Security Capital Assurance Ltd
Structured Finance Investor Call

August 3, 2007

SECURITY CAPITAL ASSURANCE

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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 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

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Agenda

- Overview
- Credit Overview
- Product Underwriting
  - Residential Mortgage Backed Securities
  - Collateralized Debt Obligations
  - Collateralized Loan Obligations
- Surveillance Overview
- Mark-to-Market Accounting
- Questions and Answers
- Wrap Up

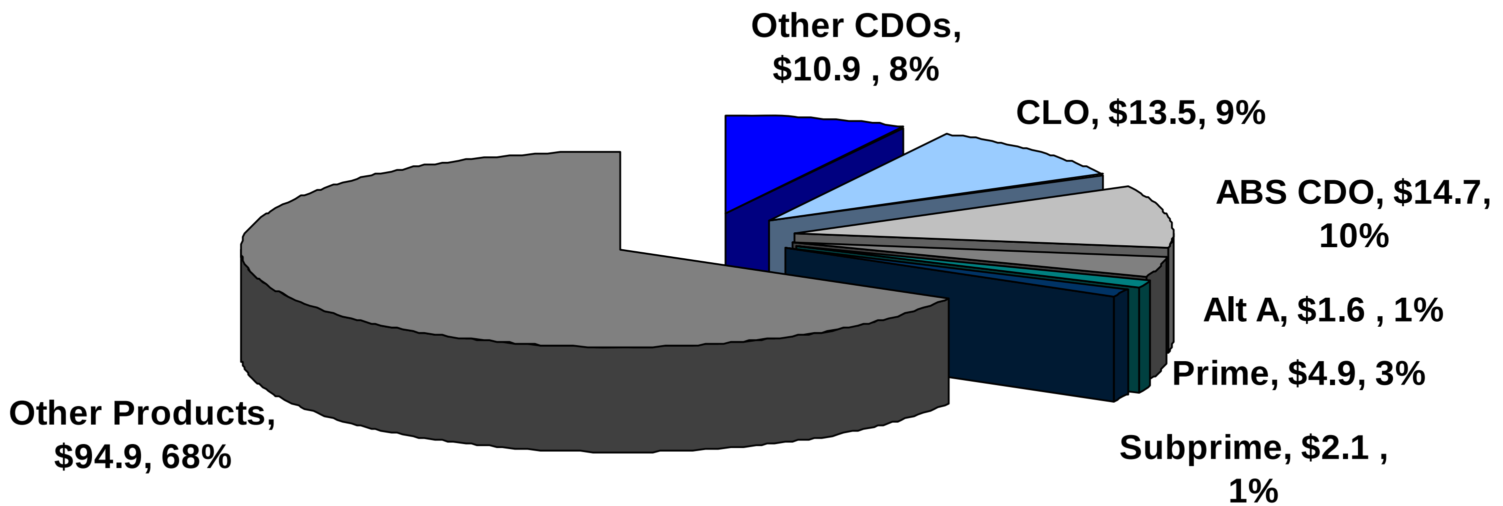
Overview

- We will focus today on RMBS, ABS CDOs (including CDOs of CDOs), and CLOs
- SCA underwrites to a zero loss target to avoid severe credit losses
- SCA's surveillance function monitors exposures and remediates deals as necessary
- Transactions in credit derivative form are marked to market in accordance with GAAP
  - SCA's view is that negative marks have been caused by credit spread widening, not credit deterioration, and will revert to zero over time
- The financial guarantee business is not subject to margin calls or collateral requirements
- Opportunities exist in this market to write solid credits, at attractive premium rates, on a selective basis
- SCA's triple-A ratings remain central to our business

Overall SCA Portfolio

$142.6 Bn Net Par Insured Par Outstanding as of 6/30/07

Breakdown of SCA Portfolio by type of Collateral*



- Total insured portfolio is $142.6 billion net par outstanding
- CLO, CDO, and RMBS exposures are part of a diversified insured portfolio

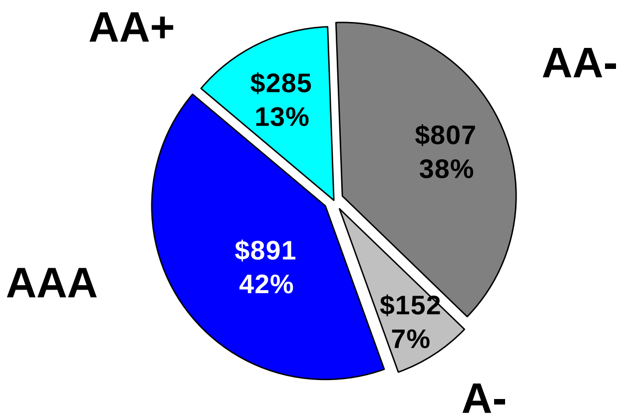
Amounts shown in billions.

RMBS Aggregate Exposure by Credit Rating

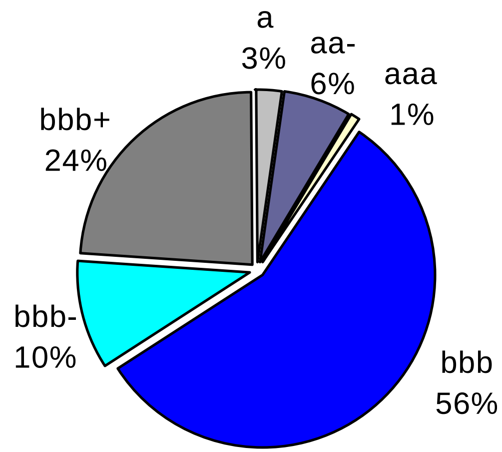
$8.6 Bn Net Insured Par Outstanding as of 6/30/07

Alt A RMBS
($1.6 Bn, Wtd. Avg. AAA, 100% AAA)

Subprime RMBS*
($2.1 Bn, Weighted Average AA+)



Prime RMBS Credit Ratings
($4.9 Bn, Wtd. Avg. BBB+)

