Keefe, Bruyette & Woods
2007 Insurance Conference

September 5, 2007

SECURITY CAPITAL ASSURANCE

Important notice

This presentation provides certain information regarding Security Capital Assurance Ltd (SCA).

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 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.

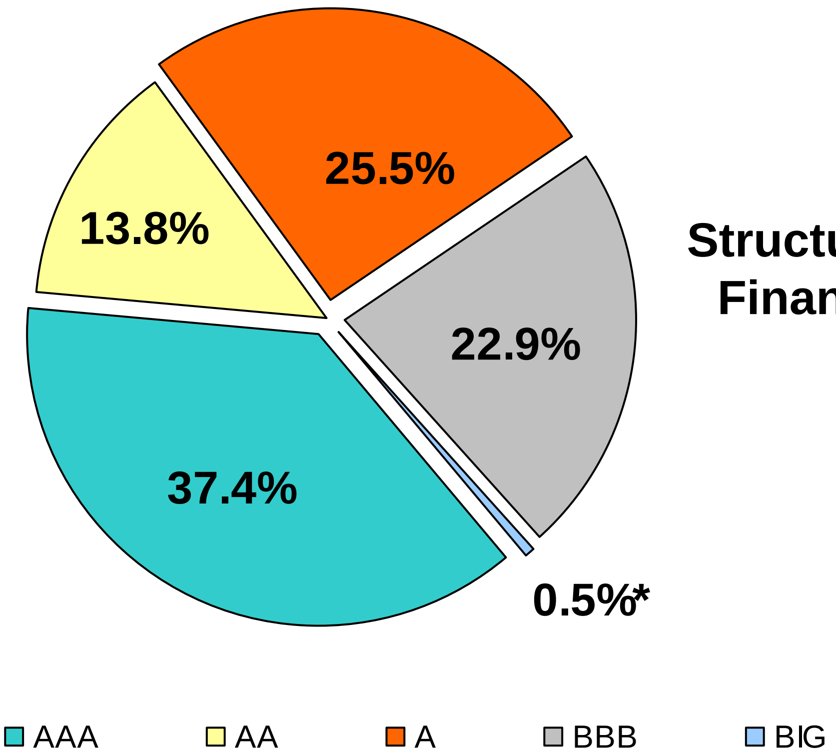
Overview of Business Model

- Triple-A rated by Moody's, S&P & Fitch
- Insure scheduled debt service of investment grade credits
- Underwrite to a zero loss target
- Diversified by credit exposure and product line
- Not subject to collateral or margin requirements
- Disciplined credit culture
- Ongoing surveillance of insured risks

