

SECURITY CAPITAL ASSURANCE

Building Momentum

2020
annual report

SECURITY CAPITAL ASSURANCE

 CAPITAL ASSURANCE  FINANCIAL ASSURANCE

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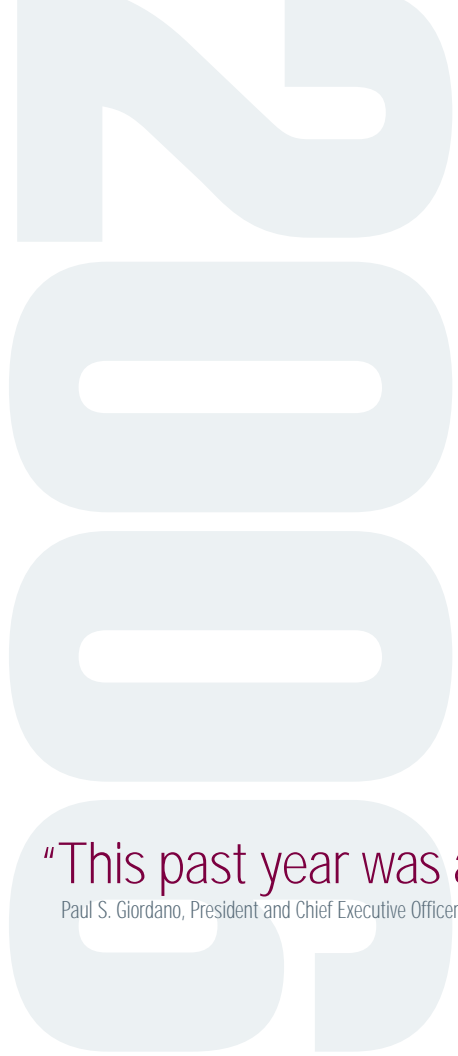
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Security Capital Assurance Ltd (SCA) is a holding company domiciled in Bermuda whose shares are listed on the New York Stock Exchange (NYSE: SCA), and whose operating subsidiaries provide triple-A rated financial guarantee insurance and other credit enhancement for debt obligations in the US and international capital markets. SCA operates through two principal subsidiaries – XL Capital Assurance Inc. and XL Financial Assurance Ltd. XLCA and XLFA have each been assigned the highest possible financial strength ratings by the major credit rating agencies: Aaa by Moody's Investors Service, AAA by Standard & Poor's Ratings Service, and AAA by Fitch Ratings.

"This past year was an outstanding one for Security Capital Assurance."

Paul S. Giordano, President and Chief Executive Officer

XL Capital Assurance Inc. delivers triple-A rated credit enhancement for the obligations of debt issuers in both primary and secondary markets worldwide. It guarantees US municipal bonds, asset-backed securities, collateralized debt obligations (CDO), and debt backed by utilities and selected infrastructure projects. XLCA also provides guarantees for specialized risks, including future flow securitizations, bank deposit insurance, as well as other structured finance products.

XL Financial Assurance Ltd. provides financial guarantee reinsurance for obligations underwritten by primary triple-A rated financial guarantors. XLFA has reinsurance relationships with all of the primary financial guarantors.

To Our Shareholders



Paul S. Giordano, President and Chief Executive Officer

This past year was an outstanding one for Security Capital Assurance. We set company records in earnings and profitability despite heightened competition and tight credit spreads. We also generated record new business production and increased our market share, establishing ourselves as a growing force in the markets we serve. All of these goals were achieved while we completed an initial public offering of our shares that increased our capital base and strengthened the core of our franchise: our triple-A financial strength ratings.

These developments mark the beginning of a new era in our company's history. Our triple-A guarantees lower issuer borrowing costs, protect against ratings downgrades and credit losses, and enhance liquidity in times of uncertainty or volatility in the financial markets. We also provide issuers, banks, and investors in the debt obligations

we insure with much-needed diversification in the financial guarantee industry, which has historically been highly concentrated.

In the last year, we increased our market share to an estimated 11 percent of the industry's new business production, as measured by adjusted gross premiums (AGP). We participated in more transactions and closed more large deals compared to 2005, increasing the average size of transactions we insured. The top 30 transactions we insured during all of 2006 averaged approximately \$400 million of par insured, up from about \$300 million the year before.

Our goal at SCA is to be the best at what we do. To achieve this, we follow a straightforward approach – attract highly talented professionals, provide clients with superior service, develop innovative products, maintain sound credit standards and pricing discipline, and focus on creating long-term value for our shareholders. These core principles provide the foundation for everything we do.

Record Financial Performance

We achieved all of our key objectives in terms of performance and profitability. Our business grew – net par outstanding increased 44 percent to \$118 billion at year-end 2006, up from \$82 billion at the end of the previous year. Net premiums earned and net investment income increased significantly in 2006 while our operating expense and loss ratios declined, widening our operating margins. Both operating and core income for the year increased substantially as a result, with operating income rising 57 percent to \$141.9 million from \$90.3 million in 2005. Core income, which excludes earnings from refunding activity, rose 52 percent to \$117.4 million, from \$77.0 million in 2005. Operating return on equity grew to 12.5 percent in 2006, versus 10.7 percent in 2005 – and core return on equity increased to 10.3 percent from 9.1 percent in the previous year. AGP increased 40 percent to \$556 million in 2006, mainly due to growth

in our global infrastructure, power and utilities, and collateralized debt obligation, or CDO, lines of business. Our adjusted book value increased 43 percent to \$2.4 billion, nearly a billion of which represents premium on in-force business at the end of 2006 that will be earned in future years.

We continued to increase the size and quality of our balance sheet in 2006. Shareholders' equity grew by 57 percent to \$1.4 billion, while total claims-paying resources rose to \$2.7 billion as of December 31, 2006, from \$1.9 billion at the close of 2005. Our insured portfolio at year-end 2006 had an underlying weighted average Standard & Poor's credit rating of A+, and non-investment grade credits, as a percentage of net par outstanding, declined to one of the lowest levels in the industry. We also maintained a conservative level of unallocated loss reserves relative to exposure as compared to that of other companies in our industry.

Our successes in 2006, spread across the broad range of our business lines, demonstrate our potential for growth and profitability going forward.

The Credit Environment in 2006

In 2006, the credit markets were generally benign, characterized by ample liquidity and low default rates. Investors in such an environment can become complacent about credit risk and more willing to buy lower-rated, uninsured securities, reducing the perceived value of the credit enhancement we offer.

Risk management and surveillance play an even more critical role in our business model in times such as these. We strive for continuous improvement in our understanding and management of risk. This not only provides us with protection from potential losses but also deepens our knowledge of the risks we assume, better informing our credit underwriting process.

We believe that the credit cycle will inevitably turn. When credit risk increases, our guarantees will have the opportunity to add even greater value to our clients. Our strategy is to have the customer relationships, triple-A ratings, and balance sheet strength to take advantage of those conditions when they materialize.