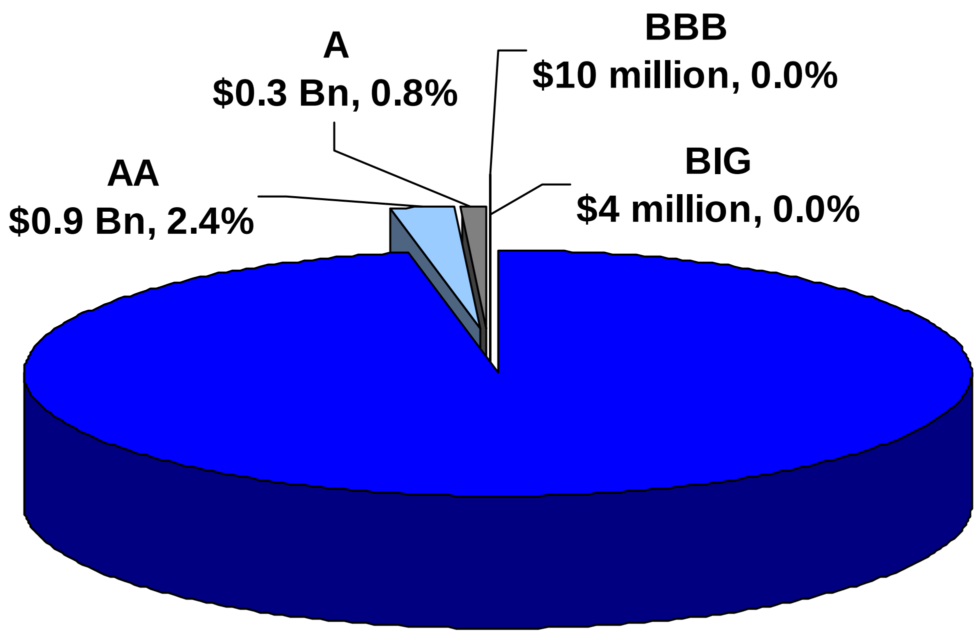


** Amounts shown in millions.*

Overall CDO Portfolio

$39.1 Bn Net Insured Par Outstanding as of 6/30/07

Distribution of Ratings of CDO Exposure*
Wtd. Avg. Rating of 'AAA'



* Based on S&P ratings, if available, and internal SCA ratings if no S&P rating is available.

** Also includes exposure considered to be "super senior" where the underlying deal credit support exceeds the triple-A guidelines set by Moody's and Standard & Poor's by a multiple of at least 1.3x

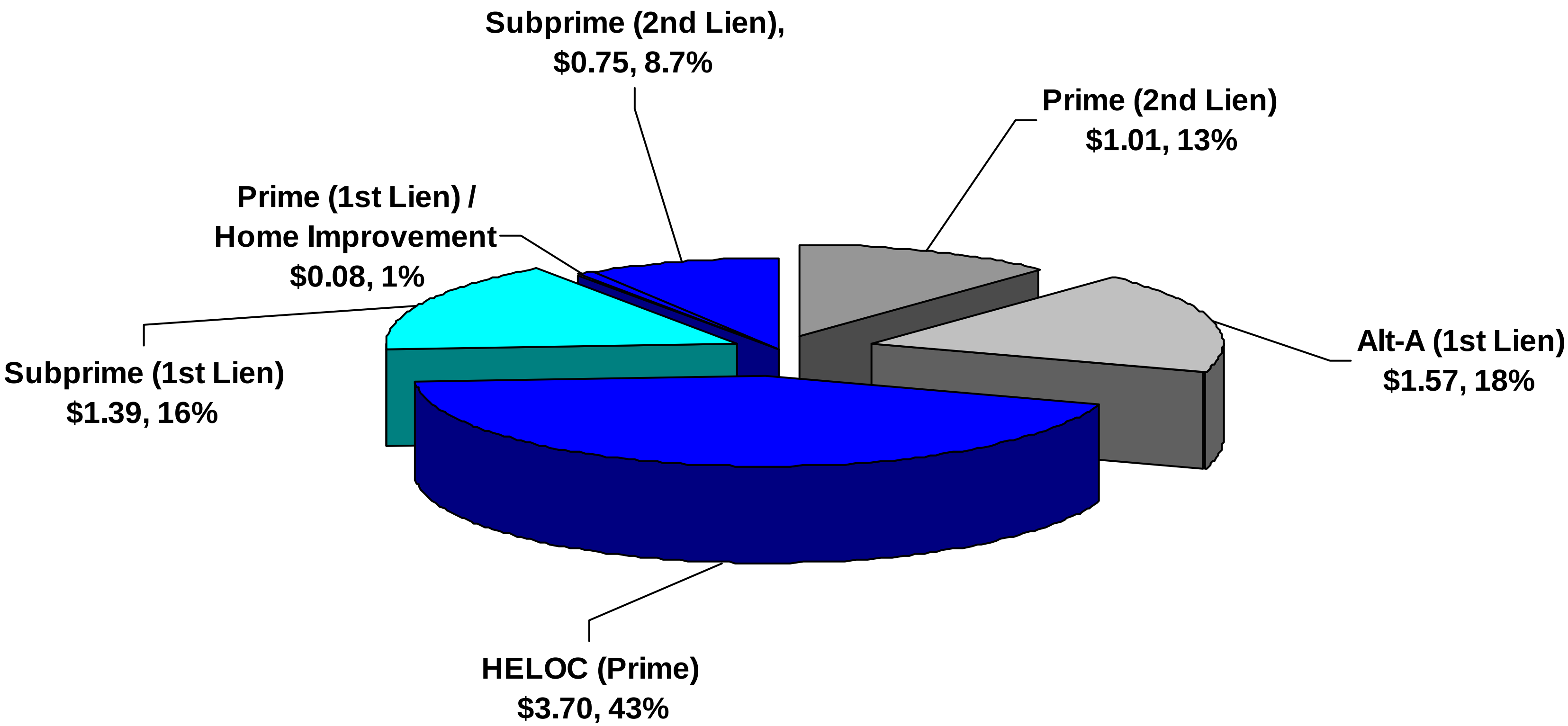
SCA's Underwriting Approach

- Underwriting is independent of rating agencies and extensive
  - Combine qualitative and quantitative analysis
  - Don't rely exclusively upon rating agency opinions – perform our own analysis
  - More conservative assumptions than rating agencies in most cases
  - Require sufficient protection designed to cover us in severe situations for CDOs and subprime RMBS
  - Select strong CDO managers and RMBS sellers/servicers
- Team approach
  - Multi-disciplinary group of structured finance experts work on each deal
  - Senior Credit Officers –
    - specialized by asset type
    - oversee underwriting of all deals
  - Quantitative Analysts – independent from deal teams
  - All deals must be approved by XLCA Credit Committee

Residential Mortgage Backed Securities

RMBS Aggregate Exposure by Collateral Type

$8.6 Bn Net Insured Par Outstanding as of 6/30/07*



RMBS exposure is diversified by product type

*** Amounts shown in billions.***

RMBS Borrower Profiles

- Prime (FICO >700)
- Alt-A (high FICO, but non-standard product types)
- Subprime (FICO <640, high DTI (Debt to Income Ratio), blemished credit)