SCA Portfolio Overview

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

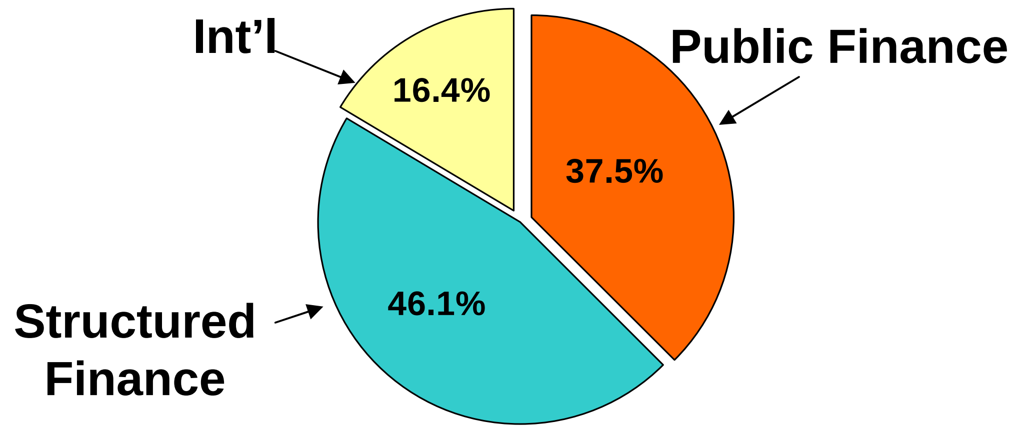
Underlying Credit Rating

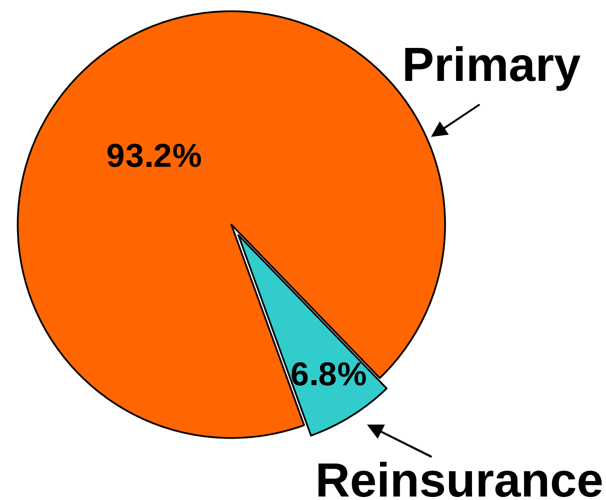


Weighted average credit rating: A+

** BIG—Below Investment Grade*

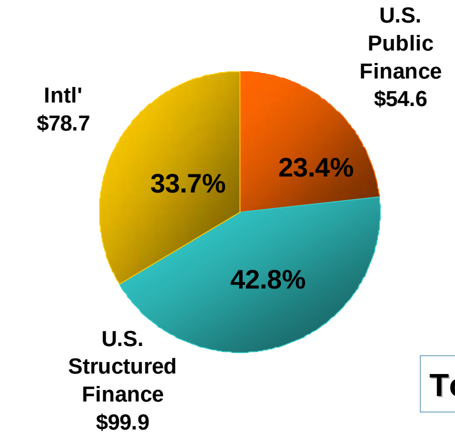
Business Mix





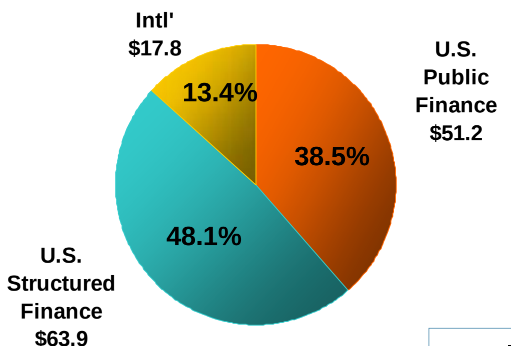
Primary Insurance Strategy

June 30, 2007 YTD Direct Adjusted Gross Premiums*



Total: *$233.2 MM*

June 30, 2007 Direct Net Par Outstanding



Total: *$132.9 Bn*

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

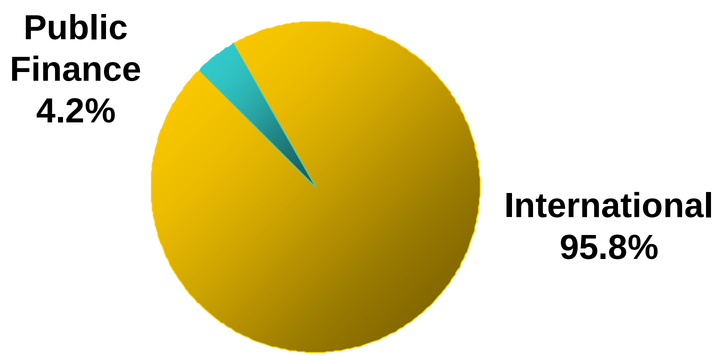
Highlights

- Diversified insured portfolio
- Balance flow with higher-return, off-the-run deals
- Responsive, service driven approach
- Market acceptance in all product lines
- Long term, profitable growth is our goal

