



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



**Merrill Lynch & Co., Inc.**  
**Insurance Investors Conference**  
**February 13, 2007**  
**(Amended March 14, 2007)**

**SECURITY CAPITAL ASSURANCE**

# Important Notice

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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.

# Overview

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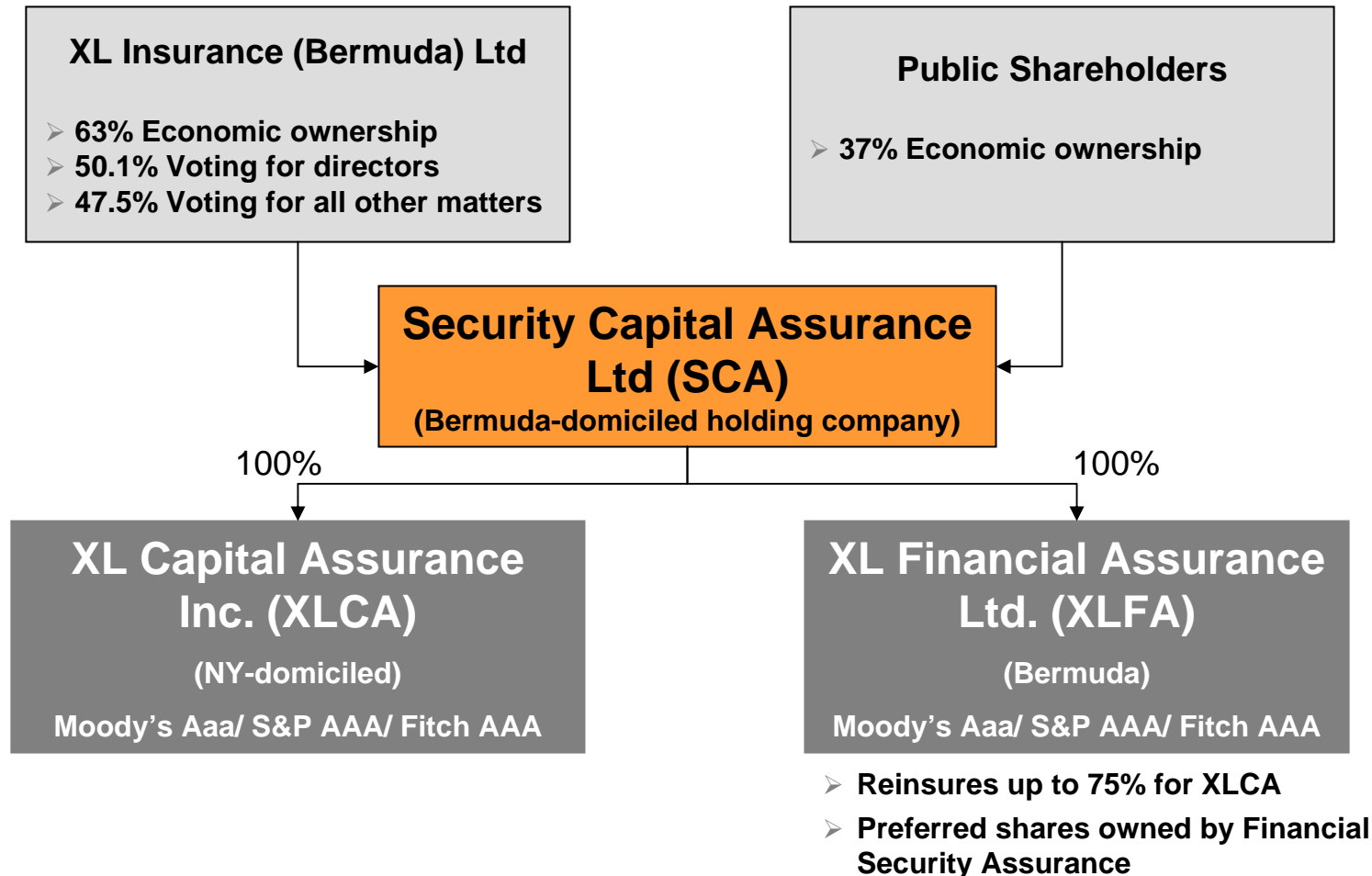
- Security Capital Assurance Ltd (“SCA”) is a Bermuda-domiciled monoline financial guaranty holding company
- SCA through its operating subsidiaries offers triple-A rated monoline financial guaranty insurance and reinsurance
- SCA owns XL Capital Assurance Inc. (“XLCA”), a primary monoline financial guarantor, and XL Financial Assurance Ltd. (“XLFA”), a monoline financial guaranty reinsurance company
- Through XLCA, SCA is one of only three publicly traded monoline financial guaranty insurers with triple-A ratings from Moody’s, S&P and Fitch
- XLCA’s primary insurance policy provides for the unconditional, irrevocable and timely payment of principal and interest on the scheduled debt service of securities insured
- XLFA is the only monoline financial guaranty reinsurance company with Triple-A ratings from Moody’s, S&P and Fitch

# IPO: Security Capital Assurance Ltd

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- In August 2006, XL Capital Ltd (“XL”) – through an initial public offering of SCA – sold 37% of its economic interest in its monoline financial guaranty insurance business
- The IPO was undertaken for three principal reasons:
  - De-link triple-A ratings from XL’s ratings
  - Provide direct access to the capital markets
  - Raise fresh capital (\$341.5 mm) to support growth of SCA
- Following a two week US / European “roadshow” which launched in mid-July, the SCA IPO was successfully sold and allocated to 86 institutional investors
- SCA’s IPO priced at \$20.50 per share, or approximately 1.01x pro-forma Q206 book value
- On August 2<sup>nd</sup>, SCA began trading on the NYSE under the ticker symbol “SCA”
- On February 8<sup>th</sup>, SCA closed at \$31.60, up 54% over the IPO price

# SCA's Triple-A Financial Guarantee Platform\*



As of 12/31/06, SCA had \$2,666 million in Claims-Paying Resources in the Financial Guaranty platform. This was up from \$1,949 million at year-end 2005.

