



**Third Quarter 2006**  
**Summarized Results**

October 24, 2006

SECURITY CAPITAL ASSURANCE

# Important Notice

This presentation includes forward-looking statements, both with respect to us and our industry, that reflect our current views with respect to future events and financial performance. Statements that include the words “expect,” “intend,” “plan,” “believe,” “project,” “anticipate,” “will,” “may” and similar statements of a future or forward-looking nature identify forward-looking statements. 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:

- changes in rating agency policies or practices, including adverse changes to the financial strength or financial enhancement ratings of any or all of our operating subsidiaries;
- ineffectiveness or obsolescence of our business strategy, due to changes in current or future market conditions or other factors;
- the performance of our invested assets or losses on credit derivatives;
- availability of capital (whether in the form of debt or equity) and liquidity (including letter of credit facilities);
- the timing of claims payments being faster or the receipt of reinsurance recoverables being slower than anticipated by us;
- increased competition on the basis of pricing, capacity, terms or other factors;
- greater frequency or severity of claims and loss activity, including as a result of natural or man-made catastrophic events, than our underwriting, reserving or investment practices anticipate based on historical experience or industry data;
- developments in the world’s financial and capital markets that adversely affect the performance of our investments and our access to such markets;
- changes in, or termination of, our ongoing reinsurance agreements with XL Capital or FSA;
- changes in regulation or tax laws applicable to us or our customers or suppliers such as our reinsurers;
- changes in the rating agencies’ views on third-party inward reinsurance;
- changes in the availability, cost or quality of reinsurance or retrocessions, including a material adverse change in the ratings of our reinsurers or retrocessionaires;
- changes with respect to XL Capital (including changes in its ownership percentage in us) or our relationship with XL Capital;
- changes that may occur in our operations as we begin operations as a public company;
- changes in accounting policies or practices or the application thereof;
- changes in the officers of our company or our subsidiaries;
- legislative or regulatory developments;
- changes in general economic conditions, including inflation, interest rates, foreign currency exchange rates and other factors; and
- the effects of business disruption or economic contraction due to war, terrorism or natural or other catastrophic events.

The information herein provides a general summary of SCA and its business and does not purport to be a complete description of the company or its financial condition. Certain simplifications and approximations were made to such information to facilitate the calculations herein. Accordingly, neither SCA nor any of its respective affiliates makes any representations or warranties, express or implied, as to the accuracy or completeness of the information contained herein (or the validity, completeness or accuracy of assumptions underlying any estimates contained herein), nor assumes any duty to update or revise any of the statements contained herein, whether as a result of new information, future developments or otherwise.

# Earnings Summary

## Third Quarter Earnings

	2006	2005
Net Income (millions)	\$28.4	\$31.4
Net Income Per Share (diluted)	\$0.49	\$0.68
Operating Income (millions)	\$31.8	\$34.1
Operating Income Per Share (diluted)	\$0.55	\$0.74
Core Income (millions)	\$31.5	\$30.6
Core Income Per Share (diluted)	\$0.54	\$0.66

## First Nine Months Earnings

	2006	2005
Net Income (millions)	\$81.5	\$53.4
Net Income Per Share (diluted)	\$1.63	\$1.16
Operating Income (millions)	\$104.9	\$59.8
Operating Income Per Share (diluted)	\$2.09	\$1.30
Core Income (millions)	\$82.1	\$56.1
Core Income Per Share (diluted)	\$1.64	\$1.22

# Adjusted Gross Premiums Summary

## Third Quarter AGP

(millions)                      2006                      2005

Public Finance                      \$18                      \$26

Structured Finance                      40                      50

International                      34                      27

AGP                      \$91                      \$104

## First Nine Months AGP

(millions)                      2006                      2005

Public Finance                      \$128                      \$76

Structured Finance                      99                      95

International                      132                      115

AGP                      \$359                      \$286

# Premiums Written/Assumed Summary

## Third Quarter Premiums Written/Assumed (millions)

	<b>2006</b>	<b>2005</b>
Gross Premiums Written	\$65.1	\$63.8
Reinsurance Premiums Assumed	20.5	19.2
Ceded Premiums Written	14.9	(9.4)
Net Premiums Written	\$100.5	\$73.5

