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XL CAPITAL LTD
Form 424B2
January 09, 2002

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Registration Statement No. 333-75240

PROSPECTUS SUPPLEMENT TO PROSPECTUS DATED DECEMBER 20, 2001

US\$600,000,000

XL CAPITAL FINANCE (EUROPE) PLC

6.50% SENIOR NOTES DUE 2012
GUARANTEED BY XL CAPITAL LTD

The senior notes bear interest at a rate of 6.50% per year. Interest on the senior notes will be payable on January 15 and July 15 of each year, beginning on July 15, 2002. The senior notes will mature on January 15, 2012. The issuer may redeem some or all of the senior notes at any time at the prices described under the heading "Description of the Senior Notes--Optional Redemption." The senior notes will not have the benefit of any sinking fund.

The senior notes will be the unsecured and unsubordinated obligations of XL Capital Finance (Europe) plc and will rank equal in right of payment with all of XL Capital Finance (Europe) plc's other unsecured and unsubordinated indebtedness. The senior notes will be guaranteed on an unsecured and unsubordinated basis by XL Capital Finance (Europe) plc's ultimate parent company, XL Capital Ltd.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY OTHER REGULATORY BODY HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS SUPPLEMENT OR THE ACCOMPANYING PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PER NOTE	TOTAL
	-----	-----
Initial public offering price	99.469%	\$596,814,000
Underwriting discount	0.650%	\$ 3,900,000
Proceeds to XL Capital Finance (Europe) plc (before expenses)	98.819%	\$592,914,000

The initial public offering price set forth above does not include accrued interest. Interest will accrue from January 10, 2002.

We have applied to list the senior notes on the Luxembourg Stock Exchange. However, we cannot assure you that the senior notes will be listed on the Luxembourg Stock Exchange at the time the senior notes are delivered to purchasers or at any other time.

The underwriters expect to deliver the senior notes in book-entry form only through the facilities of The Depository Trust Company against payment in New York, New York on or about January 10, 2002.

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JOINT BOOK-RUNNING MANAGERS

SALOMON SMITH BARNEY

JPMORGAN

BANC OF AMERICA SECURITIES LLC

BARCLAYS CAPITAL

CREDIT LYONNAIS SECURITIES

Prospectus Supplement dated January 7, 2002

This document is in two parts. The first is this prospectus supplement, which describes the specific terms of this offering of senior notes. 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 SENIOR NOTES IN CERTAIN JURISDICTIONS MAY BE RESTRICTED BY LAW. WE AND THE UNDERWRITERS REQUIRE THAT PERSONS COMING INTO POSSESSION OF THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS INFORM THEMSELVES ABOUT AND OBSERVE ANY SUCH RESTRICTIONS. THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS DO NOT CONSTITUTE AN OFFER OF, OR AN INVITATION TO PURCHASE, ANY OF THE SENIOR NOTES IN ANY JURISDICTION IN WHICH SUCH OFFER OR INVITATION WOULD BE UNLAWFUL.

WE ARE PROHIBITED FROM MAKING ANY INVITATION TO THE PUBLIC OF THE CAYMAN ISLANDS TO PURCHASE THE SENIOR NOTES. NON-RESIDENT OR EXEMPTED COMPANIES OR OTHER NON-RESIDENT OR EXEMPTED ENTITIES ESTABLISHED IN THE CAYMAN ISLANDS, HOWEVER, MAY PURCHASE THE SENIOR NOTES.

This prospectus supplement and the accompanying prospectus include particulars given in compliance with the rules governing the listing of securities on the Luxembourg Stock Exchange. XL Capital Finance (Europe) plc and XLCapital Ltd accept responsibility for the information contained in this prospectus supplement and the accompanying prospectus. The Luxembourg Stock Exchange takes no responsibility for the contents of this document, makes no representations as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus supplement and the accompanying prospectus.

Unless the context requires otherwise, references to "we," "us," "our" and "our company" refer to XL Capital Ltd and its subsidiaries, including the issuer. Unless the context requires otherwise, references to the "issuer" refer to XL Capital Finance (Europe) plc. Unless the context requires otherwise, references in this prospectus supplement and the accompanying prospectus to "\$" or "dollars" are references to U.S. dollars.

XL CAPITAL FINANCE (EUROPE) PLC

The issuer of the senior notes, XL Capital Finance (Europe) plc (formerly known as XL Finance (UK) plc), was incorporated as a public limited company under the laws of England and Wales on August 29, 2001. The issuer has not engaged in any activities other than its formation, the authorization and issuance of the senior notes, the approval of the terms of the senior notes, the lending of the proceeds of the senior notes to XL Capital Ltd or its subsidiaries and activities incidental to or connected with the foregoing. The issuer is a wholly owned subsidiary of XL Capital Ltd and was formed for the purpose of acting as a finance subsidiary for XL Capital Ltd.

The issuer's registered offices are located at 35 Basinghall Street, London EC2V 5DB, England. The issuer's telephone number is (0)20-7600-1200. Additional information about the issuer is presented under "Listing and General Information" in this prospectus supplement.

XL CAPITAL LTD

XL Capital Ltd, the guarantor of the senior notes, is a leading provider of insurance and reinsurance coverages and financial products and services to industrial, commercial and professional service firms, insurance companies and other enterprises on a worldwide basis.

We were incorporated with limited liability under the Cayman Islands Companies Law on March 16, 1998, as EXEL Merger Company Ltd. We were formed as a result of the merger of EXEL Merger Company Ltd, EXEL Limited and Mid Ocean Limited on August 7, 1998, and were renamed EXEL Limited on that date. This merger was accounted for as a purchase business combination. EXEL and Mid Ocean were companies that were incorporated in the Cayman Islands in 1986 and 1992, respectively. At a special general meeting held on February 1, 1999, the shareholders of EXEL Limited approved a resolution changing the name of EXEL Limited to XL Capital Ltd.

On June 18, 1999, we merged with NAC Re Corp. (now known as XL Reinsurance America Inc.), a Delaware corporation that was organized in 1985, in a stock merger. The NAC merger was accounted for as a pooling of interests under U.S. generally accepted accounting principles. Accordingly, all prior period information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus includes the results of NAC as though it had always been a part of XL Capital Ltd. Following the merger, we changed our fiscal year end from November 30 to December 31 as a conforming pooling adjustment. On July 25, 2001, we completed the acquisition of certain of the operations of Winterthur International from Winterthur Swiss Insurance Company, an indirect subsidiary of the Credit Suisse Group. Although the Winterthur International acquisition closed on July 25, 2001, it is being given effect as if it closed on July 1, 2001, which is the date from which the economic interest was transferred to us.

We are organized into three underwriting segments -- insurance, reinsurance and financial products and services -- and a corporate segment, which includes our investment operations. The descriptions of policies and coverages in the documents incorporated by reference in this prospectus supplement and the accompanying prospectus are summary in nature. Only the terms and conditions of

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individual policies or contracts have legal effect, and nothing in this prospectus supplement, the accompanying prospectus or the documents incorporated by reference in this prospectus supplement or the accompanying prospectus, constitutes an admission of coverage or other liability or interpretation of any particular policy provision. Our Lloyd's syndicates are now included in the insurance segment. They are disclosed separately within the documents incorporated by reference in this prospectus supplement and the accompanying prospectus since the nature of the business written and the market in which the syndicates underwrite are significantly different from our other insurance subsidiaries.

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. The information contained on our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus.

Additional information about XL Capital Ltd is presented under "Listing and General Information" in this prospectus supplement. You can also obtain additional information about us in the reports and other documents incorporated by reference in this prospectus supplement and the accompanying prospectus. See "Incorporation of Documents by Reference" in this prospectus supplement and "Where You Can Find More Information" and "Incorporation of Documents by Reference" in the accompanying prospectus.

S-1

THE OFFERING

Issuer	XL Capital Finance (Europe) plc
Guarantor	XL Capital Ltd
Notes	\$600,000,000 aggregate principal amount of 6.50% Senior Notes due 2012
Maturity	January 15, 2012
Interest Payments	Semi-annually on January 15 and July 15 of each year, commencing on July 15, 2002
Ranking	The senior notes will be the issuer's unsecured and unsubordinated obligations and will rank equal in right of payment with all of the issuer's other unsecured and unsubordinated indebtedness.
Guarantee	The senior notes will be guaranteed on an unsecured and unsubordinated basis by the issuer's ultimate parent company, XL Capital Ltd. See "Description of the Senior Notes--Guarantee" in this prospectus supplement.
Optional Redemption	The issuer may redeem the senior notes, in whole or in part at any time, at the issuer's sole option at the redemption price described in "Description of the Senior Notes--Optional Redemption" in this prospectus supplement.

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Trustee, Registrar, Principal

Paying and Transfer Agent.. State Street Bank and Trust Company

Luxembourg Listing, Transfer

and Paying Agent Deutsche Bank Luxembourg S.A.

Form of the Notes

When issued on January 10, 2002, the senior notes will be issued as global notes in registered form and governed by the laws of the State of New York.

Listing

We have applied to list the senior notes on the Luxembourg Stock Exchange. However, we cannot assure you that the senior notes will be listed on the Luxembourg Stock Exchange at the time the senior notes are delivered to purchasers or at any other time. The senior notes will not be listed on any United States securities exchange.

Use of Proceeds

We intend to use the net proceeds from this offering to repay a portion of our outstanding debt and for other general corporate purposes, which may include share repurchases and acquisitions. See "Use of Proceeds" in this prospectus supplement.