\* Holders of XLCA-insured bonds have direct recourse against XLCA only. XLFA, SCA, XL Insurance (Bermuda) Ltd, and XL Capital Ltd are not directly liable to such bondholders.

# SCA: At a Glance

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- Unique “triple” triple-A insurance and reinsurance platform
- Began operations in 1998
- Organized along three product lines:
  - Public Finance
  - Structured Finance
  - International Finance
- Global presence: 166 employees in U.S., Europe, Bermuda and Singapore
- Experienced management team

# SCA's Value Proposition

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- SCA is one of six triple-A rated guarantors from all three rating agencies
- Financial guarantee products provide security to investors and lower issuer borrowing costs
- Key enabler to capital markets
- There is strong investor demand for multiple providers of triple-A rated monoline financial guaranty insurance
  - Investors prefer high quality diversification
- SCA has established a reputation for service and innovation
- SCA's primary FG business has experienced AGP growth of **31% per annum from 2001 through 2006**
  - Industry Compounded Annual Growth Rate (CAGR) has been about 8%\* per annum over the same period

\* SCA Estimate

# Corporate Strategy

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- Continue to grow the franchise and improve market penetration
  - AGP\* production of \$556.1 million for 2006 versus \$395.8 for 2005, an increase of 41%
  - Increased primary AGP market share from approximately 4% in 2001 to 10%\*\* through 2006
    - SCA is not market share-driven; long-term focus on profitable growth by increasing penetration in our target product and geographic areas
  - Offer one product: Triple-A rated credit enhancement
  - Compete with other financial guarantors and alternative capital markets executions
- Maintain triple-A credit ratings
  - Disciplined risk selection
  - Prudent operating and financial leverage
  - Conservative investment guidelines
- Attract and retain top talent

\*Non GAAP measure: see reconciliation at the end of the presentation

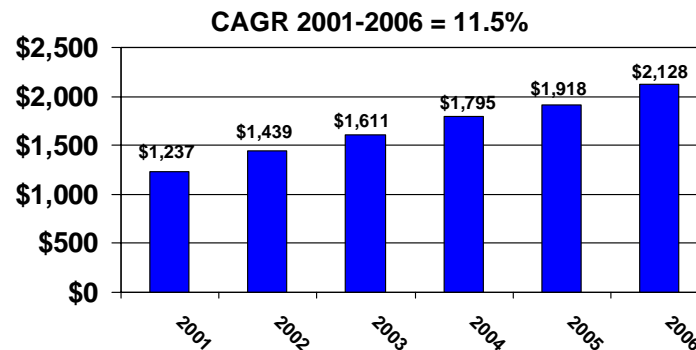
\*\* SCA Estimate



# Market Summary

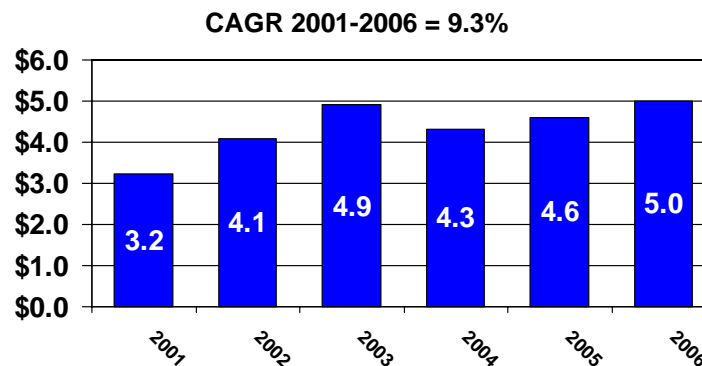
- Challenging market conditions
  - Continued tight credit spreads
  - Intense competition in the ABS market due to strong senior/sub bid
  - Lower new issuance and insured penetration in US public finance
- Solid growth in net par exposure and AGP\* for the industry over time
- Positive long term prospects for Triple-A financial guaranty business
  - Structured finance
  - International