Underwriting Approach to RMBS

- RMBS Key Risks
  - Poor collateral performance, especially with 2006 vintage
  - Inadequate servicing of loans
  - Originator and servicer insolvencies
- Risk Mitigation
  - Appropriate attachments
  - Due diligence on originators/servicers – we select for established, strong entities
  - Conservative analysis of expected collateral losses with extensive stress analysis performed
  - Deals must survive multiples of expected losses
  - Active surveillance

RMBS Collateral Analysis

- Collateral analysis is performed at individual loan level
- Conservative assumptions are combined to construct expected loss forecasts
- Layered risks are taken into account
- We then seek a multiple of protection over the conservative forecast
  - Incorporate effect of FICO deterioration (20 point drop) and immediate nationwide housing decline (20%) in stress scenarios
  - Multiple scenarios, stressing all assumptions including interest rates and prepayment rates

Example: Subprime Transaction

Derive Loss Estimate:

Base default rate = sum of maximum default rates for any year from 1996- 2004 for LTV (Loan To Value Ratio)/FICO bucket for each loan in pool

Base Default increased to account for risk layering (hypothetical example)

	Exp Default
Risk Factors	16.00%
DTI	2.00%
Reduced Documentation	2.75%
Investor	1.45%
2nd Home	0.20%
90 to 95% LTV Stated income	0.50%
95 to 100% LTV Stated income	1.60%
1st time home buyer	0.50%
Default	25.00%
Loss Severity	45.00%
Expected Loss	11.25%

SCA's Underwriting Adjusts For Market Conditions

- Example: SCA has increased required credit enhancement for sub-prime RMBS
- Following table shows weighted averages for SCA's sub-prime RMBS business

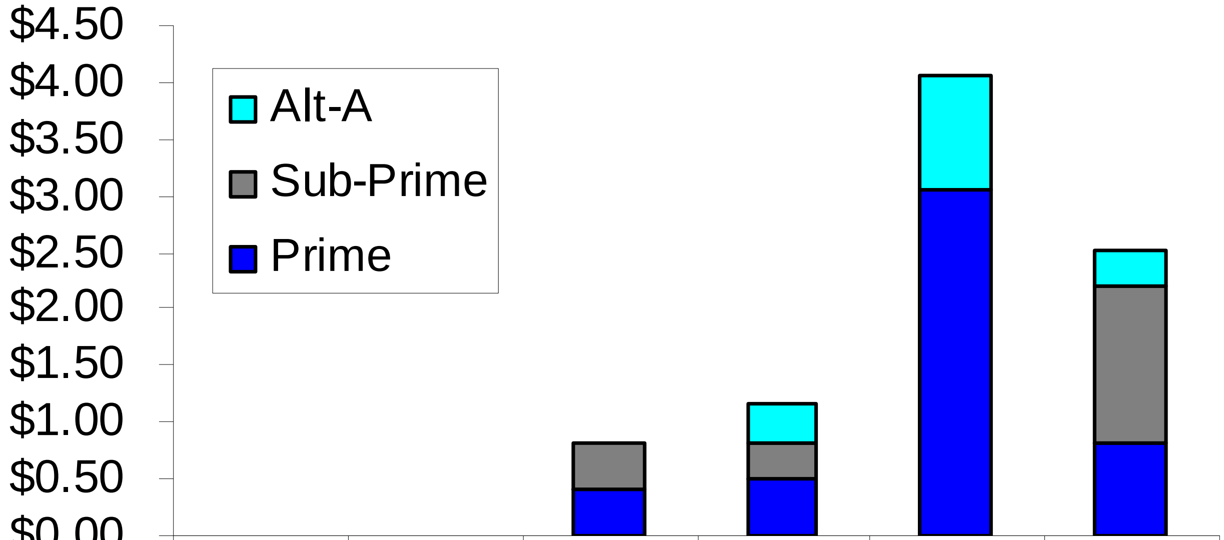
SCA Orgination Year	% of Total	SCA Base Case Losses	Total Loss Deal Can Take*	SCA Loss Coverage
Before 2006	34%	5.2%	18.3%	3.5x
2006	0	N/A	N/A	N/A
2007	66%	10.4%	26.2%	2.7x

* As modeled at deal inception. Subordination buildup will strengthen coverage multiples over the life of each deal.

RMBS Aggregate Exposure by Vintage

$8.6 Bn Net Insured Par Outstanding as of 6/30/07*

(By year of origination)



	2002	2003	2004	2005	2006	2007
Alt-A	$0.00	$0.00	$0.00	$0.34	$0.99	$0.31
Sub-Prime	$0.00	$0.00	$0.41	$0.33	$0.00	$1.39**
Prime	$0.01	$0.00	$0.41	$0.50	$3.06	$0.81