## First Nine Months Premiums Written/Assumed (millions)

	<b>2006</b>	<b>2005</b>
Gross Premiums Written	\$235.2	\$179.8
Reinsurance Premiums Assumed	40.2	37.1
Ceded Premiums Written	1.2	(29.3)
Net Premiums Written	\$276.6	\$187.5

# Net and Core Premiums Earned Summary

## Third Quarter Net and Core Premiums Earned (millions)

	2006	2005
Public Finance	\$8.9	\$9.3
Structured Finance	18.3	18.6
International	18.2	13.2
Net Premiums Earned	45.5	41.1
Accelerated Premiums	0.4	4.1
Core Net Premiums Earned	\$45.1	\$37.0

## First Nine Months Net and Core Premiums Earned (millions)

	2006	2005
Public Finance	\$39.5	\$21.2
Structured Finance	52.4	53.7
International	46.9	31.9
Net Premiums Earned	138.8	106.8
Accelerated Premiums	25.6	4.3
Core Net Premiums Earned	\$113.2	\$102.5

# Investment Income & Operating Cash Flow

<b>Third Quarter Investment Income (millions)</b>			<b>First Nine Months Investment Income (millions)</b>		
	<b>2006</b>	<b>2005</b>		<b>2006</b>	<b>2005</b>
Investment Income	\$21.8	\$13.3	Investment Income	\$53.0	\$36.8
Net Realized Gain/(Loss) on Investments	(0.2)	(0.8)	Net Realized Gain/(Loss) on Investments	(16.6)	(2.1)

## **First Nine Months Operating Cash Flow (millions)**

	<b>2006</b>	<b>2005</b>
Cash Flow from Operations	\$259.6	\$164.5

# Net Loss & Loss Adjustment Expense Summary

## Third Quarter Net Loss and LAE (millions)

	2006	2005
Net Unallocated Loss Reserve Expense	\$4.9	\$2.1
Case Loss Provision	0.1	(1.5)
LAE Provision	0.0	0.5
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Net Loss and Loss Adjustment Expenses	\$5.0	\$1.1

## First Nine Months Net Loss and LAE (millions)

	2006	2005
Net Unallocated Loss Reserve Expense	\$9.9	\$11.2
Case Loss Provision	0.8	8.7
LAE Provision	0.6	0.1
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Net Loss and Loss Adjustment Expenses	\$11.3	\$20.0