S-2

SUMMARY CONSOLIDATED FINANCIAL AND OPERATING DATA

Our summary consolidated financial and operating data presented below as at and for the years ended December 31, 1996, 1997, 1998, 1999 and 2000 are derived from our audited consolidated financial statements, which have been audited by PricewaterhouseCoopers LLP, independent auditors, and which are incorporated by reference in this prospectus supplement and the accompanying prospectus. The summary consolidated financial and operating data presented below for the nine month periods ended September 30, 2000 and September 30, 2001 have been derived from our unaudited consolidated financial data as presented in our Form 10-Q for the quarterly periods ended September 30, 2000 and September 30, 2001, respectively, incorporated by reference in this prospectus supplement and the accompanying prospectus and reflect all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of our financial position and results of operations as at the end of and for the periods presented. The information presented includes the results of XL Reinsurance America Inc. (formerly known as NAC Re Corp.) with whom we merged in 1999 as though it had always been a part of our company. We do not publish stand-alone (unconsolidated) financial statements of the issuer. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The results of operations for the nine month period ended September 30, 2001 are not necessarily indicative of the results for a full year and include the results of the acquired Winterthur International operations from July 1, 2001. As at and for the nine months ended September 30, 2001, these estimates and assumptions include the terrorist loss events at the

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World Trade Center and in Washington, D.C. and Pennsylvania on September 11, 2001. Actual results could differ from those estimates.

You should read the following information in conjunction with our consolidated financial statements and the notes to those financial statements, which are incorporated by reference in this prospectus supplement and the accompanying prospectus.

	UNAUDITED NINE MONTH PERIOD ENDED SEPTEMBER 30,		YEAR ENDED DECEMBER 31		
	2001	2000	2000	1999	1998
	(U.S. DOLLARS IN THOUSANDS)				
INCOME STATEMENT DATA:					
Net premiums earned	\$ 1,934,662	\$ 1,537,819	\$ 2,035,240	\$ 1,750,006	\$ 1,324,291
Net investment income	412,969	399,591	542,500	525,318	417,290
Net realized gains (losses)					
on investments	(35,536)	74,808	50,571	94,356	211,204
Equity in net income of					
affiliates	65,169	61,682	74,355	40,907	50,292
Fee income and other	26,552	8,835	14,793	100,400	22,325
Losses and loss expenses	2,120,200	969,374	1,432,559	1,304,304	841,517
Acquisition costs, operating					
expenses and exchange gains					
and losses	746,736	553,267	743,067	689,005	436,598
Interest expense	42,238	23,719	32,147	37,378	33,444
Amortization of intangible					
assets	44,216	41,409	58,597	49,141	26,881
Income (loss) before minority					
interest and income tax					
expense	(549,574)	494,966	451,089	431,159	686,962
Net income (loss)	(492,497)	505,704	506,352	470,509	656,330

S-3

UNAUDITED
NINE MONTH
PERIOD ENDED
SEPTEMBER 30, YEAR ENDED DECEMBER

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	2001	2000	2000	1999	1998
	-----	-----	-----	-----	-----
	(U.S. DOLLARS IN THOUSANDS, EXCEPT RATIOS)				
BALANCE SHEET DATA:					
Total investments available					
for sale	\$10,452,034	\$ 9,174,337	\$ 9,501,548	\$ 9,122,591	\$ 9,057,892
Cash and cash equivalents	2,129,512	931,502	930,469	557,749	480,874
Investments in affiliates	964,173	725,860	792,723	479,911	154,668
Total assets	25,665,428	16,368,953	16,941,952	15,090,912	13,581,140
Unpaid losses and loss					
expenses	11,288,036	5,369,143	5,672,062	5,369,402	4,896,643
Notes payable and debt	1,561,207	450,030	450,032	410,726	613,873
Shareholders' equity	4,786,800	5,566,567	5,573,668	5,577,078	5,612,603
OPERATING RATIOS:					
Loss and loss expense ratio (1)	109.6%	63.1%	70.4%	74.5%	63.5%
Underwriting expense ratio (2) ..	34.5%	33.3%	36.4%	34.3%	30.3%
Combined ratio (3)	144.1%	96.4%	106.8%	108.8%	93.8%
Ratio of earnings to fixed					
charges (4) (5)	-- (6)	16.1x	11.0x	10.5x	18.9x

- (1) The loss and loss expense ratio is calculated by dividing the losses and loss expenses incurred by the net premiums earned.
- (2) The underwriting expense ratio is the sum of acquisition expenses and operating segment expenses divided by net premiums earned. Operating expenses relating to the corporate segment and foreign exchange gains and losses have not been included for purposes of calculating the underwriting expense ratio. See Note 3 to our audited consolidated financial statements in our Form 10-K for the fiscal year ended December 31, 2000 and Note 4 to our unaudited consolidated financial statements in our Form 10-Q for the period ended September 30, 2001 for further information.
- (3) The combined ratio is the sum of the loss and loss expense ratio and the underwriting expense ratio. A combined ratio of under 100% represents an underwriting profit and over 100% represents an underwriting loss.
- (4) The ratio of earnings to fixed charges is computed by dividing (a) income from continuing operations before income taxes and minority interest, plus fixed charges, less equity income in unconsolidated affiliates, capitalized interest and minority interest in consolidated subsidiaries by (b) fixed charges. Fixed charges consist of interest expense on all indebtedness (including amortization of deferred financing costs), capitalized interest and the portion of operating lease rental expense that is representative of the interest factor (deemed to be one-third of operating lease rentals).
- (5) The pro forma ratio of earnings to fixed charges for the year ended December 31, 2000 would have been 2.9x. The pro forma ratio of earnings to fixed charges for the year ended December 31, 2000 gives pro forma effect to: (a) the issuance of \$255.0 million of 6.58% senior notes due 2011 by XL Capital Ltd's subsidiary XL America, Inc. in April 2001; (b) the issuance by XL Capital Ltd of \$1.01 billion aggregate principal amount at maturity of zero-coupon convertible debentures due 2021 in May 2001; (c) the issuance by XL Capital Ltd of \$508.8 million aggregate principal amount at maturity of LYONs due 2021 in September and November 2001; and (d) the issuance of the senior notes offered hereby, as if each of such events had occurred on January 1, 2000.
- (6) For the nine months ended September 30, 2001, earnings were insufficient to cover fixed charges by \$610.8 million and would have been insufficient to

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cover fixed charges by \$669.5 million, giving pro forma effect to the factors set forth in (a) through (d) of footnote 5, as if each of such events had occurred on January 1, 2001.

S-4

CAPITALIZATION

The following table sets forth the consolidated capitalization of XL Capital Ltd as of September 30, 2001, on an actual basis and as adjusted to give effect to:

- o the issuance by XL Capital Ltd on November 1, 2001 of additional Liquid Yield Option(TM) Notes, or LYONs(TM), with an accreted value of approximately \$37.5 million pursuant to the exercise of an over-allotment option granted to the initial purchaser of the LYONs;
- o the issuance on November 7, 2001 of 9,200,000 Class A ordinary shares by XL Capital Ltd, resulting in net proceeds to us of approximately \$788.1 million; and
- o the issuance of the senior notes offered hereby.

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, 2001, which is incorporated by reference in this prospectus supplement and the accompanying prospectus.

	UNAUDITED AS OF SEPTEMBER 30, 2001	
	ACTUAL	AS ADJUSTED
	-----	-----
	(U.S. DOLLARS IN THOUSANDS)	
DEBT:		
364-day revolving credit facility (1)	--	--
Five-year revolving credit facilities (2)	\$350,000	--
7.15% senior notes due 2005	100,000	\$100,000
6.58% senior notes due 2011	255,000	255,000
Zero-coupon convertible debentures due 2021 (3)	605,700	605,700
LYONs (3)	250,500	288,000
Senior notes offered hereby	--	600,000
	-----	-----
Total debt	\$1,561,200	\$1,848,700
	-----	-----
SHAREHOLDERS' EQUITY:		
Class Ordinary shares; \$0.01 par value per share, 124,513,107 shares issued and outstanding (actual) .	1,245	1,337
Class Bordinary shares; \$0.01 par value per share, no shares issued and outstanding	--	--
Preference ordinary shares; \$0.01 par value per share, no shares issued and outstanding	--	--
Additional paid-in capital	2,520,098	3,308,078

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Accumulated other comprehensive loss	(151,060)	(151,060)
Deferred compensation	(26,914)	(26,914)
Accumulated retained earnings	2,443,431	2,443,431
	-----	-----
Total shareholders' equity	4,786,800	5,574,872
	-----	-----
Total capitalization	\$6,348,000	\$7,423,572
	=====	=====

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- (1) A syndicate of banks provides a \$500 million commitment under our 364-day unsecured revolving credit facility. This facility was renewed along with our letter of credit facility effective June 29, 2001.
 - (2) Does not include letters of credit outstanding as of December 14, 2001 in the amount of approximately \$1.682 billion.
 - (3) The zero-coupon convertible debentures and the LYONs were issued at a discount to their face amount. The amount shown under "Actual" is the accreted value at September 30, 2001. The amount shown for the LYONs under "As Adjusted" is the accreted value at September 30, 2001 plus the principal amount at issue of the LYONs issued upon exercise of the over-allotment option. The zero-coupon convertible debentures and the LYONs are convertible into Class A ordinary shares under certain circumstances.

Except as otherwise disclosed in this prospectus supplement, the accompanying prospectus or the documents incorporated by reference in this prospectus supplement or the accompanying prospectus, there has been no material change in the capitalization of XL Capital Ltd since September 30, 2001.

S-5

The following table sets forth the capitalization of XL Capital Finance (Europe) plc on a standalone basis as of September 30, 2001, as adjusted to give effect to the issue of the senior notes offered hereby. Except as contemplated by this prospectus supplement, there has been no material change in the capitalization of XL Capital Finance (Europe) plc since September 30, 2001.

UNAUDITED
AS OF SEPTEMBER 30, 2001

(U.S. DOLLARS IN THOUSANDS)

Long-term debt:	
Senior notes offered hereby	\$600,000

Total long-term debt	\$600,000

Shareholders' equity:	
Ordinary shares of (pound)1 each:	
Authorized -- 100,000 shares	
Issued-- 50,000 shares (1)	72
Reserves	--

Total shareholders' equity	72

Total capitalization	\$600,072
	=====

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The authorized share capital of the issuer is (pound)100,000, divided into 100,000 ordinary shares; 50,000 ordinary shares were issued and outstanding as of September 30, 2001 of which 25% is paid up.