SECURITY CAPITAL ASSURANCE

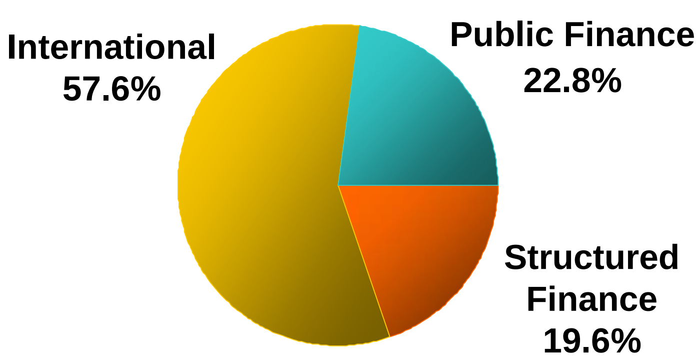
Unique Triple-A Reinsurance Franchise

June 30, 2007 YTD Adjusted Gross Premiums*



Total: $19.2 MM

June 30, 2007 Net Par Outstanding



Total: $9.7 Bn

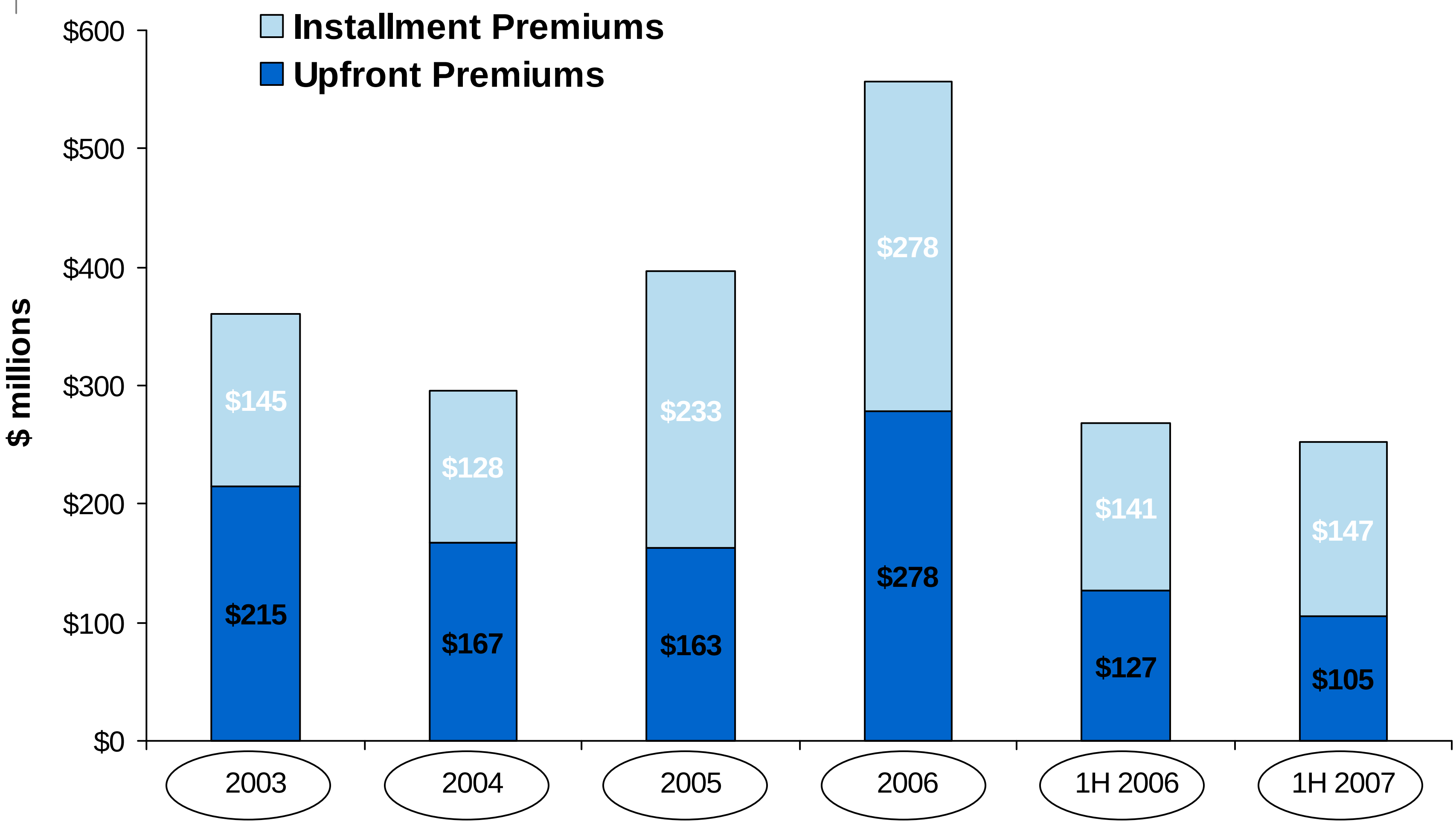
Highlights

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