**Industry Net Par Exposure**  
\$ in Billions



Source: S&P and Company Operating Supplements

**Industry Adjusted Gross Premium**  
\$ in Billions



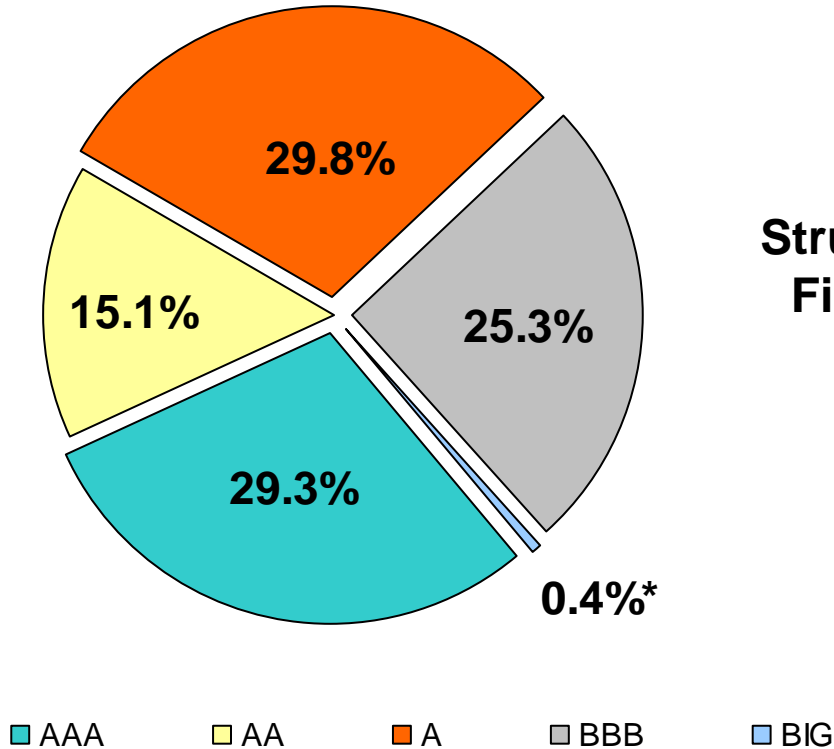
Source: Company Operating Supplements

\*Non GAAP measure: see reconciliation at the end of the presentation

# SCA Portfolio Overview

## \$118.0 Bn Net Insured Par Outstanding as of 12/31/06

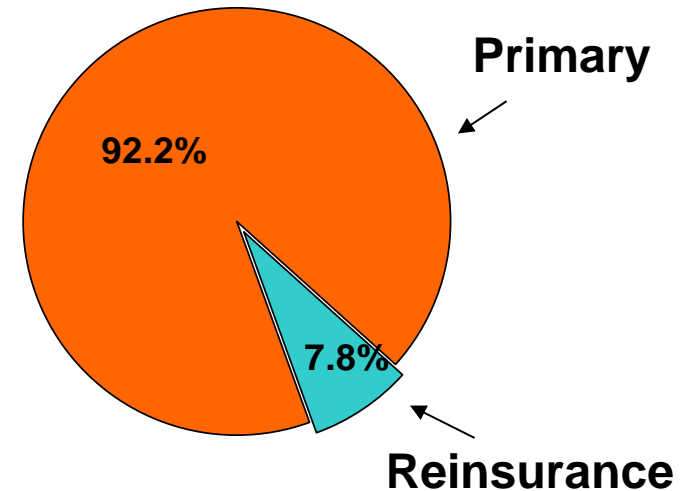
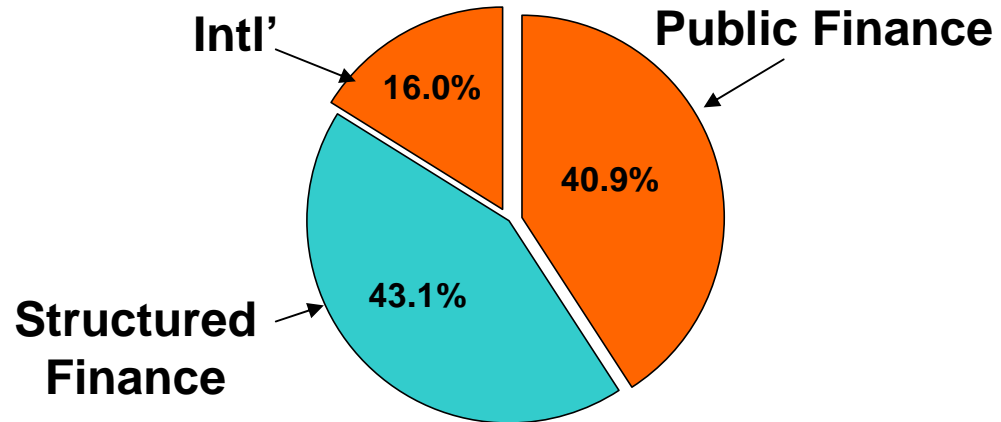
### Underlying Credit Rating



**Weighted average credit rating: A+**

\* BIG—Below Investment Grade, updated on March 14, 2007

### Business Mix



# Industry Pricing Trends

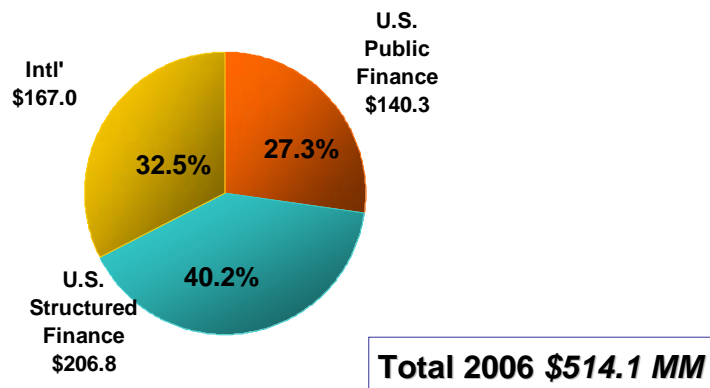
- Industry pricing has come under pressure, but SCA has priced in a responsible manner as shown in S&P's recent Profitability index study

	<i>INDUSTRY</i>				<i>SCA</i>	<i>SCA</i>	<i>Industry</i>
	2002	2003	2004	2005	2005	Q206	Q206
S&P's Profitability Index							
US Public Finance	5.87%	7.59%	6.56%	5.57%	5.77%	5.42%	5.25%
ABS	10.79%	12.82%	10.27%	8.29%	7.93%	9.25%	10.05%
International Structured	17.44%	16.76%	13.47%	12.25%	6.94%	13.89%	12.70%
International Public Finance	10.43%	13.67%	13.76%	10.44%	13.64%	11.16%	10.10%

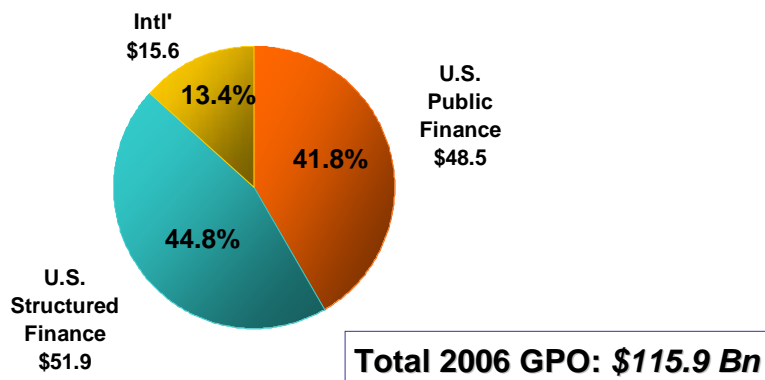
Source: S&P Profitability Index Report, 2006