2006 Financial Highlights

Security Capital Assurance Ltd (\$ in millions unless otherwise stated)

For the period ended/as of December 31,

	2006	2005	2004
Adjusted gross premiums ¹	\$ 556.1	\$ 395.8	\$ 295.0
Net premiums earned	\$ 183.1	\$ 151.8	\$ 116.3
Core net premiums earned ²	\$ 155.7	\$ 137.1	\$ 110.3
Net income	\$ 117.4	\$ 80.4	\$ 58.9
Operating income ³	\$ 141.9	\$ 90.3	\$ 46.3
Operating return on equity ⁴	12.5%	10.7%	6.5%
Total cash and invested assets	\$ 2,160.9	\$ 1,419.1	\$ 1,228.5
Total assets	\$ 2,496.8	\$ 1,684.3	\$ 1,472.2
Shareholders' equity	\$ 1,366.5	\$ 867.8	\$ 804.7
Adjusted book value ⁵	\$ 2,355.3	\$ 1,648.0	\$ N/A
Loss ratio	8.2%	17.1%	18.3%
Operating expense ratio ⁶	48.5%	52.6%	57.3%
Combined ratio	56.7%	69.7%	75.6%
Gross par written	\$ 52,181	\$ 34,529	\$ 32,277
Net principal and interest outstanding	\$183,702	\$121,898	\$ 97,301
Net P&I to qualified statutory capital ratio	132x	137x	119x
Total claims-paying resources	\$ 2,666	\$ 1,949	\$ 1,725
Net P&I to claims-paying resources ratio	69x	63x	56x

¹ Adjusted gross premiums (AGP) are the sum of: (i) upfront premiums written in such period, (ii) current installment premiums due on business written in such period, and (iii) expected future installment premiums on contracts written during such period that remain in force and for which there is a binding obligation on the part of the insured to pay the future installments, tax-effected and discounted at 7%.

² Core net premiums earned are net premiums earned less earned premiums recognized from refundings, calls, and other accelerations

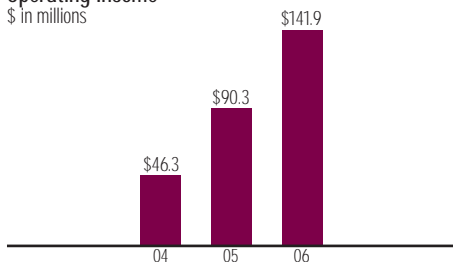
³ Operating income is the net income excluding realized gains (losses) on investments and realized and unrealized gains (losses) on credit derivatives.

⁴ Operating return on equity (ROE) is annualized operating income divided by average shareholders' equity less accumulated other comprehensive loss.

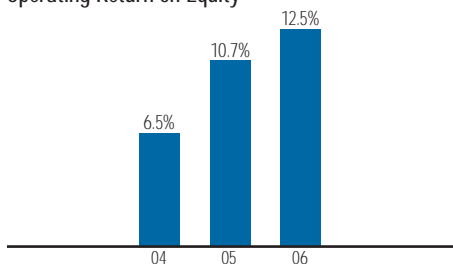
⁵ Adjusted book value (ABV) is shareholders' equity (book value) plus the after-tax value of the deferred premium, net of prepaid reinsurance premiums and deferred acquisition costs plus the after-tax NPVIF, discounted at 7%. NPVIF is defined as estimated installment premiums, written on insurance policies and structured credit derivatives anticipated to be earned in future periods on policies in force, reduced by planned cessions to reinsurers, plus associated ceding commissions received from reinsurers, discounted at 7%. NPVIF is a management estimate that can be negatively affected by prepayments, early terminations, credit losses, or other factors.

⁶ Operating expense ratio is operating and acquisition expenses over net premiums earned.

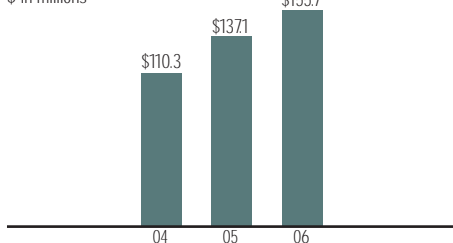
Operating Income*
\$ in millions



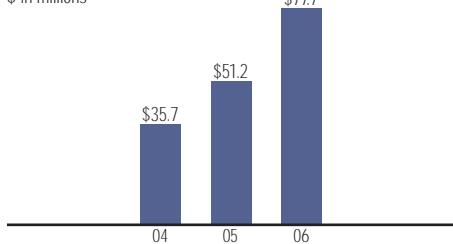
Operating Return on Equity*



Core Net Premiums Earned*
\$ in millions



Investment Income
\$ in millions



*See definitions in footnotes on page 3.

Growth in Our Businesses

All three of our insurance business lines – US public finance, structured finance, and international – grew in 2006 although the dynamics in these markets showed some differences.

We continued to expand our US public finance business, where we provide guarantees for securities issued by state and local governments across the United States and its territories. We enlarged our base of investors in the municipal debt obligations we insure and increased our public finance par written market share to nearly 8 percent from 6 percent in 2005. We achieved these increases despite an 18 percent decline in the total volume of insured municipal bond issuance in 2006. Our growth reflects the broadening of our network of relationships with issuers and bankers, and increased penetration in targeted states.

Our US structured finance business involves a range of activities in the United States, including insuring infrastructure projects and utilities in the power, gas, and water sectors, as well as guaranteeing asset-backed securities, or ABS, CDOs, and other specialized financial structures. This business generated strong results in the last year, driven largely by transactions in the infrastructure, utility, and CDO product areas.

The last year was challenging for ABS business due to tight credit spreads and strong competition from uninsured forms of execution, such as senior-subordinate structures. Nonetheless, we continued to find opportunities in this sector, and increased our share of the market to 9 percent, up from 5 percent in 2005. We insured a total of \$8.8 billion of ABS par in the US public and private ABS markets in 2006 as we expanded our relationships with both issuers and investors, while broadening the number of asset classes that we help securitize.

One of the most gratifying elements of our growth in 2006 was the increasing importance of our international business: More than 30 percent of our adjusted gross premiums in 2006 came from transactions outside the United States. We concentrated on infrastructure and utilities transactions in Western Europe, including the UK, and developed countries in Asia and the Pacific

Rim. We pursue international business because it provides us with geographic diversification of our risks while providing opportunities to generate higher margins in countries where financial guarantee insurance is less well established than in the United States. We believe that we are well positioned to participate more broadly in a number of countries around the world over time, and we view international business as one of our brightest growth opportunities for the future.

Our reinsurance business plays an important role in our overall strategy by affording us opportunities to write business not captured by our primary insurance segment. We underwrite transactions after analyzing risk and pricing adequacy, transaction by transaction. Triple-A ratings from all three credit rating agencies make us unique among financial guarantee reinsurers. Our long-standing relationship with Financial Security Assurance, Inc., another financial guarantor, remains strong, and we have established relationships with all of the other triple-A rated primary financial guarantors. During 2006, we found that primary insurers were generally electing to retain more risk rather than seek reinsurance. We nonetheless generated new business in the international utilities and infrastructure sectors.

Successful Initial Public Offering

In addition to building our book of business in 2006, SCA took a major step forward with an initial public offering of shares in our company in August. This was the largest US initial public offering from the insurance sector in more than two years. The net proceeds of the offering to the company were \$341 million, which will support the growth in our business. With direct access to the capital markets, we believe that we are well positioned to finance future growth as the need arises.

As a public company, we are able to offer our employees an ownership interest in SCA. We believe that our ability to closely align the economic interests of the company to those of our employees is crucial to fulfilling our commitment to attract and retain the top talent in our industry.

Optimism for the Future

Our success in 2006 was derived in no small part from the positive, client-driven culture at Security Capital Assurance. Our emphasis on providing outstanding service is reflected in our timely decision-making and

responsiveness to our clients. We strive to be innovators in designing financial guarantee products while maintaining sound credit and pricing standards. Our employees bring a remarkable array of skills and experience to the process of evaluating each potential piece of business. Senior management participates in every important credit decision.

We are proud that the breadth and depth of the expertise we bring to underwriting and structuring ground-breaking transactions were recognized over the past year with several industry awards, including "Monoline of the Year," awarded by *Project Finance International*. Several deals we insured were singled out for recognition, including the Golden Ears Bridge transaction in Vancouver, Canada, which won "Global Deal of the Year" from *Infrastructure Journal*, and "North American Deal of the Year" from *Project Finance International*, and the CMA-CGM container ship securitization, which was named "Innovative Shipping Finance Deal of the Year" by *Lloyd's Shipping Economics* and "ABS Deal of the Year for Europe" by *International Securitisation Report*.