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

SECURITY CAPITAL ASSURANCE

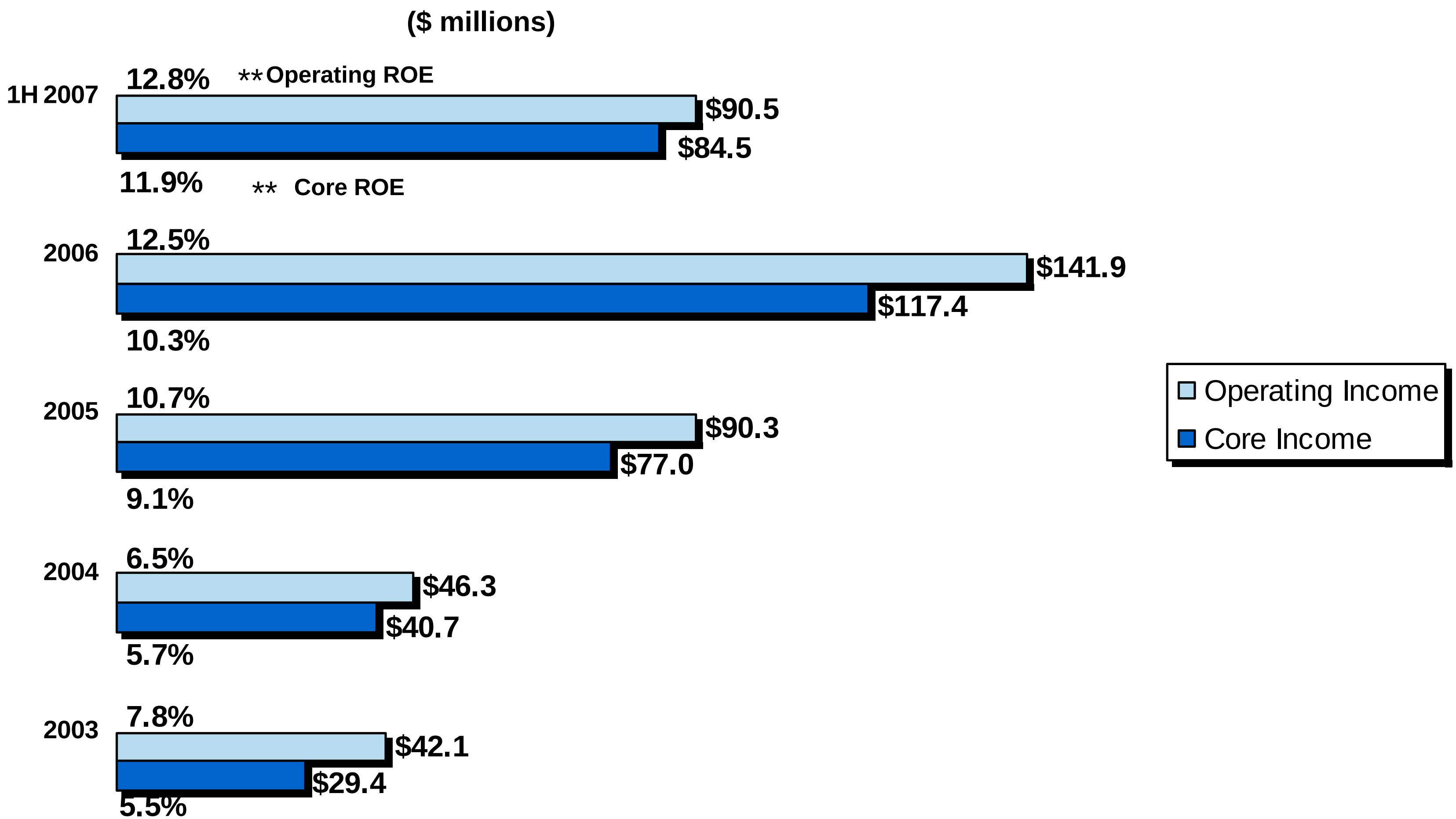
Adjusted Gross Premiums (AGP)*



Total AGP	$360	$295	$396	$556	$268	$252

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

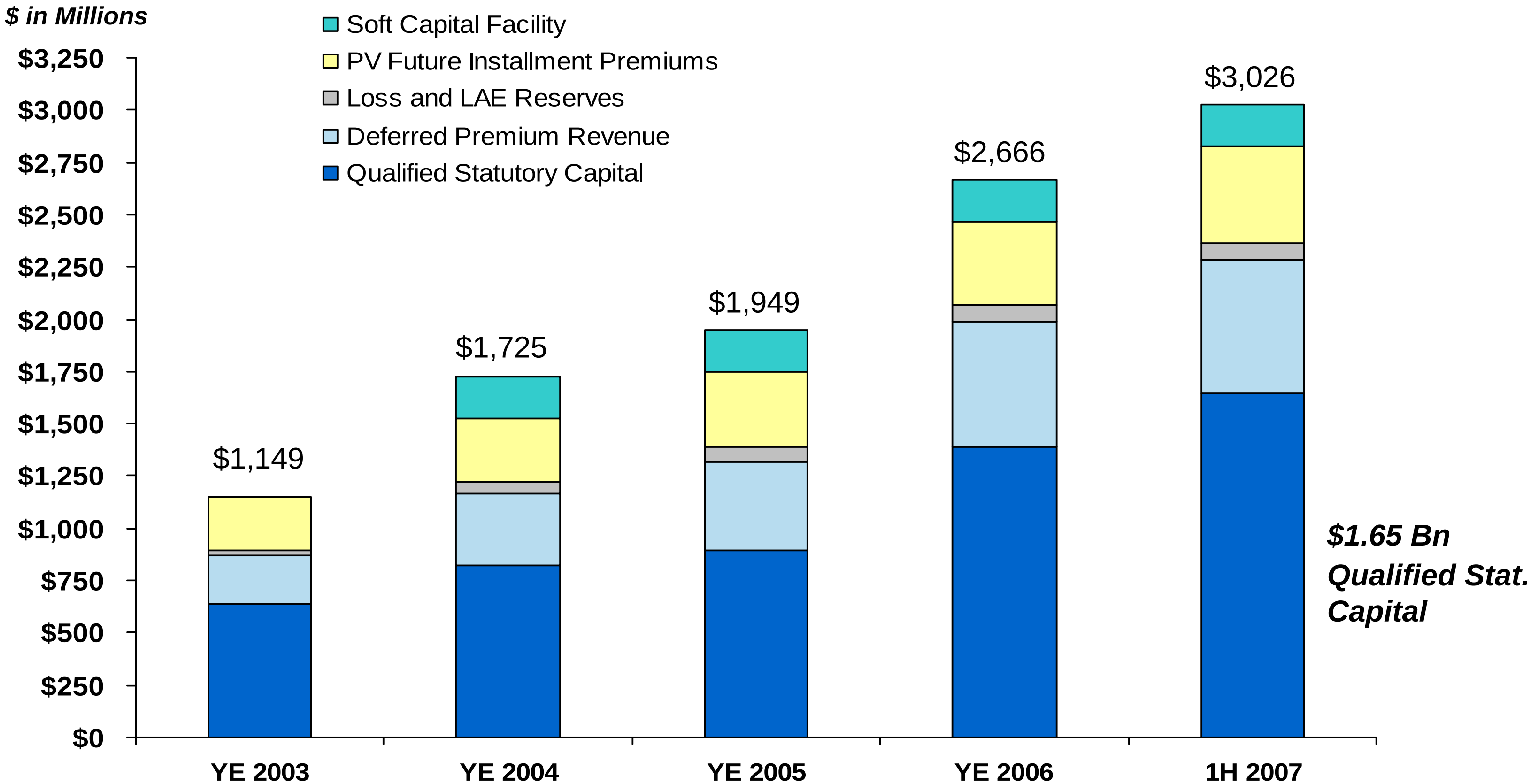
Operating and Core Income and ROE*