- (1) Pounds Sterling converted to U.S. dollars based on the noon buying rate in New York on January 4, 2002 of (pound)=\$1.445, as certified by the Federal Reserve Bank of New York.

USE OF PROCEEDS

We expect the net proceeds from this offering of senior notes to be approximately \$592,314,000 million, after deducting underwriting discounts and estimated expenses of the offering. We intend to use \$350 million of the net proceeds from the sale of the senior notes to repay our five-year revolving credit facilities, with the balance to be used for general corporate purposes, which may include share repurchases and acquisitions. Our five-year revolving credit facilities mature in June 2002 and September 2002, and bore rates of interest ranging between 3.72% and 5.36% per annum.

S-6

DESCRIPTION OF THE SENIOR NOTES

THE FOLLOWING DESCRIPTION OF THE SENIOR NOTES OFFERED BY THIS PROSPECTUS SUPPLEMENT SUPPLEMENTS OR SUPERSEDES, AS APPLICABLE, THE DESCRIPTION OF THE GENERAL TERMS AND PROVISIONS OF THE SENIOR NOTES SET FORTH IN THE ACCOMPANYING PROSPECTUS, WHICH YOU CAN FIND UNDER THE CAPTION "DESCRIPTION OF XL CAPITAL FINANCE (EUROPE) PLC SENIOR DEBT SECURITIES" (THE SENIOR NOTES ARE REFERRED TO IN THAT PROSPECTUS AS, AND ARE ONE OF A SERIES OF, THE "SENIOR DEBT SECURITIES OF XL CAPITAL FINANCE (EUROPE) PLC"). YOU SHOULD CAREFULLY READ THE ENTIRE PROSPECTUS AND THIS PROSPECTUS SUPPLEMENT TO UNDERSTAND FULLY THE TERMS OF THE SENIOR NOTES. ALL OF THE INFORMATION SET FORTH BELOW IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO THE ACTUAL TEXT OF THE INDENTURE GOVERNING THE SENIOR NOTES, AS SUPPLEMENTED BY THE AUTHORIZING RESOLUTIONS RELATING TO THE SENIOR NOTES.

In this section, references to "XL Capital," "we," "our" or "us" refer solely to XL Capital Ltd and not its subsidiaries.

The senior notes will be issued under a base indenture, dated as of January 10, 2002, among the issuer, XL Capital and State Street Bank and Trust Company, as trustee, as supplemented by authorizing resolutions relating to the senior notes, which collectively will constitute the indenture governing the senior notes.

Whenever there is a reference to defined terms of the indenture, the defined terms are incorporated by reference, and the statement is qualified in its entirety by that reference. Capitalized terms not defined in this prospectus supplement are terms that are defined in the indenture. You should read the indenture for provisions that may be important to you but which are not included

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in this summary. A copy of the form of the indenture is available from XL Capital upon request or at the specified office of the paying agent in Luxembourg.

XL Capital currently conducts substantially all its operations through its subsidiaries, and its subsidiaries generate substantially all of XL Capital's operating income and cash flow. As a result, distributions and advances from XL Capital's subsidiaries are the principal source of funds necessary to meet the debt service obligations of XL Capital. Contractual provisions or laws, as well as the financial condition and operating and regulatory requirements of its subsidiaries, may limit XL Capital's ability to obtain the cash required to satisfy its debt service obligations, including cash payments on the senior notes. For a description of certain regulatory restrictions on the payment of dividends by XL Capital's subsidiaries, see Note 18 of the notes to the consolidated financial statements of XL Capital included in its Form 10-K for the year ended December 31, 2000, which is incorporated by reference in this prospectus supplement and the accompanying prospectus. In addition, because XL Capital is a holding company, holders of the senior notes will have a junior position to the claims of creditors of XL Capital's subsidiaries on their assets and earnings. As of September 30, 2001, XL Capital's subsidiaries had approximately \$705 million of indebtedness, without giving effect to the anticipated use of proceeds, to which the senior notes would have been structurally subordinated. In addition, XL Capital's guarantee of the senior notes will be structurally subordinated to losses and loss expenses and other obligations of subsidiaries of XL Capital. As of September 30, 2001, losses and loss expenses, net of losses and loss expenses recoverable, of subsidiaries of XL Capital were approximately \$6.6 billion.

GENERAL TERMS OF THE SENIOR NOTES

The senior notes will be the direct, unsecured and unsubordinated obligations of XL Capital Finance (Europe) plc and will be unconditionally guaranteed by XL Capital, the guarantor. The senior notes will rank equal in right of payment with all of the issuer's other unsecured and unsubordinated indebtedness.

The senior notes will bear interest at the rate of 6.50% per annum from January 10, 2002 to maturity or early redemption, payable semi-annually on January 15 and July 15 of each year, commencing on July 15, 2002, to the persons in whose names the senior notes were registered at the close of business on the preceding January 1 and July 1, respectively. Interest on the senior notes will be computed on the basis of a 360-day year comprised of twelve 30-day months. The senior notes will mature on January 15, 2012. Unless previously redeemed in full as provided herein, the issuer will repay the senior notes at their principal amount plus accrued and unpaid interest on January 15, 2012. Principal and interest will be payable, and the senior notes will be transferable or exchangeable, at the office or offices or agency maintained by the issuer for this purpose. In addition, so long as the senior notes are listed on the Luxembourg Stock Exchange, an agent for making payments on, and transfers of, senior notes will be maintained in Luxembourg. See "Listing and General Information--Listing" in this prospectus supplement.

S-7

Payment of principal and interest on the senior notes may be made at the option of the issuer by wire transfer or by checks mailed to the addresses of the registered holders of the senior notes as of the relevant record dates.

The issuer from time to time, without giving notice to or seeking the

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consent of the holders of the senior notes, may issue additional senior notes having the same ranking and the same interest rate, maturity and other terms as the senior notes, except for the issue price and the issue date. Any additional senior notes having such similar terms, together with the senior notes offered hereby, will constitute a single series of senior notes under the indenture.

Any payment otherwise required to be made in respect of the senior notes on a date that is not a business day for the senior notes may be made on the next succeeding business day with the same force and effect as if made on the originally scheduled payment date. No additional interest shall accrue as a result of such delayed payment. A business day is defined in the indenture as any day other than a Saturday, Sunday or other day on which banking institutions in New York City, Boston or any place of payment are authorized by law or regulation to close.

The senior notes will be issued only in fully registered form without coupons in denominations of \$1,000 and any whole multiple of \$1,000. No service charge will be made for any transfer or exchange of the senior notes, but the issuer may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with a transfer or exchange.

Holders may transfer or exchange the senior notes in accordance with the provisions of the indenture. The senior notes will be represented by one or more permanent global notes registered in the name of a nominee of The Depository Trust Company ("DTC"). While the senior notes are represented by global notes, ownership of beneficial interests in any global security with respect to which DTC, Clearstream, Luxembourg, or Euroclear is the depository will be shown on, and the transfer of that ownership will be effected only through, records maintained by such depository or its respective nominee (with respect to beneficial interests of participants) and records of participants (with respect to beneficial interests of persons who hold through participants). See "Book Entry; Delivery and Form" in this prospectus supplement. Except as described under "Book-Entry; Delivery and Form," the senior notes will not be issuable in certificated form. Upon the issuance of certificated notes, holders will be able to transfer certificated notes at the specified office of the registrar or any paying or transfer agent, including the paying and transfer agent in Luxembourg, upon the surrender of such certificated notes, together with the form of transfer endorsed thereon duly completed and executed, and otherwise in accordance with the provisions of the indenture. In the case of a transfer of part only of a certificated note, a new certificated note shall be issued to the transferee at such specified office, including the paying and transfer agent in Luxembourg, in respect of the part transferred and a further new certificated note in respect of the balance of the holding not transferred shall be issued to the transferor.

GUARANTEE

Payment of principal, premium, if any, and interest on the senior notes will be fully guaranteed on an unsecured, unsubordinated basis by XL Capital Ltd. The guarantee will be a direct and unconditional obligation of XL Capital Ltd, ranking equally and ratably in right of payment with all other existing and future unsecured and unsubordinated obligations of XL Capital, other than obligations preferred by law.

OPTIONAL REDEMPTION

The senior notes will be redeemable, in whole at any time or in part from time to time, at the issuer's option, at a redemption price equal to accrued and unpaid interest on the principal amount being redeemed to the redemption date plus the greater of:

- o 100% of the principal amount of the senior notes to be redeemed, and

- o the sum of the present values of the remaining scheduled payments of principal and interest on the senior notes to be redeemed (not including any portion of such payments of interest accrued to the date of redemption) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury rate, plus 20 basis points.

"Treasury rate" means, with respect to any date of redemption, the rate per year equal to the semi-annual equivalent yield to maturity of the comparable Treasury

S-8

issue, assuming a price for the comparable Treasury issue (expressed as a percentage of its principal amount) equal to the comparable Treasury price for such date of redemption.

"Comparable Treasury issue" means the United States Treasury security selected as having a maturity comparable to the remaining term of the senior notes to be redeemed that would be used, at the time of selection and under customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the senior notes.

"Comparable Treasury price" means, with respect to any date of redemption, the average of the reference Treasury dealer quotations for the date of redemption, after excluding the highest and lowest reference Treasury dealer quotations, or if the trustee obtains fewer than three reference Treasury dealer quotations, the average of all reference Treasury dealer quotations.

"Reference Treasury dealers" means each of Salomon Smith Barney Inc. and J.P. Morgan Securities Inc. and their respective successors and any other primary Treasury dealer XL Capital or the issuer selects. If any of the foregoing ceases to be a primary U.S. government securities dealer in New York City, XL Capital or the issuer must substitute another primary Treasury dealer.

