained by one or more of the underwriters. The representatives may agree to allocate a number of Series B Preference Shares to underwriters for sale to their online brokerage account holders. The representatives will allocate Series B Preference Shares to underwriters that may make Internet distributions on the same basis as other allocations. In addition, Series B Preference Shares may be sold by the underwriters to securities dealers who resell Series B Preference Shares to online brokerage account holders.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

### LEGAL MATTERS

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

### EXPERTS

The consolidated financial statements of XL Capital Ltd and our subsidiaries as of December 31, 2001 and 2000 and for the three years ended December 31, 2001, incorporated by reference in this prospectus supplement

S-25

and the accompanying prospectus from our Annual Report on Form 10-K for the year ended December 31, 2001, have been audited by PricewaterhouseCoopers LLP, independent auditors, as stated in their report, which is incorporated herein by reference.

### CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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



## Edgar Filing: XL CAPITAL LTD - Form 424B3

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:

- o rate increases and improvements in terms and conditions may not be as large or significant, or as long in duration, as we are currently projecting;
- o the size of our claims may change due to the preliminary nature of reports and estimates of loss and damage, particularly in relation to the attacks in the United States on September 11, 2001;
- o the timely and full recoverability from third parties of reinsurance (or other credit protection) placed by or for the benefit of us, including indemnities or other contractual protections available to us with respect to the Winterthur acquisition;
- o the projected amount of ceded reinsurance recoverables and the ratings and creditworthiness of reinsurance may change;
- o the timing of claims payments being faster or the receipt of reinsurance recoverables being slower than anticipated by us;
- o ineffectiveness or obsolescence of our business strategy due to changes in current or future market conditions;
- o increased claims and loss activity, including as a result of natural or man-made catastrophic events, than our underwriting, reserving or investment practices anticipate based on historical experience or industry data;
- o developments in the world's financial and capital markets which adversely affect the performance of our investments and our access to such markets;
- o the potential impact of U.S. solutions to make available insurance coverage for acts of terrorism;
- o availability of borrowings and letters of credit under our credit facilities and the ability to refinance or replace those facilities;
- o changes in regulation or tax laws applicable to us and our subsidiaries, brokers or customers;
- o acceptance of our products and services, including new products and services;
- o changes in the availability, cost or quality of reinsurance;
- o changes in the distribution or placement of risks due to increased consolidation of insurance and reinsurance brokers;
- o loss of key personnel;
- o the effects of mergers, acquisitions and divestitures, including, without limitation, the Winterthur International acquisition and the completion of the necessary audits (and related reviews) to determine

## Edgar Filing: XL CAPITAL LTD - Form 424B3

the final purchase price for the Winterthur International acquisition;

- o changes in rating agency policies or practices and our ability to maintain our ratings;
- o changes in accounting policies or practices;
- o legislative or regulatory developments;

S-26

- o changes in general economic conditions, including inflation, foreign currency exchange rates and other factors;
- o the effects of business disruption or economic contraction due to terrorism or other hostilities;
- o our continued ability to fund our liquidity needs, including through continued access to capital and reinsurance markets; and
- o developments relating to Argentina, including the impact of any potential International Monetary Fund assistance or structural reforms within Argentina.

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 publicly update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise.

### 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 Documents by Reference" in the accompanying prospectus, and any future filings made with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended.

- o Annual Report on Form 10-K for the year ended December 31, 2001, filed on March 26, 2002;
- o Quarterly Report on Form 10-Q for the period ended September 30, 2002, filed on November 8, 2002;
- o Quarterly Report on Form 10-Q for the period ended June 30, 2002, filed on August 6, 2002;
- o Quarterly Report on Form 10-Q for the period ended March 31, 2002, filed on May 14, 2002;
- o Current Report on Form 8-K filed on September 5, 2002;
- o Current Report on Form 8-K filed on August 14, 2002;

## Edgar Filing: XL CAPITAL LTD - Form 424B3

- o Current Report on Form 8-K filed on August 9, 2002;
- o Current Report on Form 8-K filed on August 8, 2002;
- o Current Report on Form 8-K filed on July 18, 2002;
- o Current Report on Form 8-K filed on January 18, 2002;
- o Current Report on Form 8-K filed on January 14, 2002;
- o Current Reports on Form 8-K filed on January 11, 2002;
- o Current Report on Form 8-K filed on January 7, 2002;
- o Current Reports on Form 8-K filed on January 4, 2002; and
- o Proxy Statement dated April 5, 2002, filed on April 3, 2002.

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. You may request a copy of any of the documents which are incorporated by reference in this prospectus supplement or the accompanying prospectus, other than exhibits which are not specifically incorporated by reference into such documents, and XL Capital Ltd's constitutional documents, at no cost, by writing or telephoning us at the following:

Investor Relations  
XL House  
One Bermudiana Road  
Hamilton, Bermuda HM11  
Telephone: (441) 292-8515

S-27

PROSPECTUS

\$1,500,000,000

XL CAPITAL LTD

ORDINARY SHARES

PREFERENCE ORDINARY SHARES

DEBT SECURITIES

ORDINARY SHARE WARRANTS

ORDINARY SHARE PURCHASE CONTRACTS

ORDINARY SHARE PURCHASE UNITS

XL CAPITAL FINANCE (EUROPE) PLC

SENIOR DEBT SECURITIES FULLY AND UNCONDITIONALLY GUARANTEED BY XL CAPITAL LTD

XL CAPITAL TRUST I

XL CAPITAL TRUST II

# Edgar Filing: XL CAPITAL LTD - Form 424B3

## 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 under this prospectus:

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

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:

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

-----