



Fundamental strength in triple-A rated financial guarantee insurance and reinsurance



Fourth Quarter and Full-year 2006 Summarized Results

February 6, 2007

SECURITY CAPITAL ASSURANCE

Important Notice

This presentation provides certain information regarding Security Capital Assurance Ltd (SCA). By accepting this presentation, the recipient agrees that it will use, and it will cause its directors, officers, employees, agents, professional advisors and representatives to use, the information herein for internal purposes only and will not divulge any such information to any other person. Any reproduction of this information, in whole or in part, is prohibited.

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 Ltd 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 Ltd (including changes in its ownership percentage in us) or our relationship with XL Capital Ltd;
- 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

Fourth Quarter Earnings

(U.S. Dollars in millions, except per share amounts)

	2006	2005
Net Income	\$ 35.8	\$ 27.0
EPS (diluted)	\$ 0.56	\$ 0.59
Operating Income	\$ 37.1	\$ 30.6
Operating EPS (diluted)	\$ 0.58	\$ 0.66
Core Income	\$ 35.4	\$ 21.1
Core EPS (diluted)	\$ 0.55	\$ 0.46
Weighted-average diluted shares outstanding (thousands)	64,237	46,127

Annual Earnings

(U.S. Dollars in millions, except per share amounts)

	2006	2005
Net Income	\$ 117.4	\$ 80.4
EPS (diluted)	\$ 2.18	\$ 1.74
Operating Income	\$ 141.9	\$ 90.3
Operating EPS (diluted)	\$ 2.64	\$ 1.96
Core Income	\$ 117.4	\$ 77.0
Core EPS (diluted)	\$ 2.19	\$ 1.67
Weighted-average diluted shares outstanding (thousands)	53,718	46,127

Adjusted Gross Premiums Summary

Fourth Quarter AGP

(U.S. Dollars in millions)

	2006	2005
Public Finance	\$ 14.4	\$ 16.9
Structured Finance	107.6	34.7
International	75.2	58.1
Total	<u>\$ 197.2</u>	<u>\$ 109.7</u>

Annual AGP

(U.S. Dollars in millions)

	2006	2005
Public Finance	\$ 142.2	\$ 93.2
Structured Finance	208.1	129.9
International	205.8	172.7
Total	<u>\$ 556.1</u>	<u>\$ 395.8</u>

Premiums Written/Assumed Summary

Fourth Quarter Premiums Written/Assumed

(U.S. Dollars in millions)

	2006	2005
Gross Premiums Written	\$ 118.5	\$ 53.5
Reinsurance Premiums Assumed	15.1	15.1
Ceded Premiums Written	(14.2)	(11.2)
Net Premiums Written	\$ 119.4	\$ 57.4

Annual Premiums Written/Assumed

(U.S. Dollars in millions)

	2006	2005
Gross Premiums Written	\$ 353.7	\$ 233.3
Reinsurance Premiums Assumed	55.3	52.2
Ceded Premiums Written	(13.1)	(40.6)
Net Premiums Written	\$ 395.9	\$ 244.9

Net and Core Premiums Earned Summary

Fourth Quarter Net and Core Premiums Earned

(U.S. Dollars in millions)	2006	2005
Public Finance	\$ 6.9	\$ 13.3
Structured Finance	17.8	15.7
International	<u>19.6</u>	<u>16.0</u>
Net Premiums Earned	44.3	45.0
Refunding Premiums	<u>1.8</u>	<u>10.4</u>
Core Net Premiums Earned	<u>\$ 42.5</u>	<u>\$ 34.6</u>

Annual Net and Core Premiums Earned

(U.S. Dollars in millions)	2006	2005
Public Finance	\$ 46.4	\$ 34.5
Structured Finance	70.2	69.4
International	<u>66.5</u>	<u>47.9</u>
Net Premiums Earned	183.1	151.8
Refunding Premiums	<u>27.4</u>	<u>14.7</u>
Core Net Premiums Earned	<u>\$ 155.7</u>	<u>\$ 137.1</u>