"Reference Treasury dealer quotations" means, with respect to each reference Treasury dealer and any date of redemption, the average, as determined by the trustee, of the bid and asked prices for the comparable Treasury issue (expressed in each case as a percentage of its principal amount) quoted in writing to the trustee by the reference Treasury dealer at 5:00 p.m., New York City time, on the third business day before the date of redemption.

Notice of any redemption will be mailed at least 30 days but not more than 60 days before the date of redemption to each holder of the senior notes to be redeemed. Following any optional redemption, we will notify the Luxembourg Stock Exchange of the results and publish a notice in Luxembourg. For more information relating to notices, see "Listing and General Information--Notices" in this prospectus supplement. Unless the issuer defaults in payment of the redemption price, on and after the date of redemption, interest will cease to accrue on the senior notes or portions of senior notes called for redemption.

If less than all of the senior notes are to be redeemed, the senior notes to be redeemed shall be selected by the trustee, by a method the trustee deems to be fair and appropriate.

The senior notes will not be entitled to the benefit of any mandatory redemption or sinking fund.

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The issuer will not be required to (1) register the transfer of or exchange the senior notes during a period beginning at the opening of business 15 days before the day of mailing of a notice of redemption of any senior notes and ending at the close of business on the day of such mailing or (2) register the transfer of or exchange any senior note selected for redemption in whole or in part, except the unredeemed portion of any senior note being redeemed in part.

CERTAIN COVENANTS OF THE ISSUER AND XL CAPITAL APPLICABLE TO THE SENIOR NOTES

LIMITATION ON LIENS ON STOCK OF DESIGNATED SUBSIDIARIES

Under the indenture, the issuer and XL Capital will covenant that, so long as any senior notes are outstanding, XL Capital will not, nor will XL Capital permit the issuer or any designated subsidiary to, create, assume, incur, guarantee or otherwise permit to exist any indebtedness evidenced by notes, debentures, bonds or similar instruments, which is secured by any mortgage, pledge, lien, security interest or other encumbrance upon any shares of capital stock of XL Capital, the issuer or any designated subsidiary (whether such shares of stock are now owned or hereafter acquired) without effectively providing concurrently that the senior notes will be secured equally and ratably with such indebtedness for at least the time period such other indebtedness is so secured.

The term "capital stock" of any person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such person, including preferred stock, but excluding any debt securities convertible into such equity.

The term "designated subsidiary" means any present or future consolidated subsidiary of XL Capital that is a regulated insurance company, the assets of which constitute at least 20% of XL Capital's consolidated assets. As

S-9

of September 30, 2001, XL Capital's designated subsidiaries consisted of XL Re Ltd and XL Insurance (Bermuda)Ltd.

EVENTS OF DEFAULT

In addition to those events of default described in "Description of XL Capital Finance (Europe) plc Senior Debt Securities--Events of Default and Notice Thereof" in the accompanying prospectus, the following events will constitute an event of default under the indenture with respect to the senior notes:

- (1) default in the payment of any additional amounts payable with respect to interest on any senior notes (as described below under "--Payments of Additional Amounts"), when such additional amounts become due and payable, and continuance of such default for a period of 30 days;
- (2) default in the payment of any premium on any senior notes, or any additional amounts payable with respect to any principal of or premium on any senior notes (as described below under "--Payments of Additional Amounts"), when such premium or additional amounts become due and payable either at maturity, upon any redemption, by declaration of acceleration or otherwise;
- (3) default by the issuer or XL Capital in the payment when due of the

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principal or premium, if any, of any bond, debenture, note or other evidence of the issuer's or XL Capital's indebtedness, in each case for money borrowed, or in the payment of principal or premium, if any, under any mortgage, indenture, agreement or instrument under which there may be issued or by which there may be secured or evidenced any indebtedness of the issuer or XL Capital for money borrowed, which default for payment of principal or premium, if any, is in an aggregate amount exceeding \$50,000,000 (or its equivalent in any other currency or currencies), if such default shall continue unremedied or unwaived for more than 30 days after the expiration of any grace period or extension of the time for payment applicable thereto; and

- (4) default by the issuer or XL Capital under any instrument or instruments under which there is or may be secured or evidenced any of the issuer's or XL Capital's indebtedness (other than the senior notes) having an outstanding principal amount of \$50,000,000 (or its equivalent in any other currency or currencies) or more, individually or in the aggregate, that has caused the holders thereof to declare such indebtedness to be due and payable prior to its stated maturity, unless such declaration has been rescinded within 30 days.

The following event will also constitute an event of default under the indenture with respect to the senior notes and will supersede event of default (1) described in "Description of XL Capital Finance (Europe) plc Senior Debt Securities--Events of Default and Notice Thereof" in the accompanying prospectus, but only as such event of default relates to a failure to pay interest:

- (1) failure to pay interest on any senior notes within 30 days of when due.

In addition, each of the issuer and XL Capital are also required to deliver to the trustee, within 30 days after occurrence thereof, written notice of any event of default or any event which, after notice or lapse of time or both, would constitute an event of default.

DISCHARGE, DEFEASANCE AND COVENANT DEFEASANCE

In addition to the terms and conditions relating to discharge, defeasance and covenant defeasance discussed in "Description of XL Capital Finance (Europe) plc Senior Debt Securities--Discharge and Defeasance" in the accompanying prospectus, a trust relating to defeasance may only be established if, in addition to the items listed in such section, the issuer and XL Capital have delivered to the trustee an officers' certificate as to solvency and the absence of intent of preferring holders of the senior notes over the issuer's or XL Capital's other creditors.

PAYMENT OF ADDITIONAL AMOUNTS

All amounts payable (whether in respect of principal, interest or otherwise) in respect of the senior notes or the guarantee will be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, levies, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the United Kingdom or the Cayman Islands or any political subdivision thereof or any

authority or agency therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, levies, assessments or governmental charges is required by law. In that event, the issuer or XL Capital will, jointly or severally, pay, or cause to be paid, such additional amounts as may be necessary in order that the net amounts receivable by a holder after such withholding or deduction shall equal the respective amounts that would have been receivable by such holder had no such withholding or deduction been required, except that no such additional amounts shall be payable in relation to any payment in respect of any of the senior notes or the guarantee:

- o to, or to a third party on behalf of, a person who would be able to avoid such withholding or deduction but for a failure to satisfy any applicable statutory certification, information or documentation requirements concerning the nationality, residence or identity of such person or to make a declaration of non-residence or similar claim for exemption which, in either case, is required as a precondition to exemption, or is liable for such taxes, duties, levies, assessments or governmental charges in respect of such senior note by reason of his having some connection with (including, without limitation, being a citizen of, being incorporated or engaged in a trade or business in, or having a residence or principal place of business or other presence in) the United Kingdom or the Cayman Islands other than (a) the mere holding of such senior note or (b) the receipt of principal, interest, or other amount in respect of such senior note;
- o presented for payment more than 30 days after the Relevant Date, except to the extent that the relevant holder would have been entitled to such additional amounts on presenting the same for payment on or before the expiry of such period of 30 days;
- o on account of any inheritance, gift, estate, personal property, sales or transfer or similar taxes, duties, levies, assessments or similar governmental charges;
- o presented for payment in the United Kingdom;
- o presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant senior note or senior notes to another paying agent in a Member State of the European Union; or
- o on account of any taxes, duties, levies, assessments or governmental charges that are payable otherwise than by withholding from payments in respect of such senior note or the guarantee.

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 trustee 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 senior notes.

If XL Capital becomes subject generally at any time to any taxing jurisdiction other than or in addition to the Cayman Islands, references in this section to the Cayman Islands shall be read and construed as references to such other jurisdiction(s) and/or to the Cayman Islands.

If the issuer becomes subject generally at any time to any taxing jurisdiction other than or in addition to the United Kingdom, references in this section to the United Kingdom shall be read and construed as references to such

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other jurisdiction(s) and/or to the United Kingdom.

Notwithstanding anything in this section to the contrary, in the event that any deduction or withholding for or on account of tax is required to be made, or is made, in connection with any European Union directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000, or any law implementing or complying with, or introduced in order to conform to, such directive, no additional amounts shall be payable or paid by the issuer or XL Capital to any holder in respect of the senior notes.

S-11

BOOK-ENTRY; DELIVERY AND FORM

THE FOLLOWING DESCRIPTION OF THE GLOBAL SECURITIES AND THE BOOK-ENTRY SYSTEM SUPPLEMENTS OR SUPERSEDES, AS APPLICABLE, THE DESCRIPTION OF THE GENERAL TERMS AND PROVISIONS OF THE DESCRIPTION OF THE GLOBAL SECURITIES AND THE BOOK-ENTRY SYSTEM SET FORTH IN THE ACCOMPANYING PROSPECTUS.

CERTAIN BOOK-ENTRY PROCEDURES FOR THE GLOBAL NOTES

The descriptions of the operations and procedures of DTC, Clearstream, Luxembourg and Euroclear set forth below are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to change by them from time to time. Neither we nor the underwriters take any responsibility for these operations or procedures, and investors are urged to contact the relevant system or its participants directly to discuss these matters.

The senior notes will be issued in the form of one or more fully registered global notes, which we refer to as the "Global Notes," which will be deposited with, or on behalf of, DTC, which we also refer to as the "Depository," and registered in the name of Cede & Co., the Depository's nominee. Beneficial interests in the Global Notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in the Depository. Investors may elect to hold interests in the Global Notes through the Depository, Clearstream Banking, Societe Anonyme, which we refer to as "Clearstream, Luxembourg," or Euroclear Bank S.A./N.V., as operator of the Euroclear System, which we refer to as "Euroclear," if they are participants in such systems, or indirectly through organizations which are participants in such systems. Clearstream, Luxembourg and Euroclear will hold interests on behalf of their participants through customers' securities accounts in Clearstream, Luxembourg's and Euroclear's names on the books of their respective depositaries, which in turn will hold such interests in customers' securities accounts in the depositaries' names on the books of the Depository. Citibank, N.A. will act as depository for Clearstream, Luxembourg and JPMorgan Chase Bank will act as depository for Euroclear, which we refer to in such capacities as the "U.S. Depositaries." Except as set forth below, the Global Notes may be transferred, in whole and not in part, only to another nominee of the Depository or to a successor of the Depository or its nominee.