Going forward, the continued improvement of our financial performance over time will hinge on our ability to generate new business at solid return levels while reducing operating expenses as a percentage of earned premiums. The management team is intently focused on achieving these objectives as we expand the size and scale of our business over time.

While our opportunities are, in large part, driven by economic and market conditions in the United States and around the world, we are optimistic about our potential for growth in the future. Economic activity around the world remains robust, interest rates are near historically low levels, and many investors have funds to invest. We see substantial, long-term prospects for our company driven by growth in securitization and structured finance around the world. The global demand for infrastructure and basic utilities is also strong and should continue to generate financings we can insure.

Many international markets are still in the early stages of development for financial guarantee products. In addition, some of the largest countries in the world are not yet fully eligible for our products because they

lack investment-grade credit ratings. Capital markets continue to expand and innovate, increasing the number and types of assets where our guarantees can be employed.

Board of Directors

We are privileged to have an outstanding board of directors, and we deeply appreciate the time and effort they devote to ensuring SCA's success. I'd like to thank our new directors, Grant Gibbons, Bruce Hannon, Mary Hennessy, and Coleman Ross, who joined our board this summer and bring a wealth of business and financial experience to our company. Al Senter and Bob Lichten served on the board of our primary insurance company from 2000 up until our public offering, and we are most fortunate that they continue to work with us as SCA board members. Finally, I would like to thank Mike Esposito, our chairman of the board and the chairman of the board of XL Capital Ltd, and XL Capital Chief Executive Officer Brian O'Hara, whose vision and support for our company have been instrumental to our success. Our relationship with XL Capital remains both strong and strategic.

Our Employees

A tremendous source of pride for me is the strength of our employees, each of whom is an exceptional ambassador for our company. I believe we have talented and experienced employees at every level of this organization, and that they provide their best efforts to our clients. I thank them for their dedication over the past year. Our employees have been the key to our success.

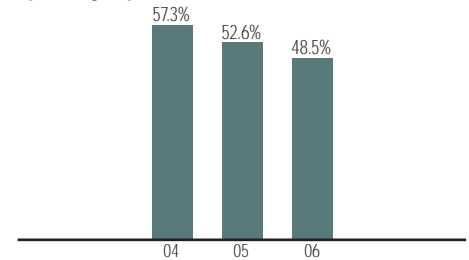
We look forward to continuing the pace of the momentum of 2006. Our goal is to increase the value of our company. We can achieve this by being the best in our industry in terms of the professionalism of our staff, the quality of our service, the dedication we have to innovation, and, above all else, the meticulousness in our approach to credit underwriting and pricing. We thank all of our shareholders for the trust and confidence you have placed in us and look forward to building Security Capital Assurance's value in the months and years ahead.

Sincerely,

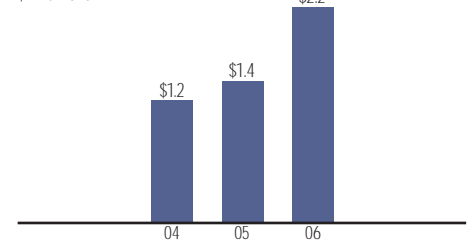


Paul S. Giordano

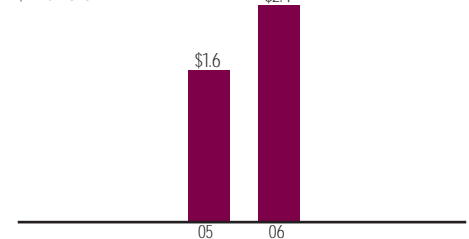
Operating Expense Ratio*



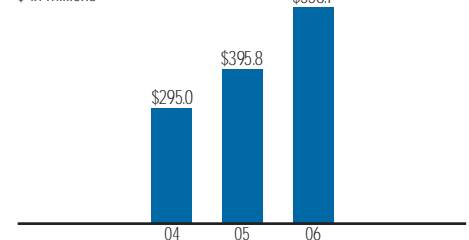
Total Cash and Invested Assets
\$ in billions



Adjusted Book Value*
\$ in billions

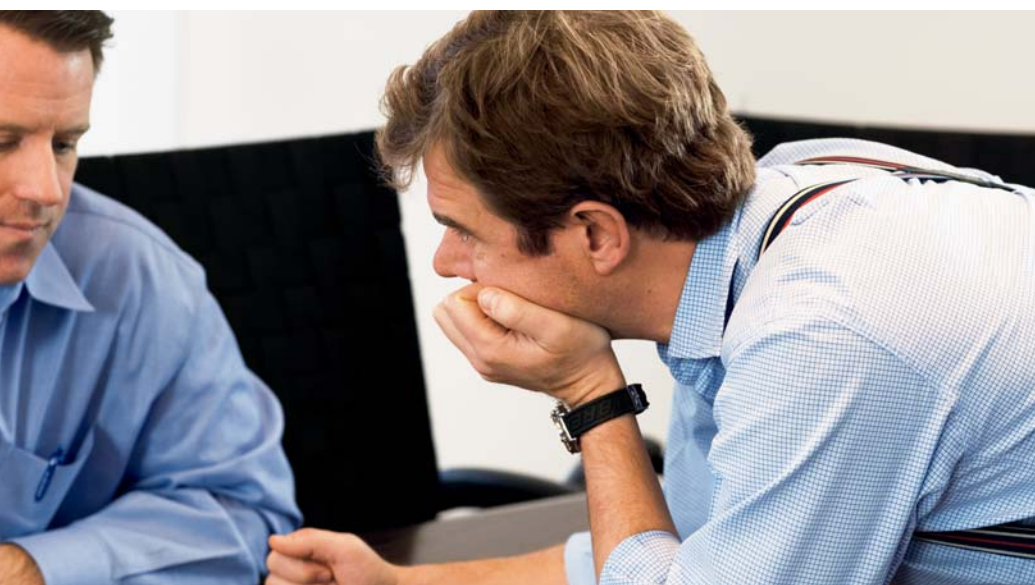
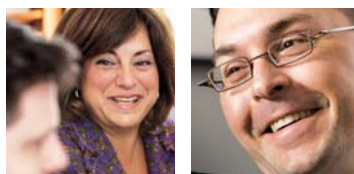


Adjusted Gross Premiums*
\$ in millions



*See definitions in footnotes on page 3.

Our People and our culture



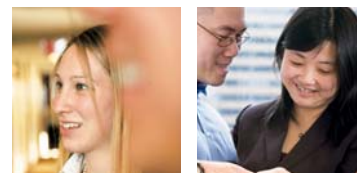
Clients and their bankers know our people are committed to maintaining the highest credit standards as well as the highest standards of integrity. They also know that we're willing and able to take a fresh look at facts and circumstances to undertake a thorough analysis of their needs, and come up with new approaches. Whether it's a standard transaction or a deal that's never been done before – like guaranteeing the first securitization of ships designed to transport containers – we're constantly striving to find better ways to craft solutions that enable clients to achieve their objectives. This spirit of innovation is combined with responsiveness. We stand ready to make firm and consistent decisions on a timely basis. For example, we helped the sponsors of the Reliance Rail project, the largest public private partnership ever undertaken in Australia, move the project from mandate to close in record time.

Innovation and responsiveness works well for our clients, and as the past year has shown, it works well for us too. Our triple-A financial strength and high standards are critically important. However we believe our continued success will be driven by employing outstanding people and our dedication to supporting their growth and success by fostering a culture of innovation, responsiveness, and superior client service.