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

**Annualized

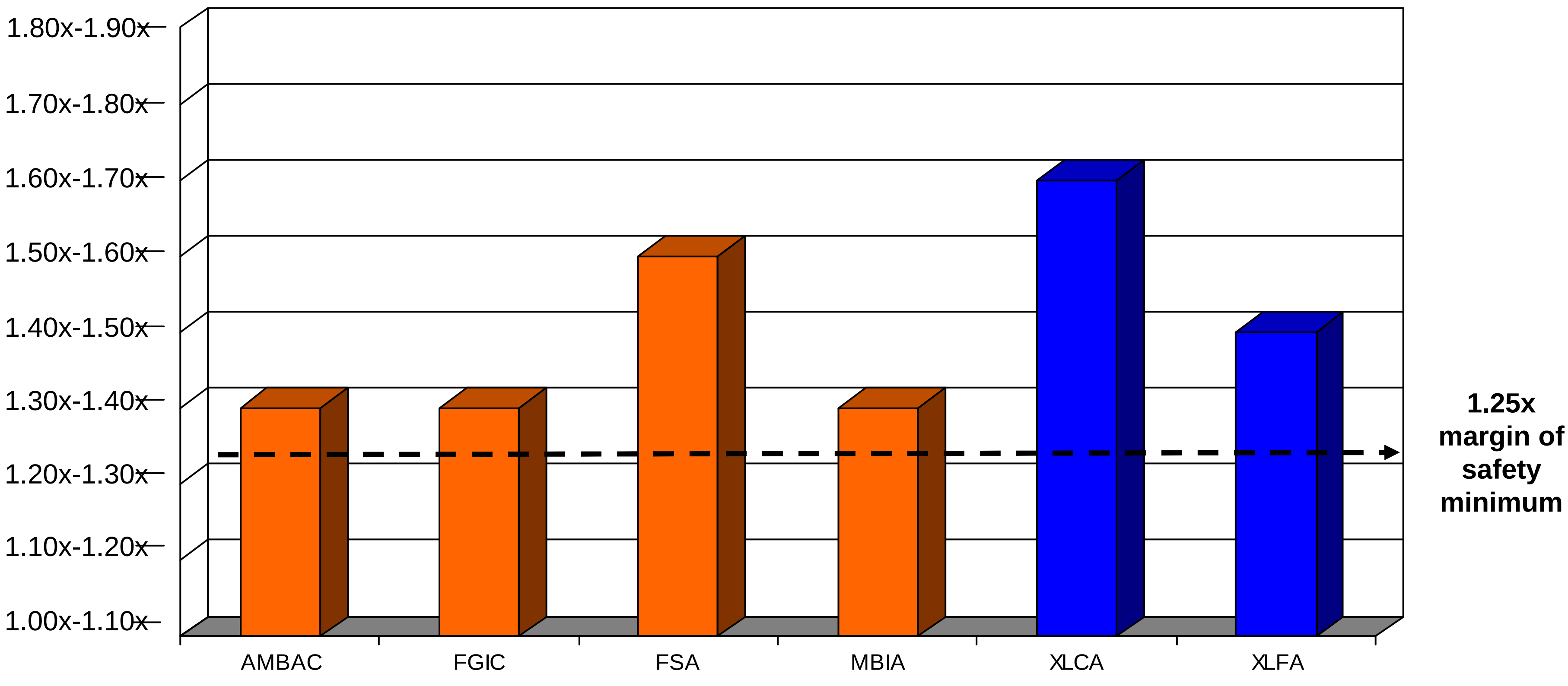
Growth of Claims-paying Resources*



*Historical information for SCA for periods prior to 2006 is based on combined historical information for XLCA and XLFA.

Standard and Poor's Capital Adequacy Model and the "Margin of Safety"