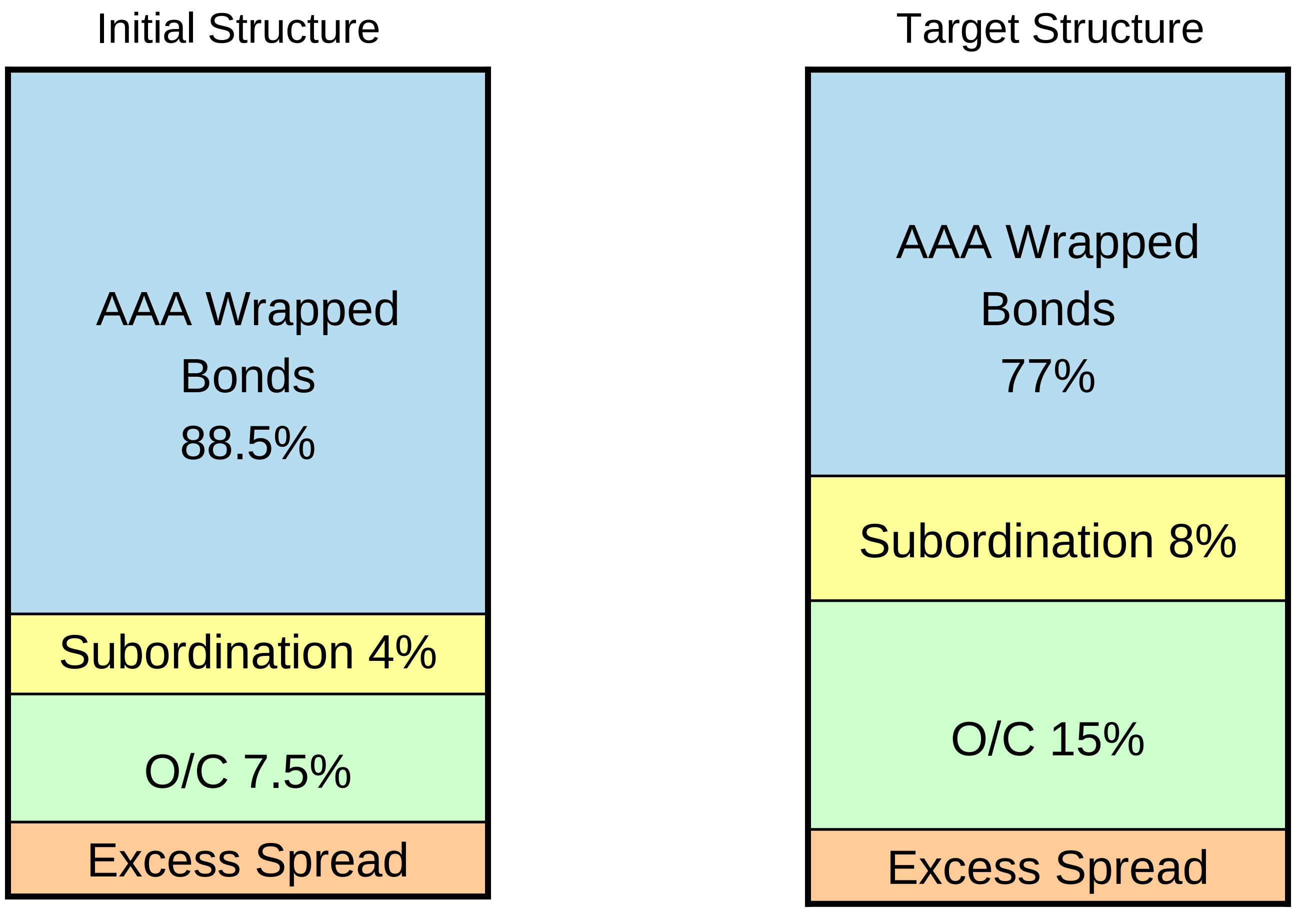
**   Amounts shown in billions.*

*** 50.5% of the collateral backing the 2007 transactions was originated in 2006.*

RMBS Structural Protections

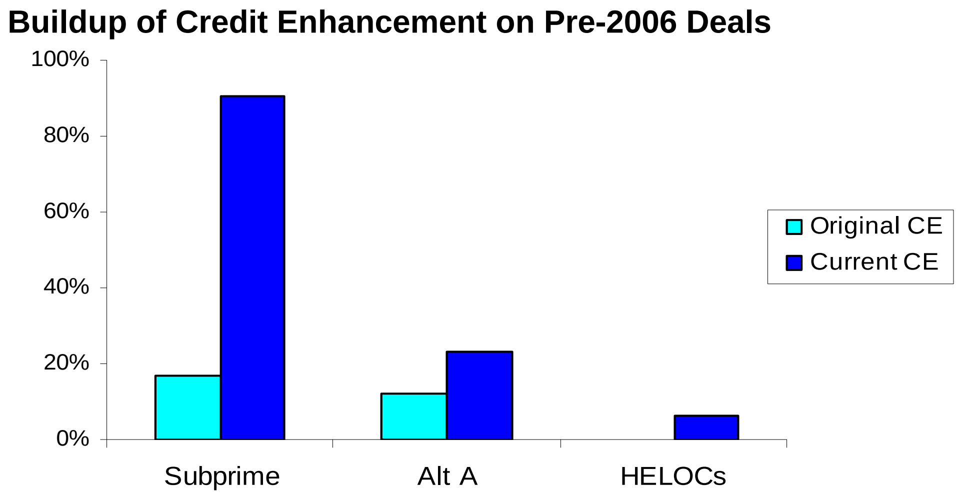
- Main forms of “first loss” protection
  - Excess spread
  - Over collateralization
  - Subordination
- Other structural protections
  - Sequential payment in first three years before step-down
  - Protection increases through capture of excess spread
  - After step-down date, triggers divert additional cash flow to senior bonds if collateral performance suffers

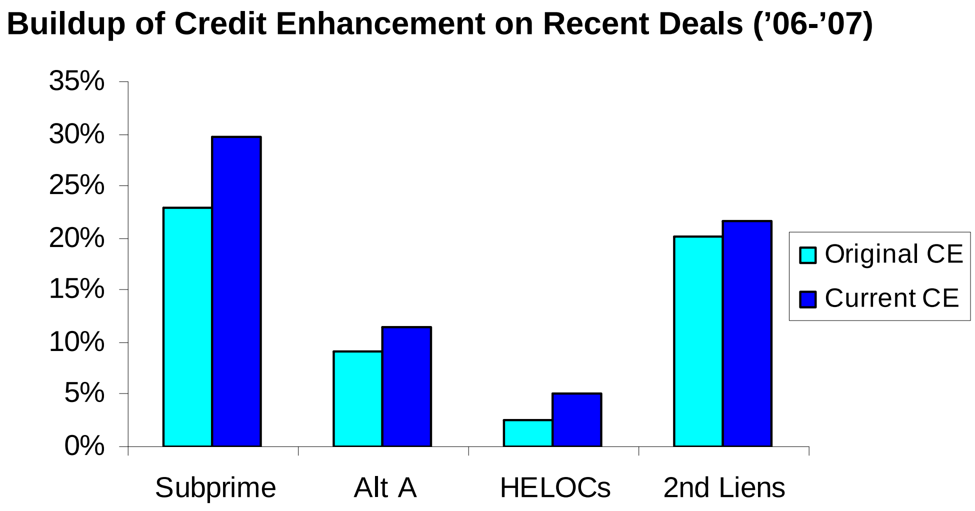
Structural Diagram of a Mortgage Transaction



Enhancement builds as principal repayments and excess spread pay down wrapped bonds first