The Depository advises that it 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 Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. The Depository holds securities deposited with it by its participants and facilitates the settlement of transactions among its

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participants in such securities through electronic computerized book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. The Depositary's participants include securities brokers and dealers, including the underwriters, banks, trust companies, clearing corporations and certain other organizations, some of whom, and/or their representatives, own the Depositary. Access to the Depositary's book-entry system is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

Clearstream, Luxembourg advises that it is incorporated under the laws of Luxembourg as a bank. Clearstream, Luxembourg holds securities for its customers, which we refer to as "Clearstream, Luxembourg Customers," and facilitates the clearance and settlement of securities transactions between Clearstream, Luxembourg Customers through electronic book-entry transfers between their accounts. Clearstream, Luxembourg provides to Clearstream, Luxembourg Customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg interfaces with domestic securities markets in over 30 countries through established depository and custodial relationships. As a bank, Clearstream, Luxembourg is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector, also known as the Commission de Surveillance du Secteur Financier. Clearstream, Luxembourg Customers are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Clearstream, Luxembourg's Customers in the United States are limited to securities brokers and dealers and banks. Indirect access to Clearstream, Luxembourg is also available to other institutions such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream, Luxembourg Customer.

S-12

Distributions with respect to the senior notes held through Clearstream, Luxembourg will be credited to cash accounts of Clearstream, Luxembourg Customers in accordance with its rules and procedures, to the extent received by the U.S. Depositary for Clearstream, Luxembourg.

Euroclear advises that it was created in 1968 to hold securities for its participants, which we refer to as "Euroclear Participants," and to clear and settle transactions between Euroclear Participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear provides various other services, including securities lending and borrowing and interfaces with domestic markets in several countries. Euroclear is operated by Euroclear Bank S.A./N.V., which we refer to as the "Euroclear Operator," under contract with Euroclear Clearance Systems, S.C., a Belgian cooperative corporation, which we refer to as the "Cooperative." All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator, not the Cooperative. The Cooperative establishes policy for Euroclear on behalf of Euroclear Participants. Euroclear Participants include banks, including central banks, securities brokers and dealers and other professional financial intermediaries and may include the underwriters. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear Participant, either directly or indirectly.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the

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related Operating Procedures of the Euroclear System, and applicable Belgian law, which we refer to collectively as the "Terms and Conditions." The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear Participants and has no record of or relationship with persons holding through Euroclear Participants.

Distributions with respect to the senior notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear Participants in accordance with the Terms and Conditions, to the extent received by the U.S. Depository for Euroclear.

Euroclear further advises that investors that acquire, hold and transfer interests in the senior notes by book-entry through accounts with the Euroclear Operator or any other securities intermediary are subject to the laws and contractual provisions governing their relationship with their intermediary, as well as the laws and contractual provisions governing the relationship between such an intermediary and each other intermediary, if any, standing between themselves and the Global Notes.

The Euroclear Operator advises that under Belgian law, investors that are credited with securities on the records of the Euroclear Operator have a co-property right in the fungible pool of interests in securities on deposit with the Euroclear Operator in an amount equal to the amount of interests in securities credited to their accounts. In the event of the insolvency of the Euroclear Operator, Euroclear Participants would have a right under Belgian law to the return of the amount and type of interests in securities credited to their accounts with the Euroclear Operator. If the Euroclear Operator did not have a sufficient amount of interests in securities on deposit of a particular type to cover the claims of all Euroclear Participants credited with such interests in securities on the Euroclear Operator's records, all Participants having an amount of interests in securities of such type credited to their accounts with the Euroclear Operator would have the right under Belgian law to the return of their pro rata share of the amount of interest in securities actually on deposit.

Under Belgian law, the Euroclear Operator is required to pass on the benefits of ownership in any interests in securities on deposit with it, such as dividends, voting rights and other entitlements, to any person credited with such interests in securities on its records.

Individual certificates in respect of the senior notes will not be issued in exchange for the Global Notes, except in very limited circumstances. If (1) DTC notifies us that it is unwilling or unable to continue as a clearing system in connection with the Global Notes or ceases to be a clearing agency registered under the Securities Exchange Act of 1934, and a successor clearing system is not appointed by us within 90 days after receiving such notice from DTC or upon becoming aware that DTC is no longer so registered, (2) at our option, we notify the trustee in writing that we elect to cause the issuance of the senior notes in definitive form under the indenture or

S-13

(3) an event of default under the indenture has occurred and is continuing, then we will issue or cause to be issued individual certificates in registered form on registration of transfer of, or in exchange for, book-entry interests in the

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senior notes represented by such Global Notes upon delivery of such Global Notes for cancellation. In the event that individual certificates are issued, holders of the senior notes will be able to receive payments, including principal and interest, on the senior notes and effect transfer of the senior notes at the offices of our paying and transfer agent in Luxembourg, Deutsche Bank Luxembourg. We will maintain a Luxembourg paying agent and transfer agent as long as the senior notes are listed on the Luxembourg Stock Exchange and the rules of the exchange so require.

Title to book-entry interests in the senior notes will pass by book-entry registration of the transfer within the records of Clearstream, Luxembourg, Euroclear or DTC, as the case may be, in accordance with their respective procedures. Book-entry interests in the senior notes may be transferred within Clearstream, Luxembourg and within Euroclear and between Clearstream, Luxembourg and Euroclear in accordance with procedures established for these purposes by Clearstream, Luxembourg and Euroclear. Book-entry interests in the senior notes may be transferred within DTC in accordance with procedures established for this purpose by DTC. Transfers of book-entry interests in the senior notes among Clearstream, Luxembourg and Euroclear and DTC may be effected in accordance with procedures established for this purpose by Clearstream, Luxembourg, Euroclear and DTC.

A further description of the Depositary's procedures with respect to the Global Notes is set forth under "Description of XL Capital Finance (Europe) plc Senior Debt Securities--Global Securities; Book-Entry System" in the accompanying prospectus.

GLOBAL CLEARANCE AND SETTLEMENT PROCEDURES

Initial settlement for the senior notes will be made in immediately available funds. Secondary market trading between DTC participants will occur in the ordinary way in accordance with the Depositary's rules and will be settled in immediately available funds using the Depositary's Same-Day Funds Settlement System. Secondary market trading between Clearstream, Luxembourg Customers and/or Euroclear Participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream, Luxembourg and Euroclear and will be settled using the procedures applicable to conventional Eurobonds in immediately available funds.

Cross-market transfers between persons holding directly or indirectly through the Depositary on the one hand, and directly or indirectly through Clearstream, Luxembourg Customers or Euroclear Participants, on the other, will be effected in the Depositary in accordance with the Depositary's rules on behalf of the relevant European international clearing system by its U.S. Depositary; however, such cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines, in European time. The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its U.S. Depositary to take action to effect final settlement on its behalf by delivering interests in the senior notes to or receiving interests in the senior notes from the Depositary, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to the Depositary. Clearstream, Luxembourg Customers and Euroclear Participants may not deliver instructions directly to their respective U.S. Depositaries.

Because of time-zone differences, credits of interests in the senior notes received in Clearstream, Luxembourg or Euroclear as a result of a transaction with a DTC participant will be made during subsequent securities settlement processing and dated the business day following the Depositary settlement date. Such credits or any transactions involving interests in such senior notes

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settled during such processing will be reported to the relevant Clearstream, Luxembourg Customers or Euroclear Participants on such business day. Cash received in Clearstream, Luxembourg or Euroclear as a result of sales of interests in the senior notes by or through a Clearstream, Luxembourg Customer or a Euroclear Participant to a DTC participant will be received with value on the Depositary settlement date but will be available in the relevant Clearstream, Luxembourg or Euroclear cash account only as of the business day following settlement in the Depositary.

Although the Depositary, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in the senior notes among participants of the Depositary, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures and such procedures may be changed or discontinued at any time.

S-14

CERTAIN TAX CONSEQUENCES

In this section, references to "XL Capital," "we," "us" or "our" refer solely to XL Capital Ltd and not to its subsidiaries, and references to the "issuer" refer solely to XL Capital Finance (Europe) plc.

CAYMAN ISLANDS

The Cayman Islands at present impose no taxes on income, profits, capital gains or appreciations of XL Capital. There are also currently no taxes imposed in the Cayman Islands on income, profits, capital gains or appreciations of the holders of the senior notes nor any taxes on the holders of the senior notes in the nature of estate duty or capital transfer tax. Further, as an exempted company, XL Capital has obtained an undertaking from the Cayman Islands Government authorities that, for a period of twenty years from the date of incorporation of XL Capital, no law which is enacted in the Cayman Islands imposing any tax on profit, income, capital gains or appreciations will apply to XL Capital and that, for the same period of twenty years, no taxes on profit, income, capital gains or appreciations nor any tax in the nature of estate duty or inheritance tax will be payable on the senior notes or other obligations of XL Capital.