Investment Income & Operating Cash Flow

Fourth Quarter Investment Income

(U.S. Dollars in millions) **2006** **2005**

Investment Income \$ 24.7 \$ 14.3

**Net Realized
Gain/(Loss) on
Investments** 0.4 (1.1)

Annual Investment Income

(U.S. Dollars in millions) **2006** **2005**

Investment Income \$ 77.7 \$ 51.2

**Net Realized
Gain/(Loss) on
Investments** (16.2) (3.2)

Annual Operating Cash Flow

(U.S. Dollars in millions) **2006** **2005**

**Cash Flow from
Operations** \$ 392.9 \$ 226.7

Net Losses & Loss Adjustment Expenses Summary

Fourth Quarter Net Losses and LAE

(U.S. Dollars in millions) **2006** **2005**

Net Unallocated Loss Reserve Expense	\$ 4.3	\$ 2.5
Case Loss Provision	(0.6)	0.2
LAE Provision	(0.1)	3.3
	<hr/>	<hr/>
Net Losses and Loss Adjustment Expenses	\$ 3.6	\$ 6.0
	<hr/> <hr/>	<hr/> <hr/>
Loss Ratio	8.2%	13.3%

Annual Net Losses and LAE

(U.S. Dollars in millions) **2006** **2005**

Net Unallocated Loss Reserve Expense	\$ 14.3	\$ 13.6
Case Loss Provision	0.5	9.0
LAE Provision	0.2	3.4
	<hr/>	<hr/>
Net Losses and Loss Adjustment Expenses	\$ 15.0	\$ 26.0
	<hr/> <hr/>	<hr/> <hr/>
Loss Ratio	8.2%	17.1%