RMBS Credit Enhancement Build Up



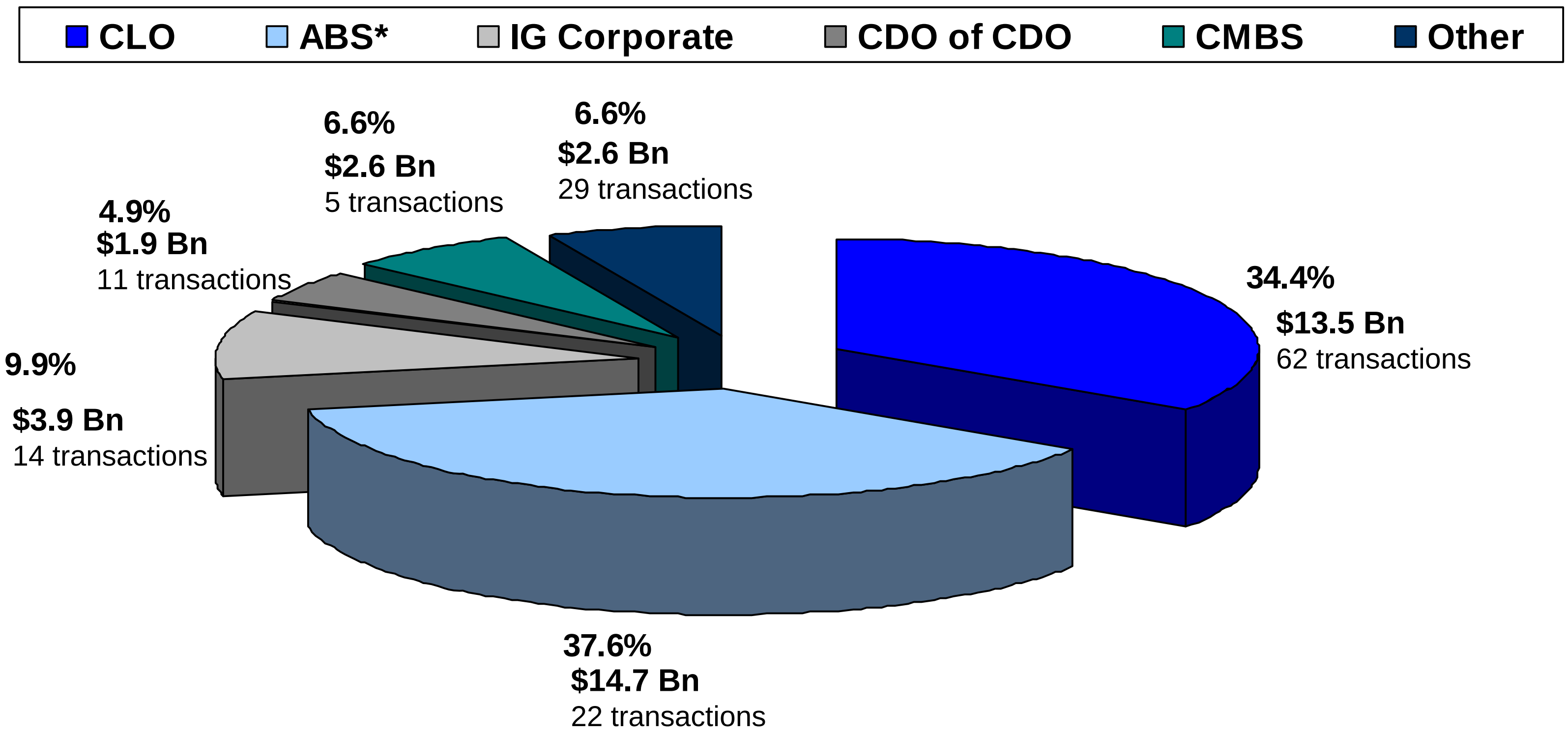


CDO Overview

Overall CDO Portfolio

$39.1 Bn Net Insured Par Outstanding as of 6/30/07

Sector Breakdown of CDO Portfolio by Type of Collateral



* CDOs of ABS with >50% RMBS collateral

CDO Underwriting Methodology

Look at three key elements: manager, portfolio and structure

- Manager
  - Due diligence site visits
  - Look at experience, track record, loss experience, bench strength
  - SCA works with managers we believe are in “top quartile”
- Portfolio
  - Security-level
  - Discuss specific assets with collateral manager where concerns arise
  - Test portfolio through top-down quantitative modeling
- Structure
  - Review and negotiate structure against market benchmarks and SCA requirements
  - Test structure through quantitative modeling

Key Risks in ABS CDOs

- Unexpected high loss rates on collateral pools
- Lack of robust ABS default histories (very few have defaulted)
- 2006 vintage subprime RMBS - potential for elevated loss rates
- Embedded mezzanine ABS CDO tranches
- Interest rate, default timing and structural risks

Underwriting ABS CDOs

- Risk Mitigation
  - Attach at super-senior AAA levels (usually 2-3x AAA minimum)
  - To counter the lack of ABS default history we use multiple models
    - a top-down CDO cash flow model which is similar to our approach to analyzing CLOs
    - an ABS ratings migration model
    - the S&P CDO Evaluator model with notching of ratings
    - Intex modeling of lower rated portions of the collateral
  - Resulting break-evens are multiples of worst historical defaults
  - Participate only in <u>high-grade</u> ABS CDO's
    - limits on subprime exposure
    - limits on CDO exposure, biased towards AAA and AA tranches
  - Collateral level review with involvement of SCA's credit officers

Stress Analysis of ABS CDOs

- Selected underwriting metrics
  - On average, every single asset in a high-grade ABS CDO could be downgraded 3 to 4 ratings notches without affecting the CDO triple-A rating
  - Typically it would take 2 to 4 times the worst historical Moody's corporate default rates to cause $1 of claim on our ABS CDOs
  - Under one scenario we have modeled, pool losses on subprime RMBS in our ABS CDOs could reach 10% and we would still have multiples of the AAA level of subordination in our CDOs
  - Intex is used to analyze RMBS collateral and default rates are stressed at up to 4 times historical loss rates. Our CDOs can withstand this stress and would still retain AAA ratings

Underwriting CLOs

- CLO Credit Risks
  - Elevated credit losses from collateral pool
  - Poor selection of assets by manager and weak workout skills
  - Shifting market standards, e.g. covenant-lite loans
  - Interest rate fluctuations, default timing and currency risks
  - Structural flaws fail to capture cash flow when needed
- Risk Mitigation
  - Insure only AAA rated senior tranches with ample subordination
  - Focus on senior secured loan collateral
  - Select best of class managers
  - Avoid managers who are heavy buyers of covenant-lite loans
  - Use both stress scenario and simulation models to analyze deals
  - To pass, CLO’s typically must withstand default rates of 50-60%