# Primary Insurance Strategy

## 2006 Direct Adjusted Gross Premiums\*



## 2006 Direct Gross Par Outstanding



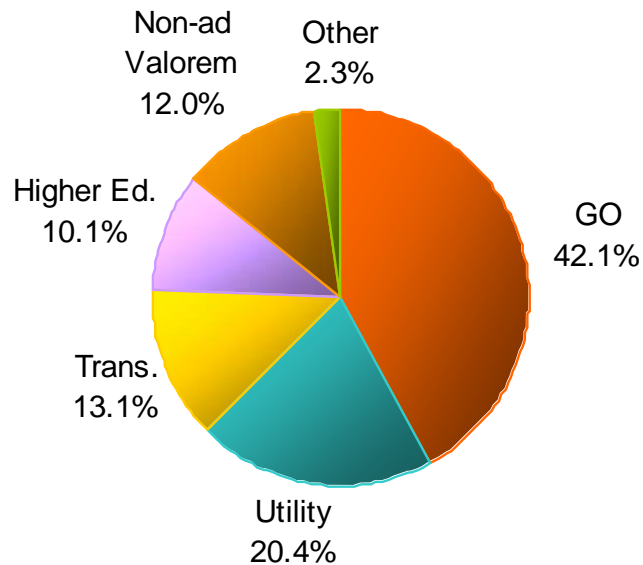
\*Non GAAP measure: see reconciliation at the end of the presentation

## Highlights

- Diversified insured portfolio
- Balance flow with higher-return, off-the-run deals
- Responsive services driven approach
- Market acceptance in all product lines
- Profitable growth

# SCA Primary Insurance Public Finance

## 2006 Direct Gross Par Outstanding



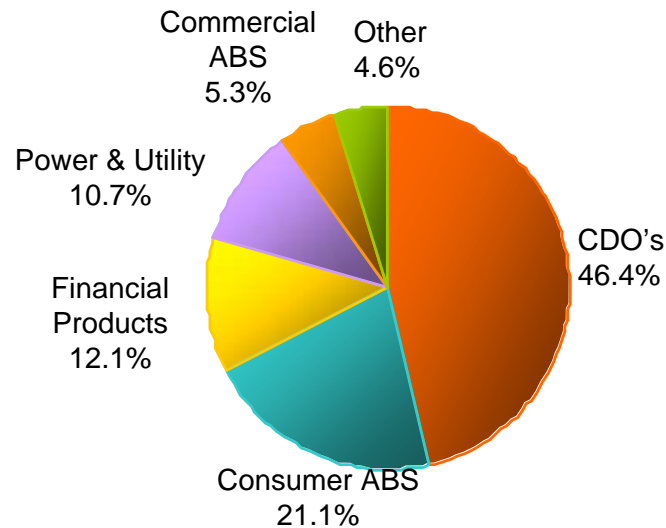
**Total Public Finance GPO: \$48.5 Bn**

## Highlights

- Large and stable source of AGP
- Initial focus on underserved markets
  - Regional dealers and smaller issues
- Leverage operating platform
  - Focus on larger municipalities/deals
  - Average deal size doubled in 2006
- Leverage investors' desire for diversification
- Market share has been increasing
  - 8.0% in 2006 based on par written

# SCA Primary Insurance U.S. Structured Finance

## 2006 Direct Gross Par Outstanding



**Total U.S. Structured Finance GPO: \$51.9 Bn**

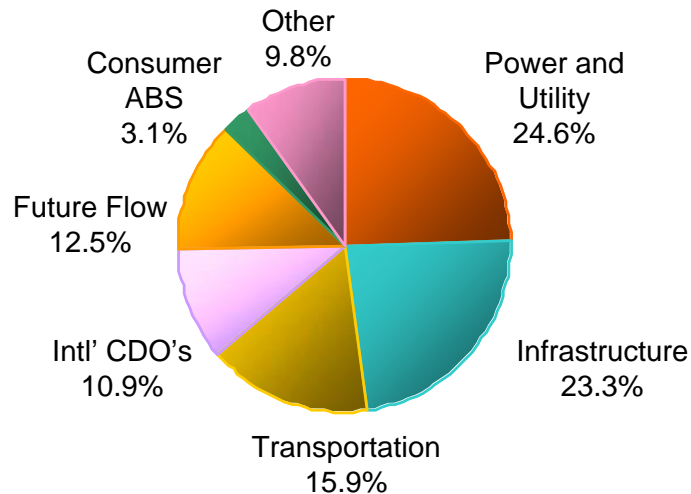
\* SCA Estimate

## Highlights

- Significant contributor to NPE
- **ABS: Growing roster of repeat issuers**
  - Targeting off-the-run transactions
- **Rapidly expanding CDO market**
  - 5-year historical growth: 45%\*
  - Low credit-risk / AAA shadow ratings
  - Diversify into new segments
- **Leverage demand for credit default swaps**

# SCA Primary Insurance International

## 2006 Direct Gross Par Outstanding



**Total International GPO: \$15.6 Bn**

## Highlights

- Attractive growth characteristics
  - High AGP per transaction
  - Stable, long-term source of premiums
- “Go-to” player for structured products
- Focus on infrastructure, utility and future flow deals
- Target essential assets that generate stable / predictable cash flows
- International focus