UNITED STATES

The following discussion summarizes certain U.S. federal income tax considerations that may be relevant to you if you invest in senior notes and are a U.S. holder. This summary deals only with U.S. holders that purchase senior notes at their issue price as part of the initial distribution and that will hold senior notes as capital assets. It does not address considerations that may be relevant to you if you are an investor that is subject to special tax rules such as a bank, thrift, real estate investment trust, partnership, regulated investment company, insurance company, dealer in securities or currencies, trader in securities or commodities that elects marked to market treatment, person that will hold senior notes through a partnership or other pass-through entity, person that will hold senior notes as a hedge against currency risk or as a position in a "straddle" or conversion transaction, tax-exempt organization, a person whose "functional currency" is not the U.S. dollar, or a person liable for alternative minimum tax. Furthermore, the discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended, and regulations, rulings and judicial decisions thereunder as of the date hereof, and such authorities may be repealed, revoked or modified so as to result in United States federal income tax consequences different from those discussed

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below. If a partnership holds our senior notes, 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 our senior notes, you should consult your tax advisors.

In general, you will be a U.S. holder if you are an initial purchaser of a senior note who is a beneficial owner of the senior note and who is for U.S. federal income tax purposes:

- o a citizen or individual resident of the United States;
- o a corporation created or organized in or under the laws of the United States, one of the states or the District of Columbia;
- o an estate all of the income of which is includable in gross income for U.S. federal income tax purposes regardless of its source; or
- o a trust:
 - that a court within the United States is able to exercise primary supervision over the administration of and which one or more U.S. persons have the authority to control all substantial decisions of; or
 - that has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person.

You should consult your tax advisor about the tax consequences of holding senior notes, including the relevance to your particular situation of the considerations discussed below, as well as the relevance to your particular situation of state, local or other tax laws.

S-15

INTEREST ON THE SENIOR NOTES

Payments or accruals of interest on the senior notes will be taxable to you as ordinary interest income at the time that you receive or accrue such amounts (in accordance with your regular method of accounting for U.S. federal income tax purposes).

PURCHASE, SALE AND RETIREMENT OF SENIOR NOTES

Initially, your tax basis in a senior note generally will equal the cost of the senior note to you. When you sell or exchange a senior note, or if a senior note that you hold is retired, you generally will recognize gain or loss equal to the difference between the amount you realize on the transaction (less any accrued qualified stated interest, which will be subject to tax in the manner described above under "--Interest on the Senior Notes") and your adjusted tax basis in the senior note.

The gain or loss that you recognize on the sale, exchange or retirement of a senior note generally will be capital gain or loss. The gain or loss on the sale, exchange or retirement of a senior note will be long-term capital gain or loss if you have held the senior note for more than one year on the date of disposition. Net long-term capital gain recognized by an individual U.S. holder generally will be subject to a maximum tax rate of 20%. The ability of U.S. holders to offset capital losses against ordinary income is limited.

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INFORMATION REPORTING AND BACKUP WITHHOLDING

The paying agent must file information returns with the United States Internal Revenue Service in connection with senior note payments made to certain U.S. holders. If you are a U.S. holder, you generally will not be subject to United States backup withholding tax on such payments if you provide your taxpayer identification number to the paying agent (unless you have been notified by the IRS regarding a failure to report all interest or dividends required to be shown on your federal income tax return or otherwise fail to comply with applicable certification requirements). You may also be subject to information reporting and backup withholding tax requirements with respect to the proceeds from a sale of the senior notes. If you are not a U.S. holder, you may have to comply with certification procedures to establish that you are not a U.S. holder in order to avoid information reporting and backup withholding tax requirements.

UNITED KINGDOM

The comments below are of a general nature based on the issuer's understanding of current United Kingdom law and United Kingdom Inland Revenue practice, and they are subject to changes thereto or thereof. They relate only to the position of persons who are the absolute beneficial owners of the senior notes and may not apply to certain classes of taxpayers (such as dealers in securities), nor do they address the position of holders of senior notes who are connected with the issuer. They deal only with the question of whether payments of interest on the senior notes may be made without withholding or deduction for or on account of United Kingdom income tax and do not deal with other United Kingdom tax consequences that might arise from holding senior notes.

INTEREST ON THE SENIOR NOTES

The senior notes will constitute "quoted Eurobonds" within the meaning of section 349(4) of the United Kingdom Income and Corporation Taxes Act 1988 (the "Act") while the senior notes continue to be listed on a "recognised stock exchange" within the meaning of section 841 of the Act (the Luxembourg Stock Exchange is recognised for these purposes). Accordingly, payments of interest on the senior notes may be made without withholding or deduction for or on account of United Kingdom income tax.

Persons in the United Kingdom paying interest to or receiving interest on behalf of another person may be required to provide certain information to the United Kingdom Inland Revenue regarding the identity of the payee or person entitled to the interest and, in certain circumstances, such information may be exchanged with tax authorities in other countries.

If the senior notes cease to be listed on a recognised stock exchange, interest will generally be paid under deduction of income tax at the lower rate (currently 20%) subject to any direction to the contrary from the Inland Revenue in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

S-16

U.K. SOURCE

The interest has a United Kingdom source and accordingly may be chargeable to United Kingdom tax by direct assessment. Where the interest is paid without withholding or deduction, the interest will not be assessed to United Kingdom tax in the hands of holders of the senior notes who are not resident for tax

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purposes in the United Kingdom, except where such persons carry on a trade, profession or vocation in the United Kingdom through a United Kingdom branch or agency in connection with which the interest is received or to which the senior notes are attributable, in which case tax may be levied on the United Kingdom branch or agency. There are exemptions for interest received by certain categories of agents.

If interest were paid under deduction of United Kingdom income tax (e.g., if the senior notes ceased to be listed), holders of senior notes who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in an applicable double taxation treaty.

PROPOSED EU DIRECTIVE ON THE TAXATION OF SAVINGS INCOME

The European Union is currently considering proposals for a new directive regarding the taxation of savings income. It is proposed that, subject to a number of important conditions being met, a Member State will be required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual resident in that other Member State, subject to the right of certain Members States to opt instead for a withholding system for a transitional period in relation to such payments. The proposals are not yet final, and they may be subject to further amendments and/or clarification.

PROSPECTIVE HOLDERS OF SENIOR NOTES WHO ARE IN ANY DOUBT AS TO THEIR TAX POSITION OR WHO MAY BE SUBJECT TO TAX IN A JURISDICTION OTHER THAN THE UNITED KINGDOM SHOULD SEEK INDEPENDENT ADVICE.

S-17

UNDERWRITING

Salomon Smith Barney Inc. and J.P. Morgan Securities Inc. are acting as joint book-running managers of the offering and as representatives of the several underwriters named below. Subject to the terms and conditions stated in the underwriting agreement dated January 7, 2002, we have agreed to sell to each underwriter, and each underwriter has agreed to purchase, severally and not jointly, the principal amount of the senior notes set forth opposite the underwriter's name below. You may obtain a copy of the underwriting agreement at the specified office of the paying agent in Luxembourg. References herein to the underwriting agreement shall be deemed to include the related pricing agreement dated January 7, 2002.

UNDERWRITERS	PRINCIPAL AMOUNT OF NOTES
-----	-----
Salomon Smith Barney Inc.	\$240,000,000
J.P. Morgan Securities Inc.	240,000,000
Banc of America Securities LLC	40,000,000
Barclays Capital Inc.	40,000,000

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Credit Lyonnais Securities (USA) Inc.	40,000,000

Total	\$600,000,000
	=====

The underwriting agreement provides that, subject to the terms and conditions set forth therein, the underwriters will be obligated to purchase all the senior notes offered by this prospectus supplement and the accompanying prospectus if any senior notes are purchased.

The underwriters propose to offer part of the senior notes directly to the public at the public offering price set forth on the cover page of this prospectus supplement and some of the senior notes to certain dealers at the public offering price less concessions not in excess of 0.35% of the principal amount of the senior notes. The underwriters may allow, and these dealers may realow, concessions not in excess of 0.25% of the principal amount of the senior notes. After the initial offering of the senior notes to the public, the public offering price and concessions may be changed by the underwriters.

In connection with this offering, we will pay an underwriting discount to the underwriters of 0.65% of the principal amount of the notes, for a total of \$3,900,000.

We estimate that our share of the total expenses of this offering, excluding underwriting discounts and commissions, will be approximately \$600,000.

We have been advised by the underwriters that they intend to make a market in the senior notes, but that they are not obligated to do so and may discontinue making a market at any time without notice. We have applied to list the senior notes on the Luxembourg Stock Exchange. However, we cannot assure you that the senior notes will be listed on the Luxembourg Stock Exchange at the time the senior notes are delivered to purchasers or at any other time. The senior notes will not be listed on any United States securities exchange.

The underwriting agreement provides that we will indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or contribute to payments the underwriters may be required to make in respect of such liabilities.

The underwriters may engage in over-allotment, stabilizing transactions, syndicate-covering transactions and penalty bids in accordance with Rule 104 of Regulation M under the Exchange Act. Over-allotment involves syndicate sales in excess of the offering size, which creates a short position for the underwriters. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Syndicate-covering transactions involve purchases of the senior notes in the open market after the distribution has been completed in order to cover syndicate short positions. Penalty bids permit the underwriters to reclaim a selling concession from an underwriter when the senior notes originally sold by such an underwriter are purchased in a covering transaction to cover syndicate short positions. Such over-allotment stabilizing transactions, syndicate-covering transactions and penalty bids may cause the price of the senior notes to be higher than it would be in the absence of such transactions. They may also have the effect of preventing or retarding declines in the market prices of the senior notes. These transactions, if commenced, may be discontinued at any time.

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Certain of the underwriters have performed investment banking and advisory services for us from time to time for which they have received customary fees and expenses. The underwriters may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business. JPMorgan Chase Bank, an affiliate of J.P. Morgan Securities Inc., is an agent and lender under certain of our credit facilities. In addition, affiliates of certain of the other underwriters are lenders under certain of our credit facilities. Affiliates of certain of the underwriters are lenders under our five-year revolving credit facilities and, accordingly, will receive their proportionate share when those facilities are repaid with the proceeds of this offering. Under the Conduct Rules of the National Association of Securities Dealers, Inc. (the "NASD"), special considerations apply to a public offering of securities where more than 10% of the net proceeds thereof will be paid to a participating underwriter or any of its affiliates. Because more than 10% of the net proceeds of the offering of the senior notes will be paid to certain underwriters or their affiliates, this offering is being conducted pursuant to the requirements of Rule 2710(c)(8) of the Conduct Rules of the NASD.