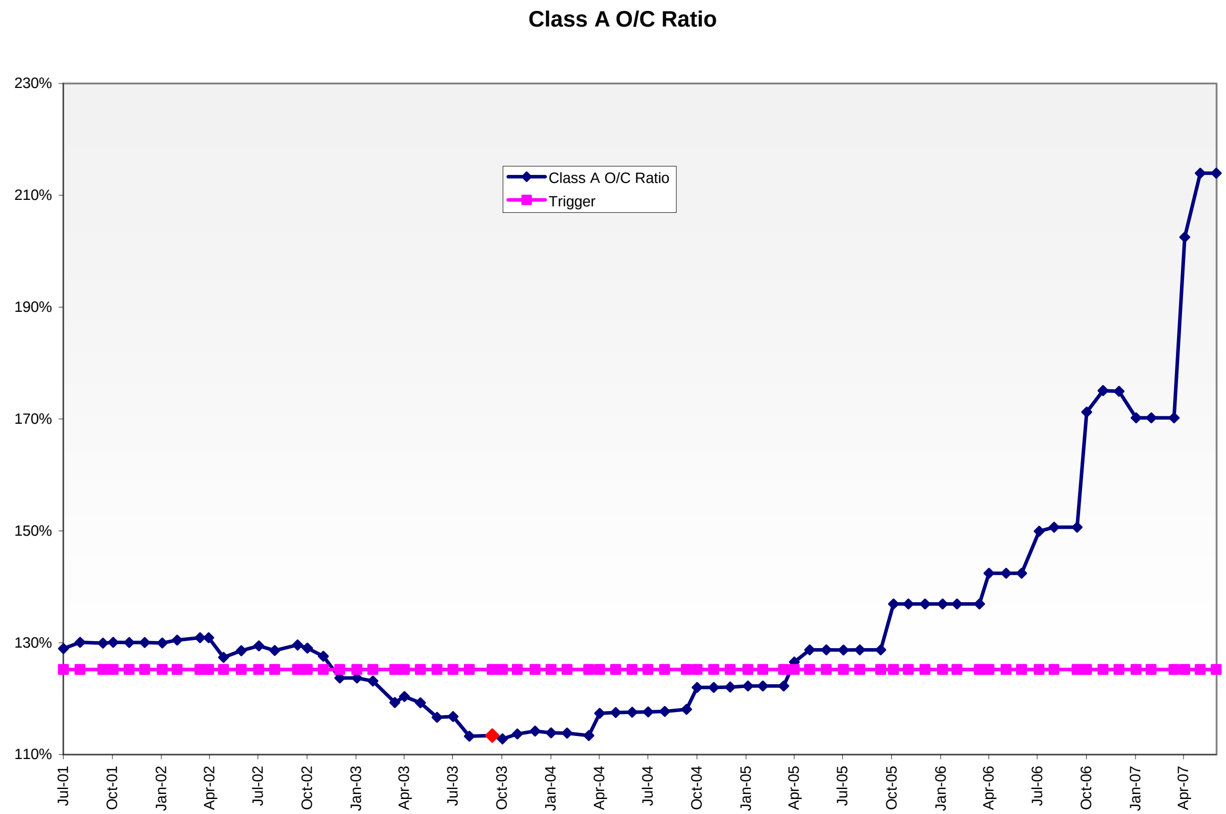
Discussion of CDO Triggers

Value of OC Triggers

- A deteriorating mortgage bond still produces some cash flow for some period of time
- Because of over collateralization (“OC”) triggers, CDO structures will trap cash and pay it to the senior notes if there is material deterioration
- This applies to underlying CDOs in the CDO bucket as well as the main CDO
- We require tight OC triggers (1 to 2 defaulting assets will trip)
- It can take a long time for principal losses to work their way through the underlying subordination in the CDO
- Meantime the CDO structures will be de-levering - but through trapped cash and NOT forced sales of assets
- For all of the above reasons, CDOs can sustain higher losses than the subordination levels might suggest

How OC Triggers Work

- This is a real life example of a CDO squared transaction closed in 2000
- Backed by triple-B rated tranches of CBOs of 1998,1999 and 2000 vintage
- This chart shows the Class A OC ratio over the life of the deal
- From Dec 02 to Jul 05, the period in which the trigger was tripped, 40% of the Class A notes were paid down
- 9.9% of the paydown of Class A notes came from excess spread that had been trapped
- During that same period, the average collateral rating went from Baa2 to Ba3
- The senior class was downgraded from AAA/Aaa to A/Aa2 and subsequently upgraded to Aaa/Aa positive



Surveillance

RMBS Surveillance and Remediation

- Performance of every transaction is tracked on a monthly basis. We get information from trustees, servicers and third party databases such as ABSNet, Intex and LPS
- Tracking sheets are set up to enable trend analysis and deal comparisons and to monitor performance metrics and trends
  - We proactively track delinquencies, cumulative losses, OC levels, excess spread and pool factors
- Quant group reforecasts and models deals if we have performance concerns
- We conduct comprehensive annual reviews including servicing reviews and visits. More frequently, if we have concerns
- Early intervention if performance is below expectations
  - Review and enforce legal rights and remedies
  - Meet with issuer/servicer
  - Consider actions such as getting seller to buy back defaulted loans, enforcing indemnification rights, bringing in special servicing or transferring servicing

RMBS Credit Quality

- RMBS portfolio has a weighted average credit rating of A+
  - Our subprime RMBS portfolio has a weighted average credit rating of AA+
  - No SCA-guaranteed RMBS deals have been downgraded or had their ratings outlook changed
- We have seen delinquencies above expectations in some cases but losses continue to remain within our base case expectations
  - SCA has only one RMBS deal on its watch list from reinsurance operations
    - It is a small, 1999 vintage deal with only $2.2 million outstanding
  - All of our subprime deals have sufficient credit enhancement to withstand 20%+ cumulative losses

SCA Largest RMBS Servicer Exposure

- Largest servicer exposure is to Countrywide (rated A/A3)
- SCA Countrywide exposure has a weighted average credit rating in range of A/A-
- SCA total Countrywide net exposure is $3.4 billion consisting of:
  - $0.2 Bn ‘AAA’ rated sub-prime
  - $0.5 Bn ‘AAA’ rated Alt-A transactions
  - $0.8 Bn ‘BBB‘ rated prime second lien and
  - $1.9 Bn ‘BBB’ rated prime HELOCs
- The three subprime deals average over 60% current credit enhancement
- The Alt-A deals and prime second lien transaction are performing as expected
- One of the prime HELOC deals has experienced an increase in delinquencies above expectations but losses are still within expectations
- The prime HELOC deals are designed to withstand losses generally in excess of 2x our conservative base case loss assumption

CDO Surveillance Process

- Deals tracked at least monthly based on information received from trustee and manager
- Tracking sheets set up for each deal to enable trend analysis and deal comparisons
- Monitor collateral quality tests, over collateralization (“OC”) triggers, trading activity
  - OC calculations include rating-based haircuts
  - CDO is structured with de-levering mechanisms to protect SCA should an OC trigger be breached
- Frequent deal performance discussions and visits with managers
- Quant Group will rerun cash flows using in-house models, CDO manager input and Intex data