# 2006 Awards

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**Project Finance**

*Winner of the  
EMEA Education  
Deal of the Year  
Award*

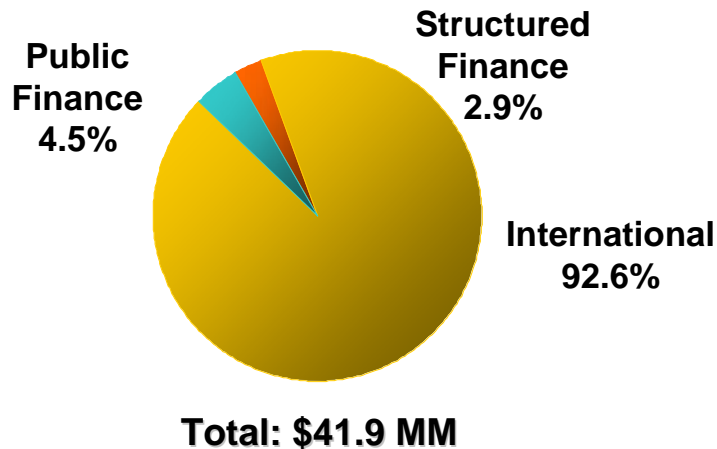


**THE BOND BUYER**  
Midwest Regional  
Deal of the Year

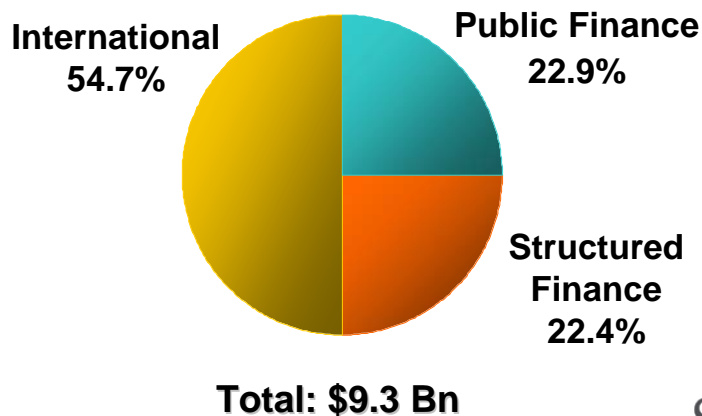


# Unique Triple-A Reinsurance Franchise

## 2006 Adjusted Gross Premiums\*



## 2006 Gross Par Outstanding

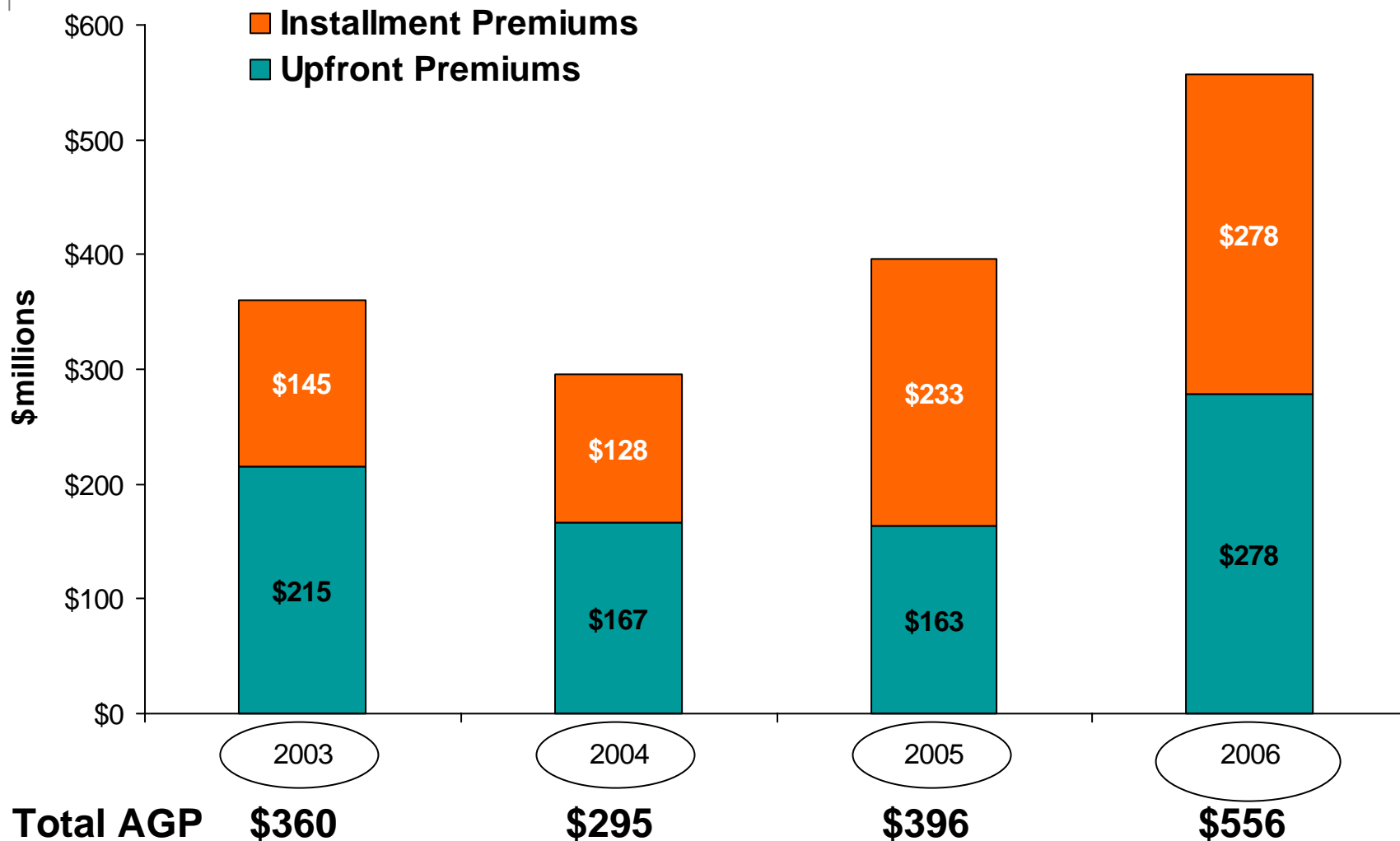


## Highlights

- Complements insurance operations
- Only “triple” Triple-A reinsurer
- Opportunistic, ROE-driven underwriting
  - Facultative focus
- Strategic relationship with FSA since 1998