People make the difference at SCA. Our clients and their financial advisors tell us they value our willingness to work closely with them to structure and execute innovative transactions. They tell us that they enjoy working with us. And they tell us that they're confident we can meet their complex credit enhancement needs on a timely basis.

We're pleased that we have this reputation for responsiveness and innovation. And we're proud of our people and their passion for delivering superior client service. Our 160 employees have a rich depth of knowledge in their respective markets and functional areas. Every day, each of them puts his or her extensive experience on the line in analyzing our credit risk and designing structures that solve our clients' most demanding financial and business challenges.



Risk Management_{at SCA}



Risk management is fundamental to what we do at Security Capital Assurance. Every day, clients ask us to enhance the value of their debt by issuing a triple-A rated financial guarantee. We assume credit risk in every transaction that we insure. We therefore require a culture in which sound credit underwriting and risk management are top priorities.

The quality of our insured portfolio is very strong. At the end of last year, our portfolio had a weighted average Standard & Poor's credit rating of A+, and our non-investment grade credits, as a percentage of net par outstanding, declined to one of the lowest levels in the industry.

Risk management for our primary financial guarantee business starts with a rigorous credit approval process for every transaction we consider insuring. After a cross-functional "deal" team – made up of new business origination, credit, quantitative,

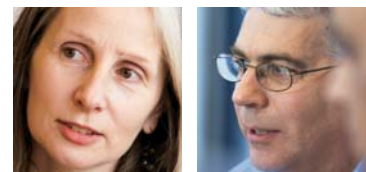
and legal professionals – completes a thorough analysis and due diligence of a potential transaction, the team presents it to our credit committee for approval. The credit committee, made up of members of senior management, meets several times a week to review transactions. This committee works within guidelines approved by the SCA Board of Directors' Finance and Risk Oversight Committee. For certain smaller transactions, notably in public finance, underwriting authority is delegated by the credit committee to more specialized committees expert in that particular area.

We employ a matrix of risk limits to regulate our exposure to various asset types, obligors, countries, and underlying deal ratings. We also have carefully developed procedures and underwriting standards to help guide decision-making.

Once we have entered into a transaction, our surveillance staff monitors it closely to make sure it is evolving as we anticipated. If they detect any problems, they not only seek to resolve them, but they also provide our credit risk management process with constant feedback, offering lessons that can guide us in future transactions.

Our reinsurance business has its own, separate, Bermuda-based credit underwriting and surveillance processes.

Ultimately what makes SCA's risk management work is our employees. With their breadth of expertise and experience, they provide the sound judgment that underpins our risk management process. As a result, while SCA helps issuers achieve their financing goals, we provide investors with a high level of confidence that we maintain an insured portfolio that is balanced and of the strongest credit quality.





Public Finance

US Public Finance



City School District of the City of Rensselaer, New York

“The financing XL Capital Assurance helped us put together will enable the city of Rensselaer to expand its educational facilities and dramatically improve the quality of its students’ learning environment.” Jeffrey C. Hyman, Managing Director, Municipal Securities Group, UBS Investment Bank

Our commitment to responsiveness and innovation helped us enlarge our role in the US public finance market last year. We expanded our geographic reach and enlarged our share of the public finance guarantee market to 8 percent in 2006 from 6 percent the year before. We did so by making important inroads among issuers in states in the Midwest and South, where we previously had little deal flow. We strengthened our network of pre-relationships with issuers and bankers across the United States and its territories through our focus on client service and our willingness to bring fresh thinking to bear on an issuer’s challenges.

As our reputation has grown, we’ve become involved in larger and more complex transactions. The average transaction size we insure has doubled, from \$11 million in 2005 to roughly \$22 million last

year, and the average size of the top 100 public finance transactions we insured rose from \$65 million in 2005 to approximately \$100 million in 2006.

Our expansion is all the more remarkable because we obtained these increases despite a 5 percent decline in the total volume of municipal bond issuance in 2006 and an 18 percent decline in the total volume of insured municipal bond issuance in 2006. We achieved this growth while maintaining our rigorous underwriting standards.

While the public finance market is wide ranging, highly fragmented, and intensely competitive, our business is growing rapidly because of our reputation for innovation, creativity, and reliability.

The City of Rensselaer, New York, for example, wanted to consolidate its school system by building a new school while closing existing, under-utilized facilities. But the city was at its borrowing limit. Working closely with the city and its investment banker, we helped develop a novel financing structure. Through a turnkey property swap, a real estate developer would finance the construction of the new school and, in return, would obtain properties owned by the city school district that were located on sites that offered attractive residential redevelopment opportunities. The school district committed itself to setting aside state education funds expressly for the repayment of its obligations, and we provided a guarantee for a \$71 million Certificate of Participation lease obligation that did not count against the school district’s statutory debt limits.

This innovative transaction was named “Northeast Regional Deal of the Year – Small Issuer,” by *The Bond Buyer*, a leading municipal finance publication, in 2006.

transportation, tourism, higher education, and municipal utilities. Last year we guaranteed \$467 million in airport revenue bonds for San Francisco International Airport and a \$636 million bond issue for the **Oklahoma Turnpike Authority**. We also guaranteed financing for hotels associated with major convention centers in five states and helped execute customized financing to build student housing at the **University of Maryland** and the Indiana University of Pennsylvania. We also guaranteed financing for a range of private colleges, universities, and secondary schools.

In the municipal utilities sector, we have worked closely with a number of municipal power agencies. For example, when **Clarksville, Tennessee** was looking for a way to lock in a low-cost supply of natural gas for its residents, our power and utilities team worked closely with our public finance team to help the city's investment bankers create an innovative

City School District of the City of Rensselaer, New York

\$71,485,000
Certificates of Participation
(School Campus Project)
Series 2006
August 2006

Bay Area Toll Authority San Francisco Bay Area Toll Bridge

\$290,000,000
Revenue Bonds
Variable Rate Demand Bonds
2006 Series A-2, B-2, D-1
\$210,000,000
Auction Rate Bonds
2006 Series A-3, D-3, E-2
February 2006

Mayor and City Council of Baltimore, Maryland

\$247,500,000
Convention Center
Hotel Revenue Bonds
Senior Series 2006A
February 2006



The Bond Buyer also singled out another transaction as one of its "Deals of the Year" – the \$500 million variable and auction rate bonds that we guaranteed for the **San Francisco Bay Area Toll Authority** (BATA). Our participation in this \$1 billion transaction supported BATA's overall financing plan for the Toll Bridge Seismic Retrofit Program, an important transportation safety project designed to strengthen and reinforce state-owned bridges against earthquakes.

We also insured \$216.7 million of the \$972 million in State Payment Acceleration Notes issued in December 2006 by the Bay Area Infrastructure Finance Authority. This transaction, which also contributes funding to the Toll Bridge Seismic Retrofit Program, is unique in that it allowed BATA to contribute funds to the retrofit program on an accelerated basis by monetizing the future flow of payments from the state government.

While increasing the breadth of our geographic reach by broadening our relationship network, we also continued to demonstrate our depth of expertise in various public finance sectors, including

Natural Gas Acquisition Corporation of the City of Clarksville

"XLCA took the time to work with us to get a transaction done that would benefit both the issuer and the investors."

Mark A. Widener, Director, Municipal Finance Group, Merrill Lynch & Co., Inc.

structure that made it happen. We provided a ground-breaking guarantee for a 15-year natural gas purchase agreement which made it possible for the city to issue \$240 million in gas revenue bonds. By guaranteeing that the gas would be paid for, we made it possible for the Natural Gas Acquisition Corporation of the City of Clarksville to successfully market its bonds and finance the facilities needed to provide gas for city residents.