ABS CDOs

- All attachment points are super AAA
- High Grade ABS CDOs represent 97.8% of our ABS CDO exposure. Mezzanine ABS CDOs account for the remaining 2.2% and are well seasoned (pre-2005)
- None of SCA’s ABS CDOs have been downgraded or had their ratings outlook changed
- Recent rating actions by S&P, Moody’s and Fitch directly affected 52 out of 3305 unique securities in SCA’s ABS CDO collateral pools
- No ABS CDOs on our watch list

CDOs of CDOs

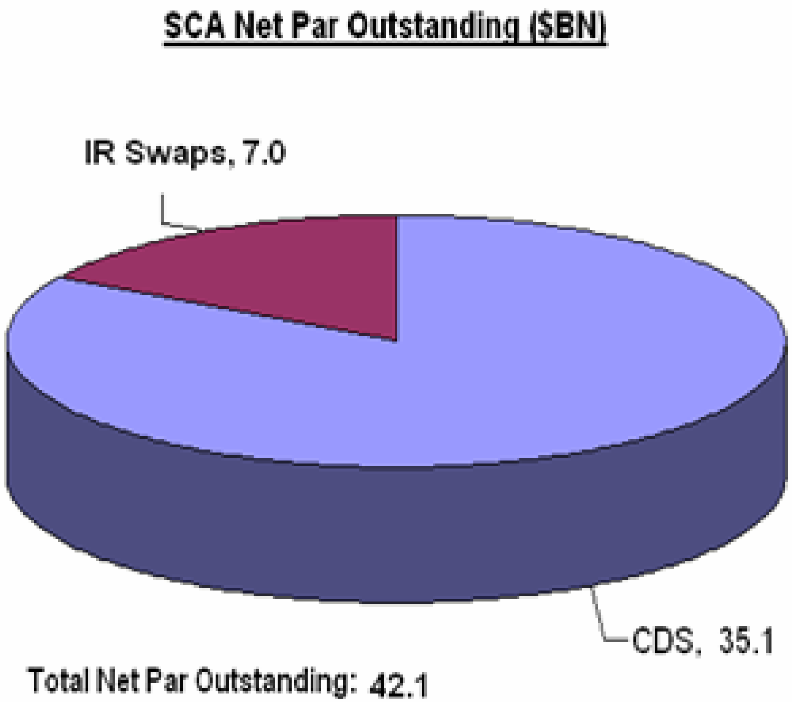
- Most attachment points are super senior AAA with exception of one deal split rated Aaa/AA
- Average current subordination of 30.9% vs. original subordination of 26.7% due to sequential pay features
- CLOs represent the highest average concentration of assets at 56.6%
- Limited average exposure of 12.2% to mezz ABS CDOs relative to subordination levels of 30.9%
- We expect a number of older pre-2004 deals to fully amortize within the next year

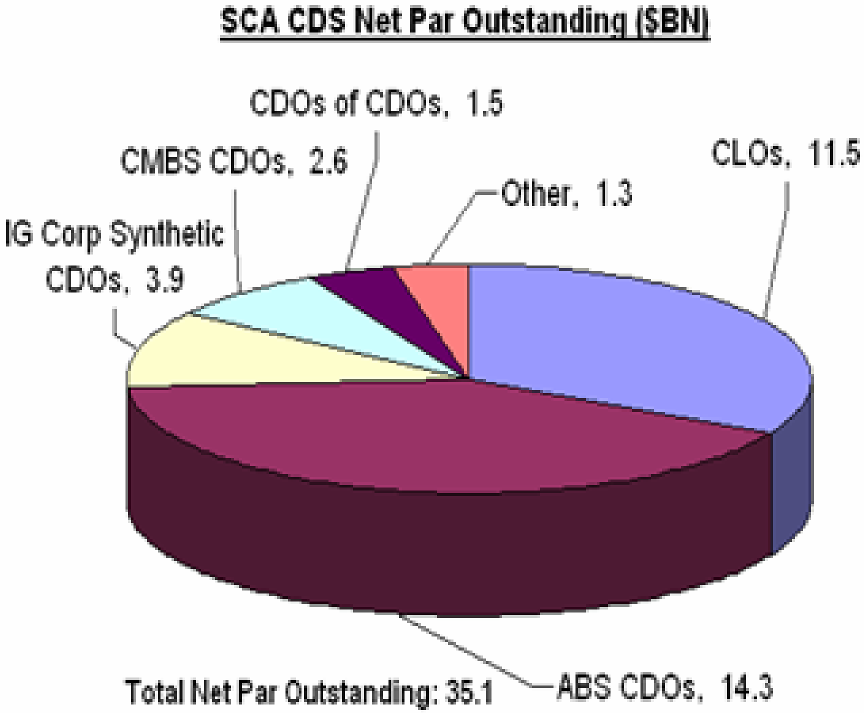
CLO Exposure

- None of SCA’s CLOs have been downgraded or had their ratings outlook changed
- 94% of CLO exposure is rated triple-A; two deals have been rated double-A since deal inception
- Over 93% of underlying collateral is invested in senior secured loans
- Limited exposure to second lien and covenant-lite collateral
- No signs of managers relaxing credit standards to maintain spread

CDS Mark-to-Market

SCA Derivative Net Par Outstanding
(as of June 30, 2007)





CDS Accounting

SCA CDS Execution

- Increasingly preferred form of credit enhancement by credit market participants
- Key attributes of CDS written by SCA:
  - Primarily triple-A or super senior tranches
  - SCA does not post collateral
  - Minimal liquidity risk
- Periodic fair value (MTM) of CDS portfolio required per GAAP
  - Although recognized in income, all fair value is unrealized

Fair value accounting can result in earnings volatility

Fair Value of CDS

- MTM represents the value of the CDS deals at current prices – the opportunity cost
  - $31.2Bn of CDS priced using published and relevant credit spread curves
  - $3.9Bn priced using active broker quotes
- 2Q unrealized loss does not represent an impairment, claim, credit deterioration or incurred loss
- SCA has ability and intent to hold CDS to maturity
  - Unrealized loss will accrete to zero as deal approaches maturity
  - Valuation similar to fixed income bond securities

Unrealized loss is a temporary opportunity cost, not permanent impairment

CDS Mark-to-Market Example

Q1 2007

$ 100,000,000	Par
0.10%	Trade price (bps)
5.00%	Discount rate
7 yrs	Estimated life

Example assumes identical CDS were written at different points during 2007

Amounts in $000's	2008	2009	2010	2011	2012	2013	2014	Total NPVFIP
Premium	$ 95.2	$ 90.7	$ 86.4	$ 82.3	$ 78.4	$ 74.6	$ 71.1	$ 578.6

Q2 2007

$ 100,000,000	Par
0.15%	Market price (bps)
5.00%	Discount rate
7 yrs	Estimated life