\*Non GAAP measure: see reconciliation at the end of the presentation

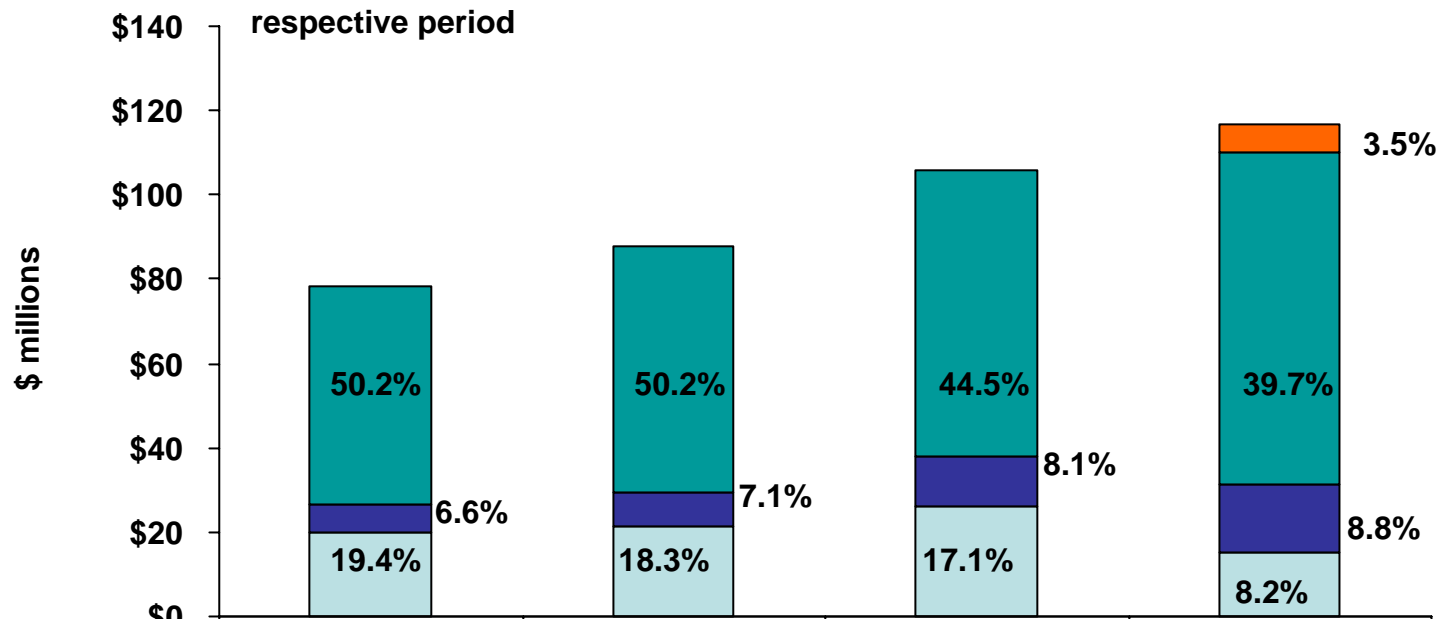
# Adjusted Gross Premiums (AGP)\*



\*Non GAAP measure: see reconciliation at the end of the presentation

# Loss and Expense Ratios

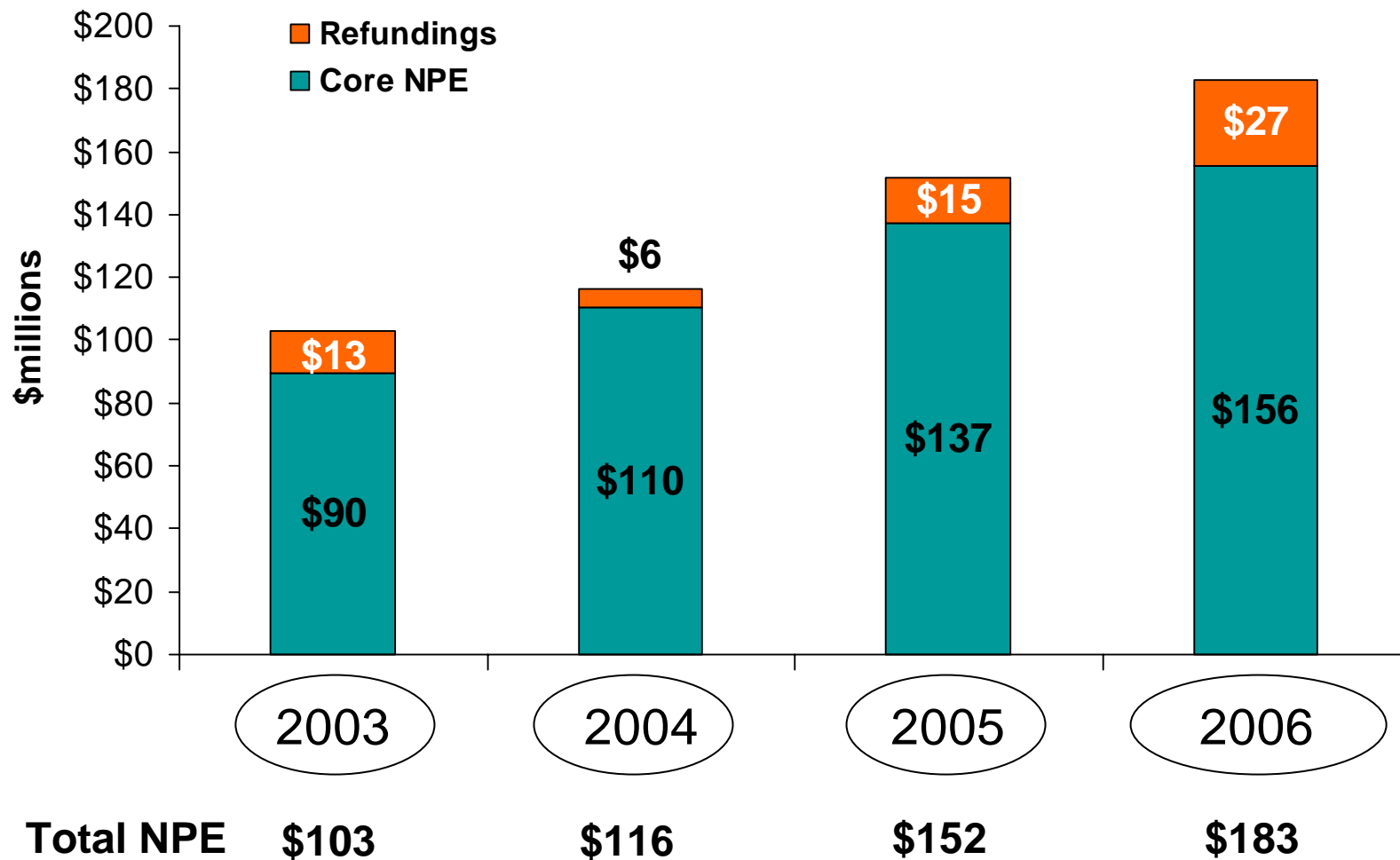
Percentages below are expressed relative to Net Premiums Earned for each respective period