Since many issuers come to the public finance market again and again, our growing list of clients bodes well for future growth. In 2007, we plan to continue our carefully targeted expansion into new geographic areas.

The Natural Gas Acquisition Corporation of the City of Clarksville, Tennessee

\$240,525,000
Gas Revenue Bonds
Series 2006
June 2006

Maryland Economic Development Corporation

\$31,915,000
Student Housing Refunding
Revenue Bonds
(University of Maryland,
Baltimore County Project)
Series 2006
February 2006

Oklahoma Turnpike Authority Oklahoma Turnpike System

\$104,790,000
Series 2006A
Refunding Second
Senior Revenue Bonds
\$530,800,000
Series 2006B-F
Refunding Second
Senior Revenue Bonds
August 2006

Structured Finance



Avis Budget Group, Inc.

“As a result of this guarantee structure, we were able to tap a new source of funds on attractive terms and keep our options open for using a range of funding going forward.” Rochelle Tarlowe,

Vice President, Treasury, Avis Budget Group, Inc.

Our structured finance business, which includes all US non-public finance transactions, generated strong results last year, driven by solid performance in several of our product groups. In 2006, we insured \$28 billion of gross par in our structured finance business, up from \$15 billion in 2005.

Our Structured Finance product groups include collateralized debt obligations (CDO), consumer and commercial asset-backed securities (ABS), power and utilities, global infrastructure, and specialized risks.

The structured finance products that XLCA guarantees all have two things in common: They rely on configurations of obligations that need to be carefully analyzed, and they must serve the interests of both issuers and investors. XLCA not only has the balance sheet strength to step up to sizable transactions but also expertise needed to design and implement innovative structures.

Collateralized Debt Obligations

A significant component of our structured finance business is providing guarantees for CDOs. CDOs are created by purchasing debt instruments in the open market and repackaging them in ways that parcel out different layers of risk to different classes of investors. Last year, we guaranteed 34 CDO transactions compared to 19 in 2005 and increased the average size of transactions we insure to \$450 million.

We achieved this growth while maintaining our commitment to pursuing only highly rated CDO exposures in which the attachment point – the lower boundary of the risk level of a tranche – is at least double-A and, more frequently, triple-A or even higher.

Our company has taken on an important role in bringing financial guarantees to a series of innovative products. For example, we were the first to be involved in guaranteeing CDOs of hedge fund investments. We began insuring synthetic, high-yield collateralized loan obligations, (CLO), in 2001, long before they gained wide acceptance. We are still one of the few financial guarantors experienced in insuring CDOs of CDOs.

In addition, we worked with investment bankers to design CDO tranches that fit the specialized needs of a wide range of investors, including conduits, trading desks, and commercial banks.

Time and again, we've demonstrated that we can make decisions quickly. When a major investment bank wanted to bring a series of “super senior” CLOs to the market, we created a program that spelled out the criteria that had to be met in order for each CLO to obtain our triple-A guarantee. Armed with this template, the investment bank was able to reduce the time required to bring its deals to market.

Because we seek to provide outstanding service and certainty of execution, as well as substantial capacity, we are now regularly sought out for repeat transactions by leading US investment banks and by the large European international banks that are also key players in structuring CDOs.

Consumer and Commercial ABS

In the consumer and commercial ABS arena, our financial guarantee policies make it more attractive for investors to accept cash flows from a wide range of assets that back these securities. Despite intense competition and pressure on pricing last year, we continued to build our ABS franchise while maintaining strict underwriting standards, adding new clients, new asset classes, and new investors. Our share of the insured, domestic public ABS market grew to 9 percent of par insured, from 5 percent in 2005. Meanwhile insured penetration of the ABS market fell to 5.5 percent from a little over 6 percent in the prior year. We also increased the average size of deal we insured in domestic ABS to more than \$450 million last year, from \$325 million in 2005. We insured several large transactions, including an \$1.8 billion prime-quality, home equity lines of credit, (HELOC), transaction for **Countrywide Financial**.

Avis Budget Group, Inc. exemplifies what our emphasis on innovation and customer service can do. Like other car rental companies, Avis Budget has made frequent use of the asset-backed market. When its bankers came to us with a vehicle that used extendible, asset-backed commercial paper technology, we were able to help fashion a structure to diversify the company's sources of funding.

Typically, a bank commercial paper conduit is backed by bank liquidity. But in this transaction, a portion of our policy could be drawn down if the combination of bank liquidity and asset realizations did not completely retire the commercial paper at the end of the extension period. We worked closely with Avis Budget and its bankers to design this financing solution.

Power and Utilities Our power and utilities group is active in providing financial guarantees for both investor-owned electric and gas utilities and for those owned by government agencies. We have provided rapid turnaround to our clients, which include the Southern Company, Energy East and Detroit Edison.

At the same time, we continue to develop new relationships. We anticipate our new clients' funding needs in order to ensure that we have the time we need to fully analyze their credits, and deliver a firm commitment in a responsive and timely manner. New clients added last year include Southern California Edison and Avista Corporation, as well as two subsidiaries of American Electric Power Corporation, one of the largest electric utilities in the United States.

There is a substantial pent-up demand for power generation and transmission facilities as well as pollution control equipment in the United States, and we expect to be active in helping to facilitate the financing needed to meet these demands.

Global Infrastructure The use of public private partnerships (PPP) to design, build, operate, upgrade, and finance infrastructure projects, such as roads, bridges, tunnels, airports, and marine ports, has been rapidly growing. Our global infrastructure team is leveraging its expertise and relationships from abroad and from other US sectors to guarantee the financing needed for PPP projects. These efforts proved fruitful last year as XLCA closed a substantial transaction for a private toll road company.

Specialized Risk Our specialized risk group guarantees transactions that don't fall within the other groups. Last year, we provided a triple-A rated financial guarantee for \$134 million in notes issued by **FLAC Holdings, LLC**, a subsidiary of Forethought Financial Services, Inc., the largest US provider of pre-need insurance, which allows consumers to pre-fund a funeral or memorial service. In addition, our program of providing insurance for bank deposits made by municipalities added several new clients last year, including a large US money-center bank.

Cendant Rental Car Funding (AESOP) LLC

\$600,000,000

Series 2006-2
(Avis Budget Group, Inc.)
June 2006

FLAC Holdings, LLC

\$134,000,000

Floating Rate Insured Notes
Lehman Brothers
December 2006

Countrywide Home Loans

\$1,850,000,000

CWHEQ Revolving Home Equity Loan Trust
Series 2006-D
Countrywide Securities Corporation
March 2006

Ipswich Street CDO, Ltd.

Ipswich Street CDO, LLC

\$1,530,000,000

MFS Investment Management
Class A-1
Senior Secured Floating Rate
Delayed Draw Notes
Merrill Lynch & Co.
June 2006

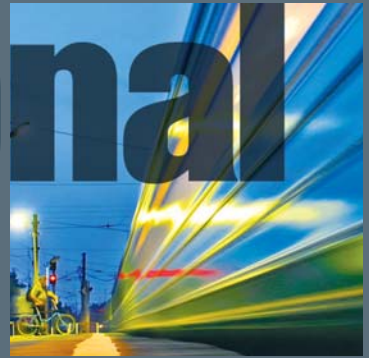
Sierra CLO II Ltd.

Sierra CLO II (Delaware) Corp.

\$264,000,000

Churchill Pacific Asset Management LLC
Class A-1L
Floating Rate Notes
Up to **\$40,000,000** Class A-1LV
Floating Rate Revolving Notes
Bear, Stearns & Co. Inc.
November 2006

International



International



Vega Containervessel 2006-1 plc

“XLCA demonstrated that its team of professionals could confront a complex, multi-jurisdictional transaction and create a structure that fully met the needs of the company, the investors, and the rating agencies.”