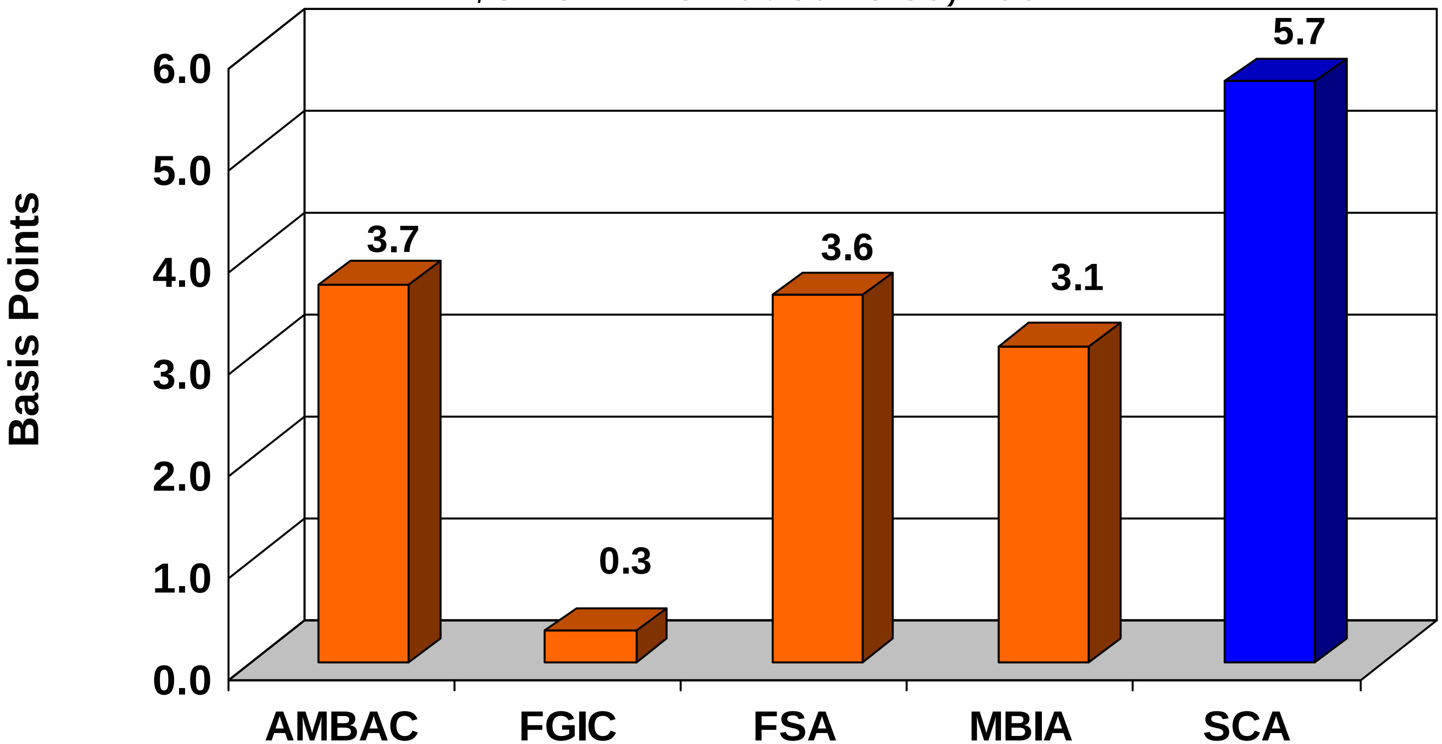
Minimum of 1.25X coverage of assumed worst-case losses needed for AAA



****Source: Standard & Poor's Global Bond Insurance Book, 2006. Figures shown represent the high end of the quoted margin of safety range for each guarantor.***

Unallocated Loss Reserves (in basis points) as a Percent of Net Par Outstanding*

SCA's unallocated loss reserves totaled $81.3 million at June 30, 2007



** Source: Companies' operating supplements*

Mark to Market Accounting

- Required by US GAAP to fair value or mark protection sold in credit derivative form
- Protection sold functions like a financial guaranty policy
- Mark is unrealized as we hold to maturity and represents changes in credit spreads / pricing, not credit deterioration
  - As an insurer, we post case reserves when individual credits deteriorate
- Negative marks should accrete to zero over time as deals approach maturity
  - Unrealized losses are not permanent impairments