Operating & Corporate Expenses Summary

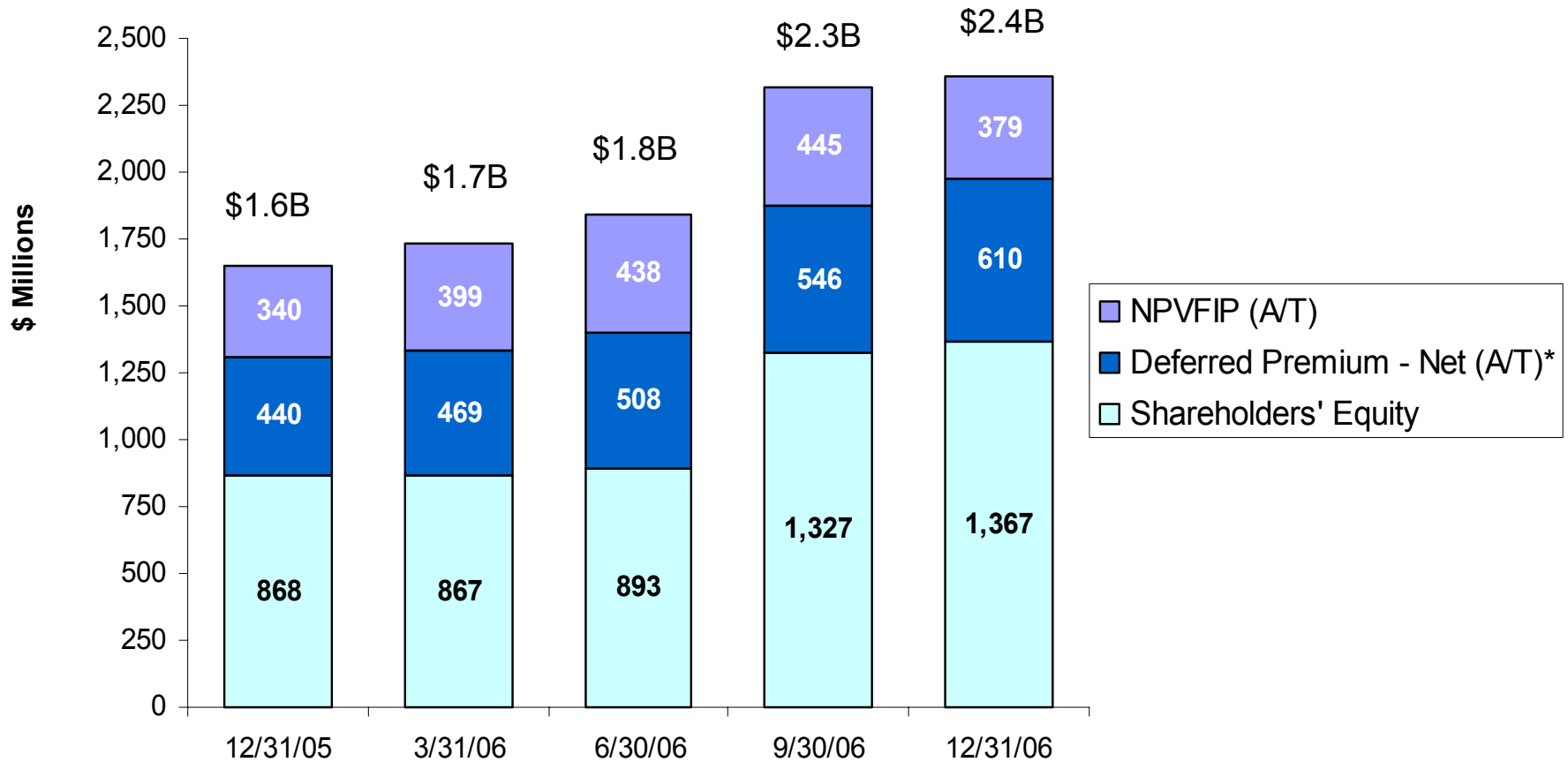
Fourth Quarter Operating Expenses

(U.S. Dollars in millions)	2006	2005
Operating Expenses	\$ 19.7	\$ 17.6
Corporate Expenses	3.9	-
Total Operating & Corporate Expenses	<u>\$ 23.6</u>	<u>\$ 17.6</u>
Expense Ratio	51.6%	45.6%

Annual Operating Expenses

(U.S. Dollars in millions)	2006	2005
Operating Expenses	\$ 72.6	\$ 67.6
Corporate Expenses	6.4	-
Total Operating & Corporate Expenses	<u>\$ 79.0</u>	<u>\$ 67.6</u>
Expense Ratio	48.5%	52.6%

Adjusted Book Value



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

Summary

- **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

Reconciliation of non-GAAP items

Reconciliation of Total Premiums Written to Adjusted Gross Premiums (in millions)

	Quarter ended		Year ended	
	12/31/2006	12/31/2005	12/31/2006	12/31/2005
Total upfront premiums written	\$ 104.1	\$ 34.8	\$ 278.3	\$ 147.9
Total installment premiums written	29.5	33.8	130.7	137.5
Total premiums written	<u>133.6</u>	<u>68.6</u>	<u>409.0</u>	<u>285.4</u>
Add: present value of future installments	63.6	41.1	147.1	110.4
Adjusted gross premiums	<u>\$ 197.2</u>	<u>\$ 109.7</u>	<u>\$ 556.1</u>	<u>\$ 395.8</u>

Reconciliation of Net Premiums Earned to Core Net Premiums Earned (in millions)

	Quarter ended		Year ended	
	12/31/2006	12/31/2005	12/31/2006	12/31/2005
Net premiums earned	\$ 44.3	\$ 45.0	\$ 183.1	\$ 151.8
Refunding premiums	(1.8)	(10.4)	(27.4)	(14.7)
Core net premiums earned	<u>\$ 42.5</u>	<u>\$ 34.6</u>	<u>\$ 155.7</u>	<u>\$ 137.1</u>

Reconciliation of non-GAAP items cont'd

Reconciliation of Net Income to Operating Income and Core Income

(in millions)

	Quarter ended		Year ended	
	12/31/2006	12/31/2005	12/31/2006	12/31/2005
Net income	\$ 35.8	\$ 27.0	\$ 117.4	\$ 80.4
Net realized (gains) losses on investments	(0.4)	1.1	16.2	3.2
Net realized and unrealized losses on credit derivatives	1.6	2.5	8.4	6.7
Operating income	\$ 37.1	\$ 30.6	\$ 141.9	\$ 90.3
Income from refunding premiums	(1.7)	(9.5)	(24.5)	(13.3)
Core Income	\$ 35.4	\$ 21.1	\$ 117.4	\$ 77.0

Reconciliation of Shareholders' Equity to Adjusted Book Value

(in millions)

	As of 12/31/06	As of 12/31/05
Shareholders' equity	\$ 1,366.5	\$ 867.8
Add: Deferred premium revenue	756.1	563.0
Add: Present value of future installment premiums	378.8	340.3
Less: Deferred acquisition costs	(89.1)	(56.6)
Less: Prepaid reinsurance premiums	(57.0)	(66.4)
Subtotal of adjustments	988.8	780.2
Adjusted book value, net of tax	\$ 2,355.3	\$ 1,648.0

Non-GAAP Financial Measures

Adjusted Book Value

We believe ABV 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 our 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.