The underwriters have agreed to reimburse the issuer for certain expenses.

LEGAL MATTERS

Certain U.S. legal matters with respect to the senior notes will be passed upon for the issuer and XL Capital Ltd by Cahill Gordon & Reindel, New York, New York. Certain matters with respect to the senior notes under the laws of the Cayman Islands will be passed upon for the issuer and XL Capital Ltd by Hunter & Hunter, Grand Cayman, Cayman Islands. Certain English legal matters with respect to the senior notes will be passed upon for the issuer and XL Capital Ltd by Slaughter and May, London, England. Certain U.S. legal matters with respect to the senior notes 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.

LISTING AND GENERAL INFORMATION

ADDITIONAL INFORMATION ABOUT XL CAPITAL FINANCE (EUROPE) PLC

The issuer is a public limited company incorporated under the laws of England and Wales under the number 4278406.

The objects of the issuer as set forth in clauses 4.2.6, 4.2.7 and 4.2.8 of its memorandum of association include the lending and borrowing of monies and the issue of debt securities.

Stand-alone (unconsolidated) financial statements of the issuer are not published. As a newly incorporated entity, the issuer does not have any financial statements in respect of the year 2001. The first financial statements for a financial year for the issuer will be prepared for the financial year ending December 31, 2002, and will be prepared for each financial year thereafter. The issuer's independent auditors are PricewaterhouseCoopers LLP.

The directors of the issuer are Messrs. Jerry de St. Paer and Henry Keeling and Ms. Fiona Luck. Subject to the making of any requisite declarations of interest under the laws of England and Wales, a director may vote on any transaction or arrangement in which he is interested or upon any related matter. The secretary of the issuer is Mr. Paul S. Giordano.

The authorized share capital of the issuer is (pound)100,000, divided into 100,000 ordinary shares; 50,000 ordinary shares were issued and outstanding as of September 30, 2001 of which 25% is paid up. Except as described in this

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prospectus supplement or the accompanying prospectus, or the documents incorporated by reference into this prospectus supplement or the accompanying prospectus, as of the date of this prospectus supplement the issuer does not have any outstanding indebtedness. Since September 30, 2001, there has been no material change in the equity capitalization of the issuer.

S-19

ADDITIONAL INFORMATION ABOUT XL CAPITAL LTD

XL Capital Ltd is incorporated in the Cayman Islands under the number CR-80328.

As of the date of this prospectus supplement, XL Capital Ltd has no legally binding commitments to make any significant acquisitions.

The objects of XL Capital Ltd as set forth in Article 3 of its memorandum of association are unrestricted and allow XL Capital Ltd to engage in or carry on any lawful trade.

XL Capital Ltd is the parent company for a consolidated group of companies. XL Capital Ltd has several U.S. and international subsidiaries in its consolidated group. The issuer is a wholly owned subsidiary of XL Capital Ltd and was formed for the purpose of acting as a finance subsidiary for XL Capital Ltd. A list of XL Capital Ltd's subsidiaries may be obtained at the specified office of the paying agent in Luxembourg.

For further information, see Note 1 to our audited consolidated financial statements in our Form 10-K for the fiscal year ended December 31, 2000 incorporated by reference in this prospectus supplement and the accompanying prospectus.

LISTING

In connection with the application for the senior notes to be listed on the Luxembourg Stock Exchange, a notice relating to the issue of the senior notes and a copy of the articles of association and memorandum of association of each of the issuer and XL Capital Ltd will be filed with the Chief Registrar of the District Court of Luxembourg (GREFFIER EN CHEF DU TRIBUNAL D'ARRONDISSEMENT DE ET A LUXEMBOURG), where such documents will be available for inspection and where copies of such documents will be obtainable upon request.

So long as any senior notes are listed on the Luxembourg Stock Exchange and the rules of the exchange so require, an agent appointed to make payments on, and transfers of, the senior notes will be maintained in Luxembourg. We have appointed Deutsche Bank Luxembourg S.A. as our listing, paying and transfer agent in Luxembourg. We reserve the right to vary such appointment, and if another agent is appointed we will publish a notice in a newspaper with general circulation in Luxembourg. The paying agent in Luxembourg will act as intermediary between the holders of senior notes and us.

We may remove the senior notes from listing on the Luxembourg Stock Exchange.

PRESCRIPTION

Any money deposited with the trustee or any paying agent, or then held by the issuer or XL Capital Ltd, in trust for the payment of the principal of and

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premium, if any, or interest on any senior notes and remaining unclaimed for two years after such principal, premium, if any, or interest has become due and payable may be paid to the issuer, or, if then held by the issuer or XL Capital Ltd, will be discharged from such trust. If this happens, the holder of such senior notes may thereafter look only to the issuer or XL Capital Ltd for payment of these moneys. All liability of the trustee or such paying agent with respect to such trust money, and all liability of the issuer or XL Capital Ltd as trustee thereof, will thereupon cease.

DOCUMENTS

You may request a copy of any of the documents which are incorporated by reference in this prospectus supplement and the accompanying prospectus, other than exhibits which are not specifically incorporated by reference into such documents, and the articles of association and memorandum of association of each of the issuer and XL Capital Ltd, as well as the indenture and underwriting agreement relating to the senior notes, at no cost, at the specified office of the paying agent in Luxembourg so long as any senior notes are listed on the Luxembourg Stock Exchange and the rules of the exchange so require.

Copies of XL Capital Ltd's latest annual reports for the years ended December 31, 2000 and 1999, which include our audited annual consolidated financial statements, and XL Capital Ltd's report for the quarterly period ended September 30, 2001, which includes our unaudited quarterly interim consolidated financial statements, as well as all of the issuer's future annual audited financial statements and XL Capital Ltd's future annual and quarterly reports, will be available at the specified office of the paying agent in Luxembourg so long as any senior notes are listed on the Luxembourg Stock Exchange and the rules of the exchange so require. The issuer's and XL

S-20

Capital Ltd's annual financial statements are audited by PricewaterhouseCoopers LLP. XL Capital Ltd publishes consolidated financial statements only; stand-alone (unconsolidated) financial statements of the issuer are not published. The fiscal year of each of the issuer and XL Capital Ltd is from January 1 to December 31.

AUTHORIZATION

The issue of the senior notes was authorized by the board of directors of the issuer on December 14, 2001 and January 7, 2002. The issue of the senior notes and the guarantee was authorized by the board of directors of XL Capital Ltd and by a special committee of the board of directors of XL Capital Ltd on December 14, 2001 and January 7, 2002, respectively.

MATERIAL ADVERSE CHANGE

Except as disclosed in this prospectus supplement or the accompanying prospectus, or the documents incorporated by reference in this prospectus supplement or the accompanying prospectus, there has been no material adverse change in the financial position of the issuer or in the financial position of XL Capital Ltd since December 31, 2000. See "Experts" in the accompanying prospectus for a description of our independent accountants.

LEGAL PROCEEDINGS

We are a party to various legal proceedings, including arbitrations, arising in the ordinary course of business. Such legal proceedings generally

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relate to claims asserted by or against our subsidiaries in the ordinary course of their respective insurance, reinsurance and financial products and services operations. We do not believe that the eventual resolution of any of the legal proceedings to which we are a party will result in a material adverse effect on the financial condition or results of operations of either the issuer or XL Capital Ltd.

NOTICES

We will be deemed to have given notice to holders of senior notes upon (1) mailing the relevant notices by first class mail, postage prepaid, to the holders at their registered address as recorded by the registrar; and (2), for so long as the notes are listed on the Luxembourg Stock Exchange and the rules of the exchange so require, publication of the relevant notice to the holders of the notes in a leading newspaper having general circulation in Luxembourg, which is expected to be the LUXEMBURGER WORT, or, if publication in such a newspaper is not feasible, in one other leading English language daily newspaper with general circulation in Europe. The newspaper chosen for publication must be published on each business day in morning editions but does not necessarily have to be published on Saturdays, Sundays or holidays.

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 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 the size of our claims from the terrorist loss events at the World Trade Center and in Washington, D.C. and Pennsylvania on September 11, 2001 may change due to the preliminary nature of reports and estimates of loss and damage;

S-21

- o the timely and full recoverability of reinsurance placed by us with third parties;
- o the projected amount of ceded reinsurance recoverables and the ratings and creditworthiness of reinsurers may change;
- o the timing of claims payments being faster or the receipt of reinsurance recoverables being slower than anticipated by us;

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- o our estimates of our exposure to Enron may change due to the still developing nature of the situation with respect to Enron and the related bankruptcy proceedings;
- o ineffectiveness or obsolescence of our business strategy due to changes in current or future market conditions;
- o increased competition on the basis of pricing, capacity, coverage terms or other factors;
- o greater frequency or severity of claims and loss activity, including as a result of natural or man-made catastrophic events, than our underwriting, reserving or investment practices anticipate based on historical experience or industry data;
- 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 availability of borrowings and letters of credit under our credit facilities;
- o changes in regulation or tax laws applicable to us, 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;
- o changes in rating agency policies or practices;
- o changes in accounting policies or practices;
- o changes in general economic conditions, including inflation, foreign currency exchange rates and other factors; and
- o the effects of business disruption or economic contraction due to terrorism or other hostilities.

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.