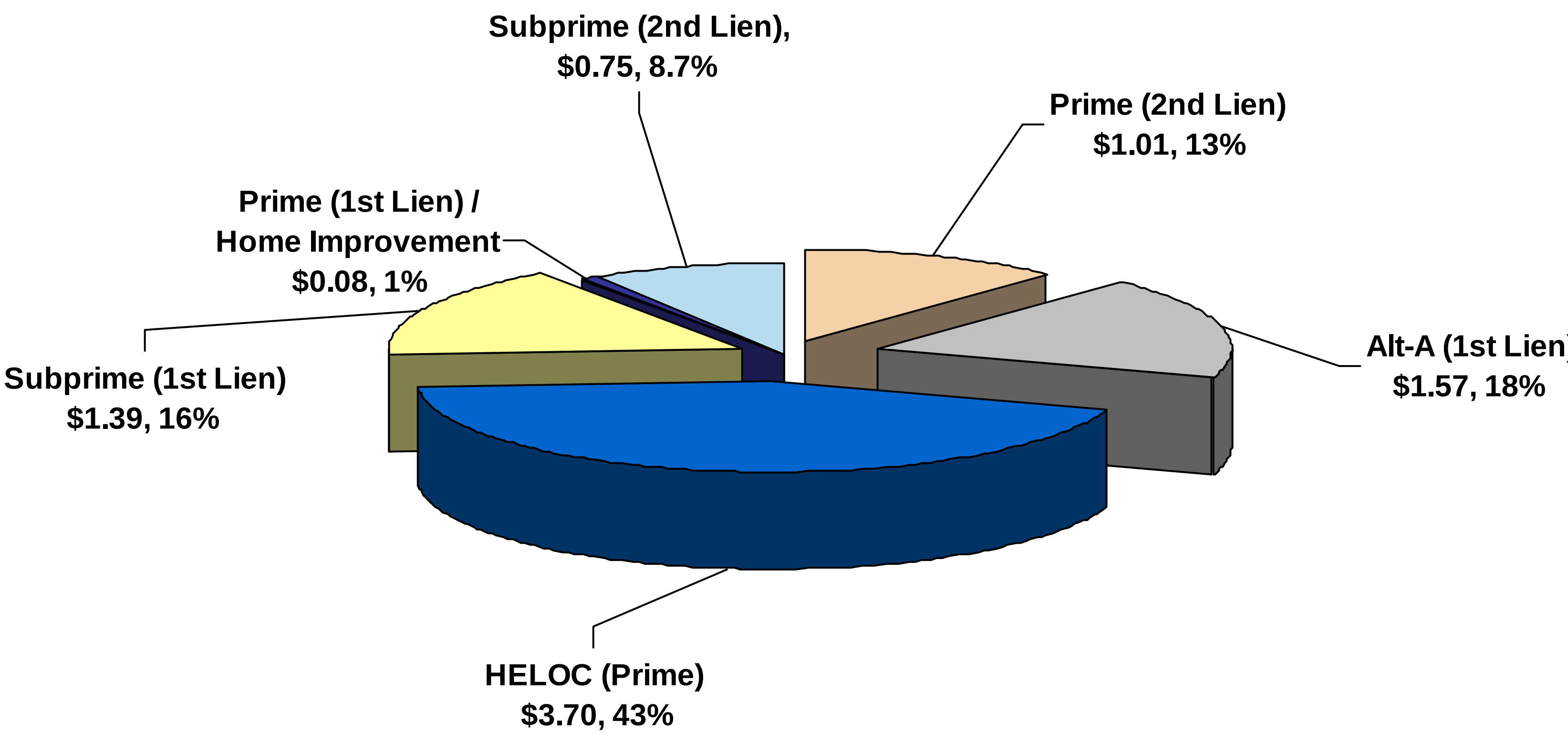
Residential Mortgage Backed Securities

RMBS Summary

- $8.6 billion net RMBS par insured is 6% of SCA's total portfolio
- SCA has taken a cautious underwriting approach to subprime RMBS, with the result that:
  - our average underlying ratings / attachment points are high; and,
  - no exposures have been affected by recent rating agency announcements.
- $2.1 billion or 1.75% of SCA’s total insured portfolio exposure is to subprime collateral with weighted average underlying attachment point of AA+
- Alt-A exposure is $1.6 billion, or 1.1% of SCA’s total insured portfolio – 100% is AAA rated
- Balance of the portfolio is comprised of prime collateral

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.*

SECURITY CAPITAL ASSURANCE

Underwriting Approach to Subprime RMBS

- FICO scores < 640
- Collateral analysis is performed at individual loan level
- Historically conservative assumptions are combined to construct expected and stress level loss forecasts
- Our analysis includes adjustments to expected losses to account for loss layering on 2006 and some 2007 collateral, and for loans that prepay while delinquent
- We then seek a multiple of protection over the expected loss 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

SCA's Underwriting Adjusts For Credit Conditions

- SCA increased required credit enhancement for subprime RMBS
- Following table shows the weighted averages for SCA's $2.1bn direct, subprime RMBS business

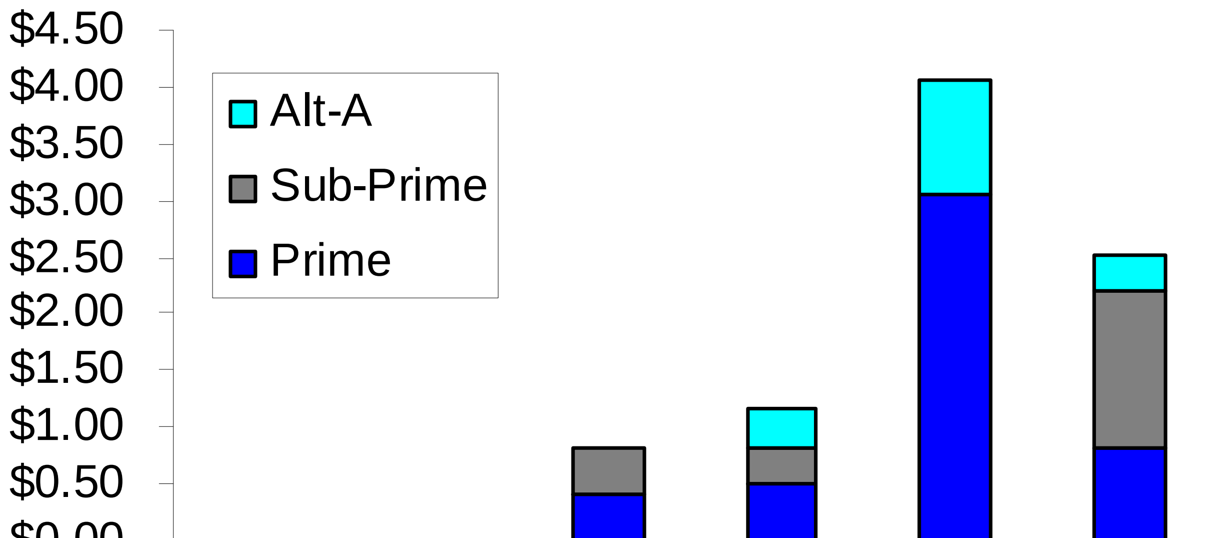
SCA Orgination Year	% of Total	SCA Base Case Losses	Total Loss Deal Can Take*	SCA Loss Coverage
Before 2006	34%	5.2%	18.3%	3.5x
2006	0	N/A	N/A	N/A
2007	66%	10.4%	26.2%	2.7x