# Operating & Corporate Expense Summary

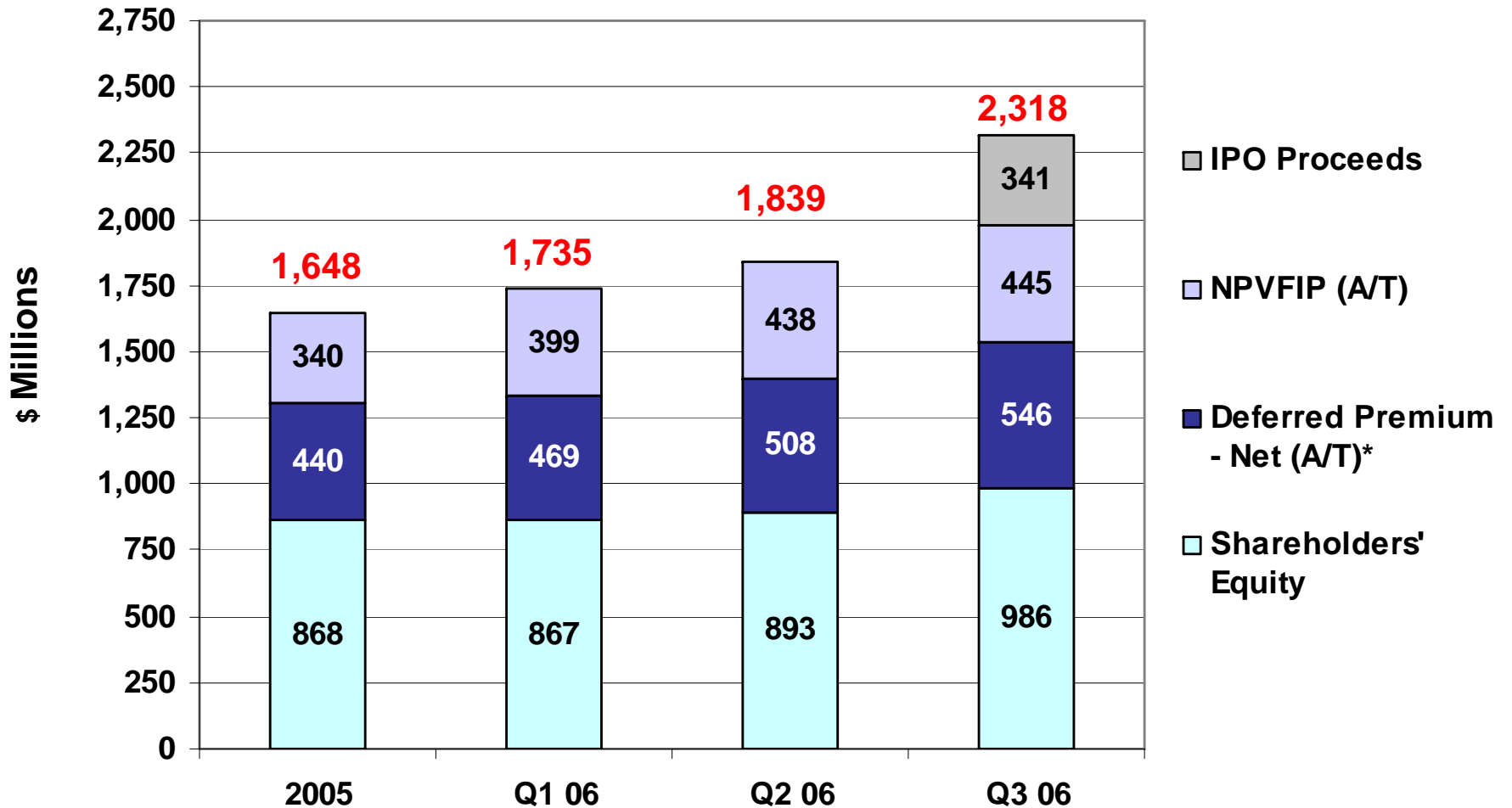
## Third Quarter Operating Expenses (millions)

	2006	2005
Operating Expenses	\$18.1	\$16.7
Corporate Expense	2.7	0.0
Total Operating & Corporate Expense	\$20.9	\$16.7

## First Nine Months Operating Expenses (millions)

	2006	2005
Operating Expenses	\$52.7	\$50.0
Corporate Expense	2.7	0.0
Total Operating & Corporate Expense	\$55.4	\$50.0

# Adjusted Book Value



\* Deferred premium revenue net of pre-paid reinsurance premiums and DAC, net of tax

# Summary

- **IPO successfully completed in August 2006**
  - \$341mm of fresh capital raised
- **Triple-A franchise, stable and well positioned for growth**
  - Ratings de-linkage achieved
- **Opportunities remain to write good business in the current tight credit spread environment**
- **Return-driven culture**

# Supporting Documents

SECURITY CAPITAL ASSURANCE

# Reconciliation of non-GAAP items

Reconciliation of Total Premiums Written to Adjusted Gross Premiums (in millions)				
	Quarter ended		Nine months ended	
	9/30/2006	9/30/2005	9/30/2006	9/30/2005
Total upfront premiums written	\$ 47.1	\$ 40.4	\$ 174.2	\$ 113.1
Total installment premiums written	38.5	42.6	101.2	103.8
Total premiums written	<u>85.6</u>	<u>83.0</u>	<u>275.4</u>	<u>216.9</u>
Add: present value of future installments	5.7	20.5	83.5	69.3
Adjusted gross premiums	<u>\$ 91.3</u>	<u>\$ 103.5</u>	<u>\$ 358.9</u>	<u>\$ 286.2</u>