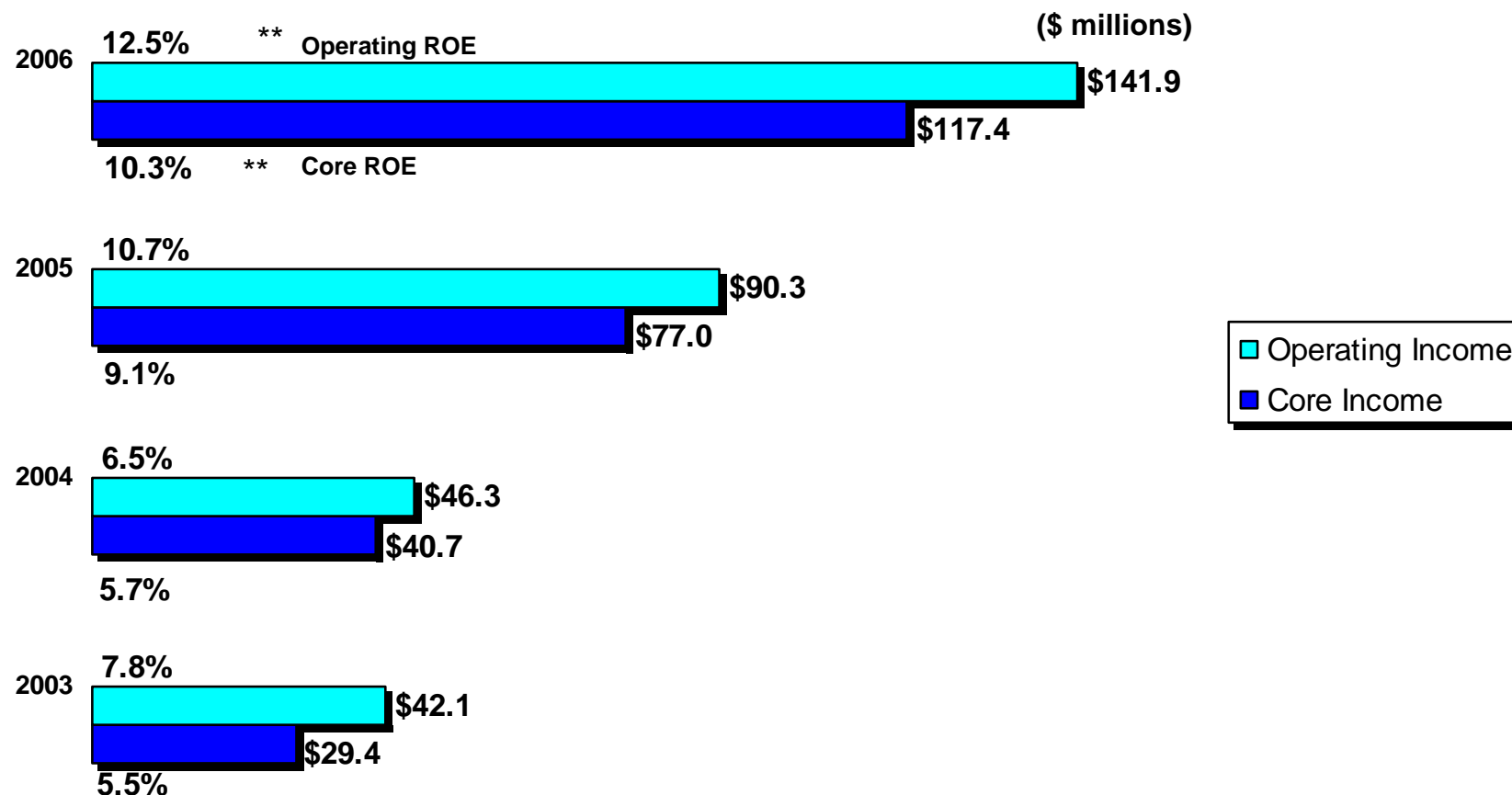
	2003	2004	2005	2006
■ Corporate Expenses *	-	-	-	\$6.4
■ Operating Expenses	\$51.7	\$58.4	\$67.6	\$79.0
■ Acquisition Costs	\$6.8	\$8.3	\$12.2	\$16.2
■ Losses and LAE	\$20.0	\$21.3	\$26.0	\$15.0