Jean-Yves Schapiro, Chief Financial Officer, CMA-CGM

We recognize that the guarantees we offer can play a useful role in many financial markets around the world. Pursuing opportunities outside the United States is an increasingly important element of our business strategy. International business adds geographic diversity to our insured portfolio and offers opportunities to derive higher margins in jurisdictions where the value of financial guarantee insurance is increasingly being understood and appreciated. Over the long term, we believe international business can provide a larger share of our revenues and earnings.

Last year our international business grew to record levels. International gross par written was \$7.5 billion for 2006, compared with \$5.4 billion in 2005. Indeed, our international activities generated nearly one-third of our net premiums earned in 2006. While we are prepared to look at deals around the world, we have focused on Western Europe, including the United Kingdom, and Asia and the Pacific Rim.

Through our Global Infrastructure group, we are actively involved in providing financial guarantees for infrastructure projects developed under a public private partnership (PPP) model.

PPPs have gained growing acceptance as a cost-efficient way for governmental bodies to develop infrastructure by transferring the risks associated with infrastructure projects to the parties best able to manage those risks. In most cases, the government agency enters into a long-term contract with a private-sector entity that will design, build, operate, and maintain the project. The private sector company typically charges for the use of the facility in order to recoup the costs of financing and developing the project. In 2006, we continued our success in providing guarantees for several PPP projects.

Our ability to help finance major PPP projects in innovative ways was recognized by *Project Finance International*, which selected us as the 2006 “Monoline of the Year.”

In Continental Europe, for example, we guaranteed an array of toll road projects. In Norway, our involvement made it possible for the **E-18 Grimstad-Kristiansand** highway project to become one of the first public-private ventures to be financed with insured bank loans rather than with fixed-income securities.

Our power and utilities group has been particularly active in the United Kingdom, reflecting continuing financing needs for water, electricity, and gas. Last year, the co-head of the group relocated to London so that we could respond more quickly to opportunities in Europe.

Meanwhile, we have become one of the leading sources of financial guarantees in Australia and New Zealand. In Australia, we helped Babcock & Brown Infrastructure refinance the **Dalrymple Bay Coal Terminal**. This terminal is the epicenter of the State of Queensland’s extensive coal exporting industry. XLCA structured a guarantee for the AU\$680 million transaction.

As H el ene Mizrahi-Walden, a senior banker from BNP Paribas, which structured the transaction, said, "This was to be the first time that container ships would be securitized in the asset-backed markets. And that raised a number of complex legal issues regarding where the ships were registered and how they could be found and repossessed in the event of a default."

Our commercial ABS group carefully studied the container industry and insolvency laws in various jurisdictions before we satisfied ourselves that the structure provided the protection necessary for us to issue a financial guarantee policy and assure investors that they would be repaid. We provided a triple-A rated guarantee on \$253.75 million in bonds that were well-received by the capital markets. The result: CMA-CGM was able to diversify its funding sources and lower its cost of funding the acquisition of new shipping vessels.

Said Jean-Yves Schapiro, chief financial officer of CMA-CGM, "XLCA demonstrated that its team of professionals could confront a complex, multi-jurisdictional transaction and create a structure that fully met the needs of the company, the investors, and the rating agencies."

The transaction received awards from *Jane's Transport*, *Lloyd's Economist*, and *International Securitisation Review* because of its innovative structure.

In the global market, as in the US market, a key element of our business development effort has been building relationships with senior management at companies we view as candidates for issuing securities and seeking credit enhancement. This approach paid off in New Zealand when, after we had taken the time to build a relationship with them and earn their trust, the management of **Mighty River Power**, a hydro-power generation company, chose us to provide guarantees on a substantial debt issue.

Vega Containervessel 2006-1 plc

(CMA-CGM S.A.)
\$253,750,000
 BNP-Paribas
 February 2006

Agder Ops Finanssselskap As

(E-18 Grimstad-Kristiansand Highway, Norway)
NOK800,000,000
 Commercial Banks Loan Facility
 Nordea, RBS, Depfa, BBVA
 197,635,345
 EIB Loan Facility
NOK750,000,000
 Nordic Investment Bank Loan Facility
 June 2006

Eaton Vance CDO VII plc
Eaton Vance Management

Up to ** 120,000,000**
 Senior Secured Floating Rate
 Variable Funding Note
 74,000,000 Class A-1
 Senior Secured Floating Rate Notes
 89,900,000 Class A-2
 Senior Secured Floating Rate Notes
 Citigroup
 April 2006

Autopista Del Bosque

(Chill an-Collipulli Chilean Toll Road)
UF1,500,000
 Cintra, ABN AMRO, Celfin Capital
 November 2006

Dalrymple Bay Coal Terminal

AUS\$680,000,000
 Medium-term Notes
 RBS, Commonwealth Bank of Australia
 June 2006

Mighty River Power Limited

NZ\$350,000,000
 Series 2006
 Bank of New Zealand
 September 2006

Golden Crossing Finance Inc.

CS\$506,703,000
 (Golden Ears Bridge, Vancouver, Canada)
 Depfa Bank plc., Dexia Credit Local
 March 2006

InspirED Education plc

(South Lanarkshire Education
 PPP Project, United Kingdom)
 320,250,000
 Index-linked Notes
 Barclays Capital
 June 2006

Reliance Rail Finance Pty Ltd

AUS\$1,128,500,000
 (Rail Corporation New South Wales
 Rollingstock PPP Project, Australia)
 Babcock & Brown/ABN AMRO
 December 2006



We also facilitated the financing of the **Reliance Rail** project, which will significantly upgrade the passenger trains serving the Sydney metropolitan area. This was the largest PPP ever undertaken in Australia, and we helped it move from mandate to close in record time.

Last year, XLCA guaranteed a number of international transactions that required innovative thinking to allow debt issuers to access the capital markets. In the CDO arena, we guaranteed a CDO whose underlying securities were sovereign and corporate debt from emerging market countries. We also provided a guarantee for **Eaton Vance's** first European CLO: a transaction that involved liabilities denominated in multiple currencies for this leading US investment management firm.

Our **Vega Containervessel 2006-1** transaction offers another example of the ways in which original thinking can make things happen. CMA-CGM, the third largest container shipping company in the world, wanted to diversify its funding sources for 12 new container ships that were being built. The company decided to tap the US 144A bond market by issuing notes secured by the new ships.

Board of Directors



1 Michael P. Esposito, Jr.^{*, 4}
Chairman, XL Capital Ltd

**2 Dr. the Hon.
E. Grant Gibbons**^{1,3}
Deputy Chairman
Colonial Group,
International Ltd.

3 Paul S. Giordano⁴
President and Chief
Executive Officer, SCA
Chairman and Chief
Executive Officer, XLCA

4 Bruce G. Hannon^{2,4}
Retired Managing Director
and Vice Chairman
JP Morgan Chase Bank

5 Mary R. Hennessy^{1,3}
Independent Insurance
Consultant

6 Robert M. Lichten^{2,3,4}
Co-Chairman
Inter-Atlantic Group

7 Brian M. O'Hara^{2,4}
President and Chief Executive
Officer, XL Capital Ltd

8 Coleman D. Ross^{1,3}
Retired Partner
PricewaterhouseCoopers, LLP

9 Alan Z. Senter^{1,4}
Chairman
A.Z. Senter Consulting LLC

* Chairman of the Board

Committees of the Board: ¹Audit (Chair, Senter), ²Compensation (Chair, O'Hara), ³Nominating and Governance (Chair, Lichten), ⁴Finance and Risk (Chair, Esposito)