S-22

INCORPORATION OF DOCUMENTS BY REFERENCE

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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 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 Exchange Act. Copies of documents that we file with the SEC will be available free of charge so long as any senior notes are listed on the Luxembourg Stock Exchange and the rules of the exchange so require at the specified offices of Deutsche Bank Luxembourg, S.A., our paying agent in Luxembourg. The issuer is not subject to the information reporting requirements of the Exchange Act.

o Current Reports on Form 8-K filed on January 4, 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 Finance (Europe) plc or XL Capital Ltd's constitutional documents, at no cost, by writing or telephoning us at the following:

Investor Relations
XL Capital Finance (Europe) plc or XL Capital Ltd
XL House
One Bermudiana Road
Hamilton, Bermuda HM11
Telephone: (441) 292-8515

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

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:

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- 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

NEITHER SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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

December 20, 2001

TABLE OF CONTENTS

	PAGE

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

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No person has been authorized to give any information or to make any representation not contained or incorporated by reference in this prospectus or the accompanying prospectus supplement and, if given or made, such information or representation must not be relied upon as having been authorized by XL Capital Ltd, XL Capital Finance (Europe) plc, the trusts or any underwriter, dealer or agent. Neither this prospectus nor the accompanying prospectus supplement constitutes an offer to sell or a solicitation of an offer to buy securities in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

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

ABOUT THIS PROSPECTUS

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

- (i) XL Capital Ltd's ordinary shares, preference ordinary shares, debt securities, ordinary share warrants, ordinary share purchase contracts, ordinary share purchase units, subordinated deferrable interest debentures, guarantees of XL Finance senior debt securities and guarantees of trust preferred securities;
- (ii) XL Capital Finance (Europe) plc's senior debt securities; and
- (iii) the trust preferred securities of XL Capital Trust I, XL Capital Trust II and XL Capital Trust III described in this prospectus.

Under this shelf process, XL Capital Ltd, XL Capital Finance (Europe) plc, and the trusts may sell the securities described in this prospectus in one or more offerings up to a total initial offering price of \$1,500,000,000. This prospectus provides you with a general description of the securities that XL Capital Ltd, XL Capital Finance (Europe) plc and the trusts may offer. This prospectus does not contain all of the information set forth in the registration statement as permitted by the rules and regulations of the SEC. For additional information regarding XL Capital Ltd, XL Capital Finance (Europe) plc or the trusts and the offered securities, please refer to the registration statement. Each time XL Capital Ltd, XL Capital Finance (Europe) plc or a trust sells securities it will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with additional information described under the heading "Where You Can Find More Information."

----- WHERE YOU CAN FIND MORE INFORMATION

We, the trusts and XL Finance have filed with the SEC under the Securities Act of 1933, as amended (the "Securities Act"), a combined registration

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statement on Form S-3 (herein, together with all amendments and exhibits, referred to as the "registration statement") relating to the offered securities.

XL CAPITAL

XL Capital is subject to the informational requirements of the Securities Exchange Act of 1934 (the "Exchange Act"), and in accordance therewith files reports, proxy and information statements and other information with the SEC. Such reports, proxy statements and other information can be inspected and copied at prescribed rates at the public reference facilities maintained by the SEC at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. The SEC also maintains a website that contains reports, proxy and information statements and other information. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. The website address is <http://www.sec.gov>. In addition, such material can be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

XL CAPITAL FINANCE (EUROPE) PLC

XL Capital Finance (Europe) plc is not currently subject to the information reporting requirements of the Exchange Act. XL Capital Finance (Europe) plc is a newly formed entity and currently has no operations and only minimal capitalization. XL Capital Finance (Europe) plc is directly and indirectly wholly owned by XL Capital. The obligations of XL Capital Finance (Europe) plc under its senior debt securities will be fully and unconditionally guaranteed by XL Capital. See "Description of XL Capital Finance (Europe) plc Senior Debt Securities."

1

THE TRUSTS

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

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

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

INCORPORATION OF DOCUMENTS BY REFERENCE

The SEC allows XL Capital to "incorporate by reference" into this prospectus the information it files with the SEC, which means that it can

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disclose important information to you by referring to another document filed separately with the SEC. The information that XL Capital files after the date of the initial registration statement and prior to the effectiveness of the registration statement shall be deemed to be incorporated by reference into this prospectus. The information that XL Capital files after the date of this prospectus with the SEC will automatically update and supersede this information. XL Capital incorporates by reference into this prospectus the documents listed below and any future filings made with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Exchange Act.

- o Annual Report on Form 10-K for the year ended December 31, 2000, filed on March 29, 2001;
- o Quarterly Report on Form 10-Q for the period ended September 30, 2001, filed on October 29, 2001;
- o Quarterly Report on Form 10-Q for the period ended June 30, 2001, filed on August 14, 2001;
- o Quarterly Report on Form 10-Q for the period ended March 31, 2001, filed on May 15, 2001;
- o Current Report on Form 8-K filed on February 23, 2001;
- o Current Reports on Form 8-K filed on May 18, 2001;
- o Current Report on Form 8-K filed on July 27, 2001;
- o Current Report on Form 8-K filed on August 9, 2001;
- o Current Report on Form 8-K filed on September 5, 2001;
- o Current Report on Form 8-K filed on September 11, 2001;
- o Current Report on Form 8-K filed on September 17, 2001;
- o Current Report on Form 8-K filed on October 4, 2001;
- o Current Report on Form 8-K filed on October 29, 2001;
- o Current Report on Form 8-K filed on November 2, 2001; and
- o Proxy Statement dated April 6, 2001, filed on April 6, 2001.

2

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

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

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

None of XL Capital, XL Finance or the trusts have authorized anyone to give any information or make any representation about XL Capital, XL Finance or the trusts that is different from, or in addition to, that contained in this prospectus or in any of the materials that XL Capital, XL Finance or the trusts have incorporated by reference into this document. Therefore, if anyone does give you information of this sort, you should not rely on it. If you are in a jurisdiction where offers to exchange or sell, or solicitations of offers to exchange or purchase, the securities offered by this document or the solicitation of proxies is unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this document does not extend to you. The information contained in this document speaks only as of the date of this document, unless the information specifically indicates that another date applies.

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.

We were incorporated with limited liability under the Cayman Islands Companies Law on March 16, 1998, as EXEL Merger Company Ltd. We were formed as a result of the merger of EXEL Merger Company Ltd, EXEL Limited and Mid Ocean Limited on August 7, 1998, and were renamed EXEL Limited on that date. This merger was accounted for as a purchase business combination. EXEL and Mid Ocean were companies that were incorporated in the Cayman Islands in 1986 and 1992, respectively. At a special general meeting held on February 1, 1999, the shareholders of EXEL Limited approved a resolution changing the name of EXEL Limited to XL Capital Ltd.

On June 18, 1999, we merged with NAC Re Corp. (now known as XL Reinsurance America Inc.), a Delaware corporation that was organized in 1985, in a stock merger. The NAC merger was accounted for as a pooling of interests under U.S. generally accepted accounting principles. Accordingly, all prior period information contained or incorporated by reference in this prospectus includes the results of NAC as though it had always been a part of XL Capital Ltd. Following the merger, we changed our fiscal year end from November 30 to December 31 as a conforming pooling adjustment. On July 25, 2001, we completed the acquisition of certain of the operations of Winterthur International from Winterthur Swiss Insurance Company, an indirect subsidiary of the Credit Suisse Group. Although the Winterthur International acquisition closed on July 25, 2001, it is being given effect as if it closed on July 1, 2001, which is the date from which the economic interest was transferred to us.

We are incorporated in the Cayman Islands. 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. The information contained on our website is not incorporated by reference into this prospectus.

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

XL capital FINANCE (europe) PLC

XL Capital Finance (Europe) plc (formerly known as XL Finance (UK) plc) was incorporated as a public limited company under the laws of England and Wales on August 29, 2001 under the number 4278406. XL Capital Finance (Europe) plc is a wholly owned subsidiary of XL Capital Ltd. XL Capital Finance (Europe) plc has not engaged in any activities other than those incidental to its formation and will not have any operations other than the issuance of senior debt securities, if any, and the lending or the contributing of the proceeds of such senior debt securities to XL Capital Ltd or its subsidiaries and activities incidental to or connected with the foregoing. XL Capital Finance (Europe) plc's registered offices are located at 35 Basinghall Street, London EC2Y 5DB, England.

THE TRUSTS

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

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

All of the trust common securities will be directly or indirectly owned by XL Capital Ltd. The trust common securities will rank equal with, and payments will be made thereon PRO RATA, with the trust preferred securities except that upon an event of default under the declaration, the rights of the holders of the trust common securities to payment in respect of distributions and payments upon liquidation, redemption and otherwise will be subordinated to the rights of the holders of the trust preferred securities. XL Capital Ltd will, directly or indirectly, acquire trust common securities in an aggregate liquidation amount equal to 3% of the total capital of each trust. Each trust has a term of approximately 55 years, but may terminate earlier as provided in the applicable declaration.

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

One trustee of each trust will be a financial institution which will be unaffiliated with XL Capital Ltd and which shall act as property trustee and as

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indenture trustee for purposes of the Trust Indenture Act, pur-

4

suant to the terms set forth in a prospectus supplement (the "property trustee"). In addition, unless the property trustee maintains a principal place of business in the State of Delaware, and otherwise meets the requirements of applicable law, another trustee of each trust will have its principal place of business or reside in the State of Delaware (the "Delaware Trustee"). XL Capital Ltd will pay all fees, expenses, debts and obligations (other than the trust securities) related to the trusts and the offering of trust securities. The office of the Delaware trustee for each trust in the State of Delaware is First Union Trust Company, National Association, One Rodney Square, 920 King Street, Suite 102, Wilmington, Delaware 19801. The principal place of business of each trust shall be c/o XL Capital Ltd, XL House, One Bermudiana Road, Hamilton HM11, Bermuda (telephone number (441) 292-8515).

USE OF PROCEEDS

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

ACCOUNTING TREATMENT RELATING TO TRUST SECURITIES

The financial statements of each trust that has issued trust securities will be consolidated with XL Capital Ltd's financial statements, with the trust preferred securities of each trust shown on XL Capital Ltd's consolidated financial statements as XL Capital Ltd obligated mandatorily redeemable preferred securities of