Reconciliation of Net Income to Operating Income and Core Income (in millions)				
	Quarter ended		Nine months ended	
	9/30/2006	9/30/2005	9/30/2006	9/30/2005
Net income	\$ 28.4	\$ 31.4	\$ 81.6	\$ 53.4
Net realized losses on investments	0.2	0.8	16.6	2.1
Net realized and unrealized losses on credit derivatives	3.2	1.9	6.7	4.2
Operating income	<u>\$ 31.8</u>	<u>\$ 34.1</u>	<u>\$ 104.9</u>	<u>\$ 59.8</u>
Income from refunding premiums	(0.3)	(3.5)	(22.7)	(3.7)
Core Income	<u>\$ 31.5</u>	<u>\$ 30.6</u>	<u>\$ 82.2</u>	<u>\$ 56.1</u>

Reconciliation of Shareholders' Equity to Adjusted Book Value (in millions)		
	As of	As of
	9/30/06	12/31/05
Shareholders' equity	\$ 1,327.4	\$ 867.8
Add: Deferred premium revenue	673.9	563.0
Add: Present value of future installment premiums	444.8	340.3
Less: Deferred acquisition costs	(81.3)	(56.6)
Less: Prepaid reinsurance premiums	(46.5)	(66.4)
Subtotal of adjustments	<u>990.9</u>	<u>780.2</u>
Adjusted book value, net of tax	<u>\$ 2,318.3</u>	<u>\$ 1,648.0</u>

# Non-GAAP financial measures

## **Adjusted Book Value**

Adjusted book value, which is a non-GAAP financial measure, is defined as shareholders' equity (book value) plus the after-tax value of deferred premium, net of prepaid reinsurance premiums and deferred acquisition costs plus the net present value of estimated future installment premiums in force, after-tax, discounted at 7%. We believe adjusted book value is a useful measure for management, equity analysts and investors because the calculation of adjusted book value permits an evaluation of the net present value of the Company's in-force premiums and capital base. The premiums described above will be earned in future periods, but may differ materially from the estimated amounts used in determining current adjusted book value due to changes in market interest rates, refinancing or refunding activity, pre-payment speeds, policy changes or terminations, credit defaults, and other factors that management cannot control or predict. This measure should not be viewed as a substitute for book value determined in accordance with GAAP.

## **Net Present Value of Future Installment Premiums (NPVFIP)**

NPVFIP, which is a non-GAAP financial measure, 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%. NPVFIP is a management estimate which can be negatively affected by prepayments, early terminations, credit losses or other factors.

# Non-GAAP financial measures

## Adjusted Gross Premiums

Adjusted Gross Premiums is a non-GAAP measure of new business production that management uses to evaluate our business because it provides comparability between upfront premiums and installment premiums, unlike GAAP Total premiums written. Because Adjusted Gross Premiums includes premiums due on future on installment business written in the period, management believes it provides an additional, useful measure of new business production than only GAAP total premiums written. Adjusted Gross Premiums for any period equals 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, discounted at 7%. The 7% discount rate was established when our subsidiaries first started reporting Adjusted Gross Premiums based upon the view that 7% was the appropriate discount for these future premiums and that rate has not been changed in order to preserve comparability between and among periods. This measure adjusts for the fact, as described above, that upfront premiums are recorded in full as total premiums written when written but future installment premiums are not, even though the volume of insured business we are writing is essentially the same. This measure should not be viewed as a substitute for total premiums written determined in accordance with GAAP.

# Non-GAAP financial measures

## **Operating Income**

Operating income, which is a non-GAAP financial measure, is defined as net income excluding realized gains (losses) on investments and net realized and unrealized gains (losses) on credit derivatives. We believe operating income is a useful measure for management, equity analysts and investors because the presentation of operating income enhances the understanding of our results of operations by highlighting the underlying profitability of our business. We exclude net realized gains (losses) on investments and net realized and unrealized gains (losses) on credit derivatives because the amount of these gains (losses) is heavily influenced by, and fluctuates in part according to, market interest rates, credit spreads and other factors that management cannot control or predict. This measure should not be viewed as a substitute for net income determined in accordance with GAAP.

## **Core Income**

Core income, which is a non-GAAP financial measure, is defined as operating income excluding the impact of refundings.

## **Core Net Premiums Earned**

Core net premiums earned, which is a non-GAAP financial measure, is defined as net premiums earned excluding the impact of refundings.