Executive Committee



1 Orlando Rivera
Managing Director, Head
of Human Resources

2 T. Wynne Morriss, Jr.
Senior Vice President,
Head of Origination, XLCA

3 Claude L. LeBlanc
Executive Vice President,
Corporate Development
and Strategy, SCA

4 Tom W. Currie
Senior Vice President,
Chief Risk Officer, SCA
Chief Underwriting Officer, XLFA

5 Paul S. Giordano
President and Chief
Executive Officer, SCA
Chairman and Chief
Executive Officer, XLCA

6 David P. Shea
Executive Vice President,
Chief Financial Officer

7 Edward B. Hubbard
Executive Vice President, SCA
President and Chief
Operating Officer, XLCA

8 Michael E. Rego
Executive Vice President, SCA
Chief Operating Officer, XLFA

Richard P. Heberton
(not pictured)
Managing Director,
Chief Credit Officer, XLCA

Senior Executives

Arnold B. Brousell
Managing Director, Controller,
Chief Accounting Officer

Alistair Buchan
Managing Director, Co-head
of Power and Utilities, XLCA

Susan Comparato
Managing Director,
General Counsel, XLCA

Francis C. Constantinople
Managing Director, Head
of Investor Relations

Steven P. Czark
Managing Director, Head
of Commercial ABS, XLCA

Philip P. Henson
Managing Director, Co-head
of Power and Utilities, XLCA

Frederick B. Hnat
Managing Director,
Chief Operating Officer,
XLCA (U.K.) Ltd

Drew D. Hoffman
Managing Director,
Head of Surveillance
and Research, XLCA

Mark S. Katz
Managing Director, Chief
Information Officer

Elizabeth A. Keys
Managing Director, Head
of Financial Analysis
and Planning

Catherine R. Lau
Managing Director, Head
of Consumer ABS, XLCA

Alberto Ramos
Managing Director, Head of
Global Infrastructure, XLCA

Thomas F. Randazzo
Managing Director, Head
of US Public Finance, XLCA

Sohail Rasul
Managing Director, Head
of CDÖs, XLCA

David D. Stortz
Managing Director, Head
of Specialized Risk, XLCA

Consolidated Balance Sheets

	As of December 31,	
(US dollars in thousands, except per share amounts)	2006	2005
Assets		
Investments		
Debt securities available for sale, at fair value (amortized cost: 2006 – \$1,755,184; 2005 – \$1,336,075)	\$1,736,462	\$1,316,029
Short-term investments, at fair value (amortized cost: 2006 – \$222,930; 2005 – \$31,015)	221,901	30,811
Other invested assets	<u>–</u>	<u>17,621</u>
Total investments	1,958,363	1,364,461
Cash and cash equivalents	202,548	54,593
Accrued investment income	16,515	11,847
Deferred acquisition costs	93,809	59,592
Prepaid reinsurance premiums	59,983	69,873
Premiums receivable	12,936	7,770
Reinsurance balances recoverable on unpaid losses	88,616	69,217
Intangible assets – acquired licenses	11,529	11,529
Deferred income tax asset	18,182	17,569
Other assets	<u>34,333</u>	<u>17,864</u>
Total assets	<u>\$2,496,814</u>	<u>\$1,684,315</u>
Liabilities, Minority Interest, and Shareholders' Equity		
Liabilities		
Unpaid losses and loss adjustment expenses	\$ 178,517	\$ 147,368
Deferred premium revenue	795,906	592,585
Reinsurance premiums payable	13,952	310
Net payable for investments purchased	5,435	–
Accounts payable, accrued expenses, and other liabilities	<u>82,468</u>	<u>25,720</u>
Total liabilities	1,076,278	765,983
Minority interest – redeemable preferred shares of subsidiary	54,016	50,518
Shareholders' Equity		
Common stock (par value \$0.01 per share; 500,000,000 shares authorized; shares issued and outstanding: 2006 – 64,136,364; 2005 – 46,127,245)	641	461
Additional paid-in capital	987,803	605,951
Retained earnings	397,781	281,709
Accumulated other comprehensive loss	<u>(19,705)</u>	<u>(20,307)</u>
Total shareholders' equity	<u>1,366,520</u>	<u>867,814</u>
Total liabilities, minority interest, and shareholders' equity	<u>\$2,496,814</u>	<u>\$1,684,315</u>

See notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, on file with the U.S. Securities and Exchange Commission.

Consolidated Statements of Operations and Comprehensive Income

	Years ended December 31,		
(US dollars in thousands, except per share amounts)	2006	2005	2004
Revenues			
Gross premiums written	\$ 353,728	\$ 233,269	\$ 232,541
Reinsurance premiums assumed	<u>55,271</u>	<u>52,170</u>	<u>44,021</u>
Total premiums written	408,999	285,439	276,562
Ceded premiums written	<u>(13,067)</u>	<u>(40,527)</u>	<u>(8,123)</u>
Net premiums written	395,932	244,912	268,439
Change in net deferred premium revenue	<u>(212,817)</u>	<u>(93,073)</u>	<u>(152,158)</u>
Net premiums earned (net of ceded premiums earned of \$22,957; \$28,107; and \$59,144)	183,115	151,839	116,281
Net investment income	77,724	51,160	35,746
Net realized losses on investments	(16,180)	(3,221)	(178)
Net realized and unrealized (losses) gains on credit derivatives	(8,385)	(6,681)	12,687
Fee income and other	<u>2,365</u>	<u>750</u>	<u>100</u>
Total revenues	<u>238,639</u>	<u>193,847</u>	<u>164,636</u>
Expenses			
Net losses and loss adjustment expenses	14,958	26,021	21,274
Acquisition costs, net	16,240	12,231	8,259
Operating expenses	<u>78,999</u>	<u>67,621</u>	<u>58,395</u>
Total expenses	<u>110,197</u>	<u>105,873</u>	<u>87,928</u>
Income before income tax and minority interest	128,442	87,974	76,708
Income tax expense (benefit)	<u>3,133</u>	<u>(1,277)</u>	<u>1,920</u>
Income before minority interest	125,309	89,251	74,788
Minority interest – dividends on redeemable preferred shares	<u>7,954</u>	<u>8,805</u>	<u>15,934</u>
Net income	<u>\$ 117,355</u>	<u>\$ 80,446</u>	<u>\$ 58,854</u>
Net Income per share			
Basic	\$ 2.19	\$ 1.74	\$ 1.28
Diluted	\$ 2.18	\$ 1.74	\$ 1.28
Weighted-average shares outstanding (shares in thousands)			
Basic	53,676	46,127	46,127
Diluted	53,718	46,127	46,127
Comprehensive income			
Net income	\$ 117,355	\$ 80,446	\$ 58,854
Change in unrealized appreciation (depreciation) of investments net of deferred tax benefit (expense) of \$102 in 2006, \$792 in 2005 and (\$135) in 2004	<u>602</u>	<u>(20,066)</u>	<u>(2,742)</u>
Total comprehensive income	<u>\$ 117,957</u>	<u>\$ 60,380</u>	<u>\$ 56,112</u>

See notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, on file with the U.S. Securities and Exchange Commission.