Difference in NPVFIP $ (289.3)

This is the same basic idea as MTM

Amounts in $000's	2008	2009	2010	2011	2012	2013	2014	Total NPVFIP
Premium	$ 142.9	$136.1	$129.6	$123.4	$117.5	$111.9	$106.6	$ 868.0

Difference in premium represents the opportunity cost of writing the original CDS during a period of low spreads

CDS Mark-to-Market Example (continued)

$ 100,000,000	Par
0.10%	Trade price (bps)
0.15%	Market price (bps)
5.00%	Discount rate
7 yrs	Estimated life

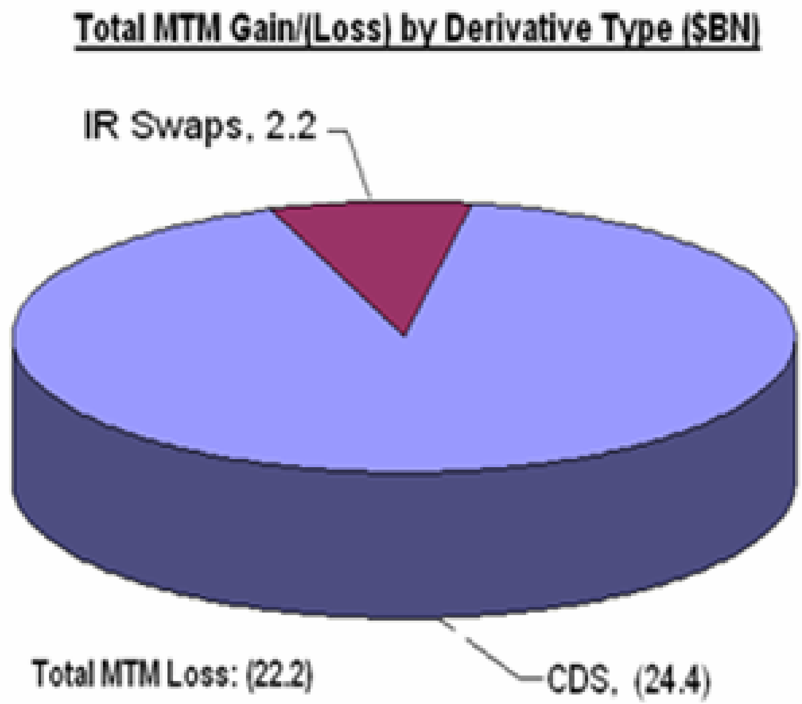
Example assumes original CDS written in Q1 2007 marked at Q2 2007

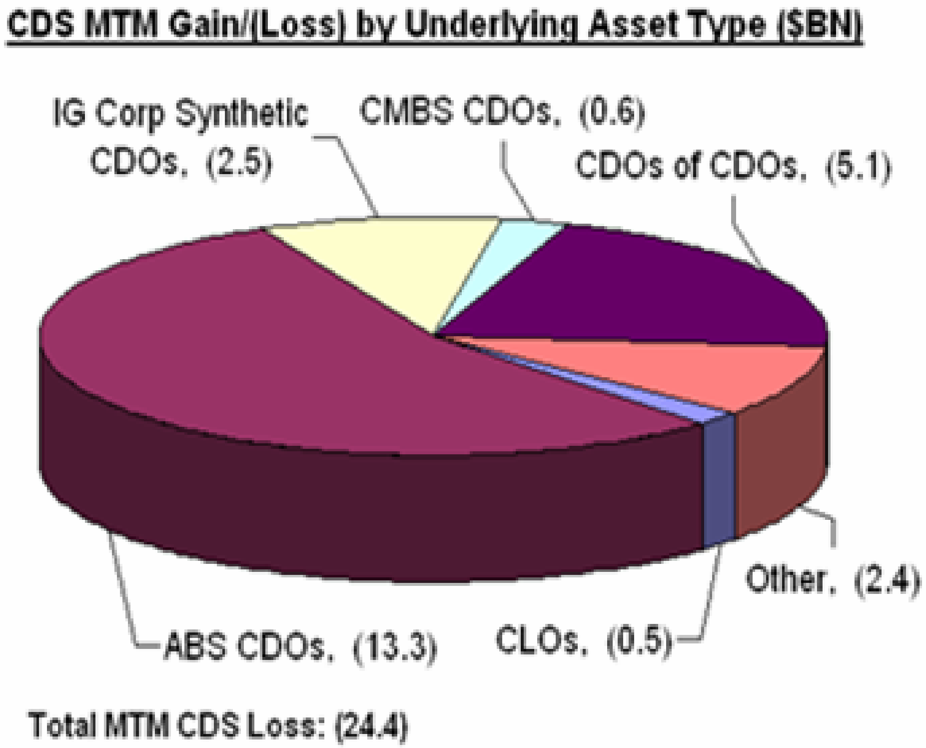
Amounts in $000's

Year	2008	2009	2010	2011	2012	2013	2014	Total MTM (B/S)	Δ in MTM (I/S)
2007	$ (47.6)	$ (45.4)	$ (43.2)	$ (41.1)	$ (39.2)	$ (37.3)	$ (35.5)	$ (289.3)	$ (289.3)
2008		$ (47.6)	$ (45.4)	$ (43.2)	$ (41.1)	$ (39.2)	$ (37.3)	$ (253.8)	$ 35.5
2009			$ (47.6)	$ (45.4)	$ (43.2)	$ (41.1)	$ (39.2)	$ (216.5)	$ 37.3
2010				$ (47.6)	$ (45.4)	$ (43.2)	$ (41.1)	$ (177.3)	$ 39.2
2011					$ (47.6)	$ (45.4)	$ (43.2)	$ (136.2)	$ 41.1
2012						$ (47.6)	$ (45.4)	$ (93.0)	$ 43.2
2013							$ (47.6)	$ (47.6)	$ 45.4
2014								$ -	$ 47.6
									$ -

Note the 2007 MTM balance and how, holding other variables constant, the MTM is gradually reversed through income as the CDS matures

Composition of Q2 2007 MTM Unrealized Loss





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Impact of Unrealized CDS Mark-to-Market

GAAP Financials

- Periodic value change impacts net income
- Derivative liability on balance sheet
- No impact on liquidity
- Unrealized loss will accrete to zero

Capital/Ratings

- Not a factor that influences Rating Agency capital adequacy
- Not viewed as significant by Rating Agencies in respect to ratings or outlook

Valuation

- Impacts book value
- Equity analysts consider unrealized CDS MTM as irrelevant
- Change in market value only and not an impairment
- Removed from operating and core earnings evaluation

Wrap Up and Questions