In summary, we evaluate the performance of and manage our business to produce an underwriting profit. In addition to presenting total premiums written, we believe that showing both GAAP and these non-GAAP items enable investors and other users of our financial information to analyze our performance in a manner similar to how our management analyzes performance. In this regard, we believe that providing only a GAAP presentation of total written premium makes it more difficult for users of our financial information to evaluate our underlying business. Also, as stated above, we believe that analysts, investors and rating agencies who follow us (and the financial guarantee insurance industry as a whole) include these items in their analyses for the same reasons, and they request that we provide this non-GAAP financial information on a regular basis.

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 U.S. 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 U.S. GAAP total premiums written.

Management uses this measure to review trends in new business written because it views this method as providing comparability between business written on an upfront premium basis and business written on an installment basis. This measure is viewed by management as an essential component of information necessary to assess forward-looking earnings potential, which is substantially dependent on the size of our in-force book of business.

Management also compares our adjusted gross premiums production to industry figures on a quarterly basis and uses this measure to assess employee productivity, as well as our market share and competitive position. In the past, as wholly owned subsidiaries of XL Capital, aggregate compensation at XLCA and XLFA has historically been determined within the context of XL Capital's compensation plans taking into consideration certain unique aspects of the XLCA's and XLFA's business, including their start-up nature, and has been based upon several key performance factors, including adjusted gross premiums production. Allocation of such compensation by XLCA and XLFA to their individual employees is based upon similar key performance criteria and financial results.

Non-GAAP financial measures

Adjusted Gross Premiums (cont.)

Going forward, our employee compensation plans will consider various performance factors (company and individual) when determining the amount of overall compensation and individual awards.

In addition to presenting total premiums written, we believe that disclosure of adjusted gross premiums enables investors and other users of our financial information to analyze our performance in a manner similar to the way in which management analyzes performance. In this regard, we believe that providing only a GAAP presentation of gross premiums written makes it more difficult for users of our financial information to evaluate our underlying business. Also, we believe that analysts, investors and rating agencies who follow us and our subsidiaries include these items in their analyses for the same reasons, and they request that we and our subsidiaries provide this non-GAAP financial information on a regular basis.

Non-GAAP financial measures

Operating Income and Core Income

We believe operating income and core income are useful measures for management, equity analysts and investors because the presentation of operating income and core 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. Although the investment of premiums to generate income (or loss) and realized capital gains (or losses) is an integral part of our operations, the determination to realize capital gains (or losses) is independent of the underwriting process. In addition, under applicable GAAP accounting requirements, losses can be created as the result of other than temporary declines in value without actual realization. In this regard, certain users of our financial information, including certain rating agencies, evaluate earnings before tax and capital gains to understand the profitability of the recurring sources of income without the effects of these two variables. Furthermore, these users believe that, for many companies, the timing of the realization of capital gains is largely opportunistic and are a function of economic and interest rate conditions. In addition, with respect to credit derivatives, because we generally hold our financial guarantee contracts written in derivative form to maturity, the net effects of the changes in fair value of these credit derivatives are excluded (similar with other companies in the financial guarantee business) as the changes in fair value each quarter are not indicative of underlying business performance of our financial guarantee operations. In addition, the impact of refundings of upfront policies is excluded from core income. These measures should not be viewed as a substitute for net income determined in accordance with GAAP.

Non-GAAP financial measures

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. We believe core net premiums earned is a useful measure for management, equity analysts and investors because the presentation of core net premiums earned enhances the understanding of our results of operations by highlighting the underlying profitability of our business.

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 that can be negatively affected by prepayments, early terminations, credit losses or other factors.