Consolidated Statements of Changes in Shareholders' Equity

(US dollars in thousands, except per share amounts)	Years ended December 31,		
	2006	2005	2004
Common stock			
Balance – beginning of year	\$ 461	\$ 461	\$ 461
Issuance of common stock	<u>180</u>	<u>–</u>	<u>–</u>
Balance – end of year	<u>641</u>	<u>461</u>	<u>461</u>
Additional paid-in capital			
Balance – beginning of year	605,951	603,247	476,192
Issuance of common stock, net of underwriting fees and issuance costs	341,082	–	–
Capital contributions	<u>40,770</u>	<u>2,704</u>	<u>127,055</u>
Balance – end of year	<u>987,803</u>	<u>605,951</u>	<u>603,247</u>
Retained earnings			
Balance – beginning of year	281,709	201,263	142,409
Net income	117,355	80,446	58,854
Dividends on common shares	<u>(1,283)</u>	<u>–</u>	<u>–</u>
Balance – end of year	<u>397,781</u>	<u>281,709</u>	<u>201,263</u>
Accumulated other comprehensive income			
Balance – beginning of year	(20,307)	(241)	2,501
Net change in unrealized appreciation (depreciation) of investments	<u>602</u>	<u>(20,066)</u>	<u>(2,742)</u>
Balance – end of year	<u>(19,705)</u>	<u>(20,307)</u>	<u>(241)</u>
Total shareholders' equity	<u>\$1,366,520</u>	<u>\$ 867,814</u>	<u>\$ 804,730</u>

See notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, on file with the U.S. Securities and Exchange Commission.

Consolidated Statements of Cash Flows

	Years ended December 31,		
(US dollars in thousands)	2006	2005	2004
Cash provided by operating activities			
Net income	\$ 117,355	\$ 80,446	\$ 58,854
Adjustments to reconcile net income to net cash provided by operating activities			
Net realized losses on sale of investments	16,180	3,221	178
Net realized and unrealized losses (gains) on credit derivatives	8,385	6,681	(12,687)
Amortization of premium on bonds	3,396	4,299	5,672
Minority interest – dividends on redeemable preferred shares	7,954	8,805	15,934
Deferred tax benefit	(434)	(916)	(3,834)
(Increase) decrease in accrued investment income	(4,643)	(2,519)	416
(Increase) in deferred acquisition costs	(34,217)	(14,993)	(26,860)
Decrease (increase) in prepaid reinsurance premiums	9,890	(12,419)	51,021
(Increase) decrease in premiums receivable	(5,166)	14,448	(17,506)
(Increase) in reinsurance balances recoverable on unpaid losses	(19,399)	(8,303)	(49,514)
Increase in unpaid losses and loss adjustment expenses	31,149	31,634	68,539
Increase in deferred premium revenue	203,321	105,492	101,137
Increase (decrease) in reinsurance premiums payable	13,642	(3,975)	(4,133)
Other, net	45,532	14,485	3,317
Total adjustments	<u>275,590</u>	<u>146,300</u>	<u>131,680</u>
Net cash provided by operating activities	<u>392,945</u>	<u>226,746</u>	<u>190,534</u>
Cash flows from investing activities			
Proceeds from sale of debt securities	384,451	589,013	2,009,239
Purchase of debt securities	(994,454)	(922,522)	(2,314,521)
Net (purchases) sales of short-term investments	(45,714)	20,373	(449,367)
Proceeds from maturity of debt securities and short-term investments	<u>47,074</u>	<u>77,217</u>	<u>545,389</u>
Net cash used in investing activities	<u>(608,643)</u>	<u>(235,919)</u>	<u>(209,260)</u>
Cash flows from financing activities			
Proceeds from issuance of common stock			
less underwriters' allowance and issuance costs paid	342,341	–	–
Cash from contributed subsidiary	7,304	–	–
Cash contributions from XL Capital Ltd	21,229	–	876
Dividends on common shares	(1,283)	–	–
Dividends on redeemable preferred shares	<u>(5,938)</u>	<u>(7,481)</u>	<u>(14,103)</u>
Net cash provided by (used in) financing activities	<u>363,653</u>	<u>(7,481)</u>	<u>(13,227)</u>
Increase (decrease) in cash and cash equivalents	147,955	(16,654)	(31,953)
Cash and cash equivalents – beginning of year	<u>54,593</u>	<u>71,247</u>	<u>103,200</u>
Cash and cash equivalents – end of year	<u>\$ 202,548</u>	<u>\$ 54,593</u>	<u>\$ 71,247</u>
Non-cash capital contributions			
Non-cash capital contributions	\$ 19,541	\$ 2,704	\$ 127,055
Taxes (received) paid under tax sharing agreement	(508)	2,485	8,639

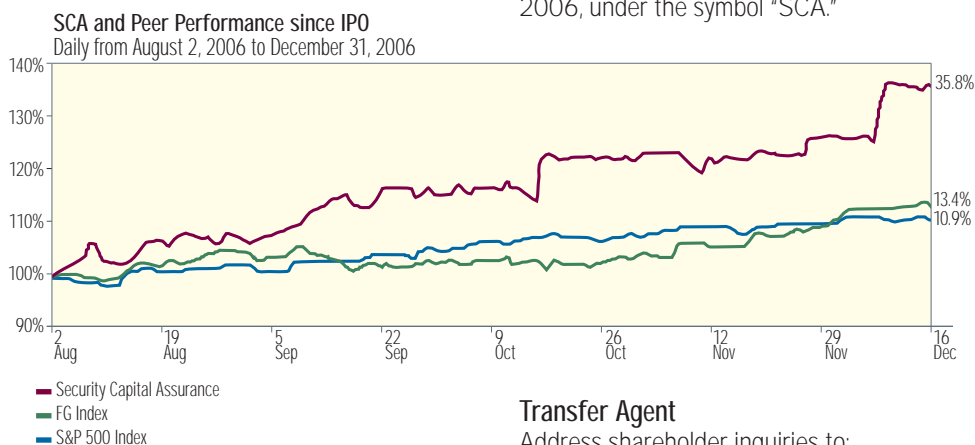
See notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, on file with the U.S. Securities and Exchange Commission.

Corporate Information

The annual general meeting of holders of shares of Security Capital Assurance Ltd ("SCA" or the "Company") will be held at The Fairmont Hamilton Princess Hotel, Hamilton, Bermuda, 8:30 am, Friday, May 4, 2007.

Shares

The Company's shares were first listed on the New York Stock Exchange on August 2, 2006, under the symbol "SCA."



Transfer Agent

Address shareholder inquiries to:
The Bank of New York
Investor Services Department
P.O. Box 11258
New York, NY 10286-1258

Send certificates for transfer and address changes to:
Receive and Deliver Department
P.O. Box 11002
New York, NY 10286-1002

Bank of New York's
Communication Center:

USA and Canada
+1.800.524.4458 or
+1.212.815.3700

Outside the USA and Canada
+1.212.815.3700

Hearing Impaired
TTY Phone
+1.888.269.5221

Email and Internet
shareowners@bankofny.com
<https://www.stockbny.com>

Form 10-K

The Company's annual report on Form 10-K for the fiscal year ended December 31, 2006 is filed with the Securities and Exchange Commission. Copies are available without charge by writing to Head of Investor Relations, Security Capital Assurance Ltd, One Bermudiana Road, Hamilton HM 11, Bermuda.

Independent Auditors

PricewaterhouseCoopers LLP
300 Madison Avenue
New York, NY 10017, USA

Registered Office

One Bermudiana Road
Hamilton HM 11, Bermuda

Security Capital Assurance Ltd
One Bermudiana Road
Hamilton HM 11, Bermuda
Telephone: +1.441.294.7448
Website: www.scafg.com

Certification Statement

The certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and required by Rules 13a-14(a) or 15d-14(a) of the Securities and Exchange Act of 1934, have been filed with the U.S. Securities and Exchange Commission as exhibits to Security Capital Assurance Ltd Annual Report on Form 10-K for the year ended December 31, 2006. The required Section 303A Annual Certification of the Chief Executive Officer of Security Capital Assurance Ltd will be submitted to the New York Stock Exchange, following SCA's annual general meeting of shareholders, which will be held on Friday, May 4, 2007.