\* Corporate Expenses not included in calculation of Loss and Expense Ratios

# Net Premiums Earned (NPE)



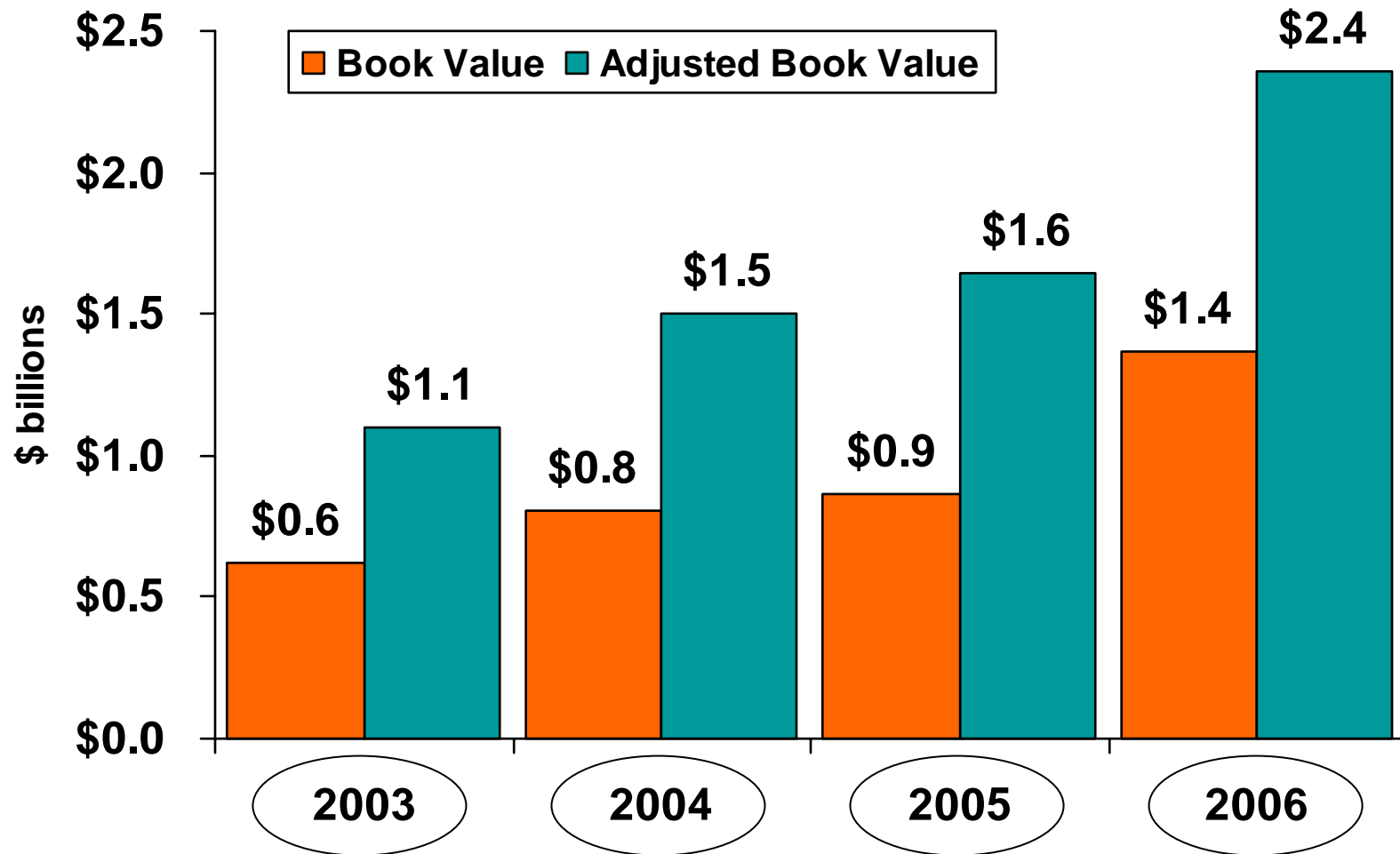
# Operating and Core Income and ROE\*



\*Non GAAP measures: see reconciliation at the end of the presentation

\*\*Annualized

# Adjusted Book Value\* Growth



**Adjusted Book Value** = Book value plus after-tax value of (deferred premium revenue – deferred acquisition cost – prepaid reinsurance premiums + present value of future installment premiums)

\*Non GAAP measure: see reconciliation at the end of the presentation

# Shareholder Value Levers

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- Build on reputation for service and innovation
  - Expand market presence
- Increase operating leverage
  - Increase business volume through platform
- Grow operating earnings
  - Increasing net premiums earned due to growing back-book
  - Rising investment income through higher yields and operating cash flow
- Lower expense ratio
- Expand operating ROE over time
  - Capacity to introduce financial leverage
- Maintain credit and pricing discipline
- Increase book value and adjusted book value

# Summary

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- IPO successfully completed in August 2006
  - \$341.5 mm of fresh capital raised
- Triple-A franchise stable and well positioned for growth
  - Ratings de-linkage achieved
- Favorable long-term industry prospects for financial guaranty products globally
- Strong earnings growth potential for SCA
- Return-driven culture
- High-quality and diversified insured portfolio
- Disciplined underwriting philosophy
- Experienced management team



# Reconciliation of non-GAAP items

## 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

# 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	\$ 163.0
Total installment premiums written	29.5	33.8	130.7	122.0
Total premiums written	133.6	68.6	409.0	285.0
Add: present value of future installments	63.6	41.1	147.1	110.8
Adjusted gross premiums	\$ 197.2	\$ 109.7	\$ 556.1	\$ 395.8

## 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	\$ 42.5	\$ 34.6	\$ 155.7	\$ 137.1

# Non-GAAP financial measures

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## *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 and 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

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## ***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.

# Non-GAAP financial measures

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## ***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.