* As modeled at deal inception.

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.*

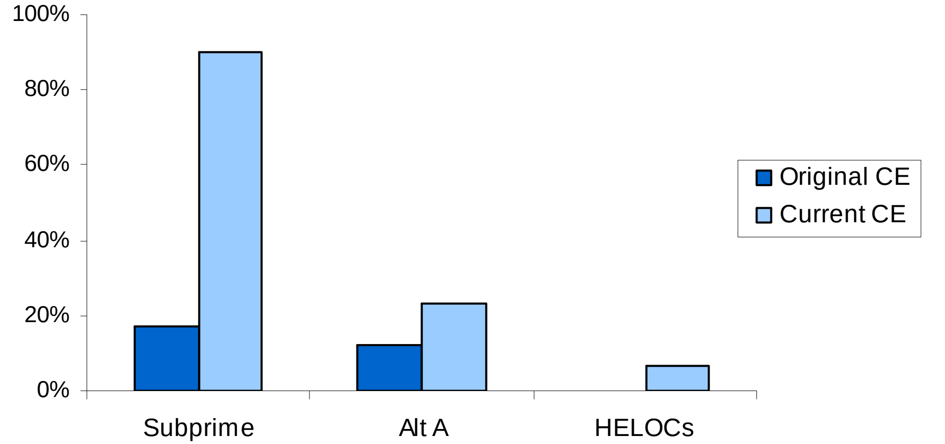
How a Subprime RMBS Transaction Works

- Assumptions
  - Wrapped Bonds = 82% of collateral
  - Hard enhancement (subordinated bonds plus overcollateralization) = 18% of collateral
  - Excess spread with estimated value of 5% over life of transaction (additional credit enhancement)
- Interest is paid monthly to wrapped bonds and subordinated bonds
- Initially, principal is paid only to wrapped bonds
- Collateral losses are covered first by excess spread, second by hard enhancement
- All principal pays down wrapped bonds for 36 months or until hard enhancement equals 36% of outstanding collateral (if later)
- After month 36, if cumulative loss trigger of 3.75%* and 60^{+} days delinquency trigger of 12% not breached, then principal will be paid pro rata to wrapped and subordinated bonds
- If trigger breached, structure reverts to sequential pay until trigger cured
- Under this assumed structure, Net Losses in excess of 23% would most likely result in a payment of a claim

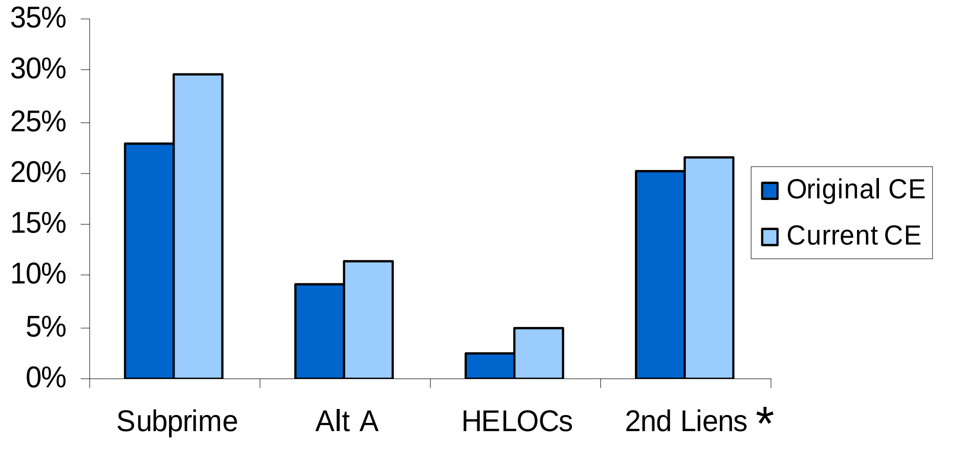
**cumulative net loss trigger increases on monthly basis*

RMBS Credit Enhancement Build-up

Build-up of Credit Enhancement on Pre-2006 Deals



Build-up of Credit Enhancement on Recent Deals ('06-'07)



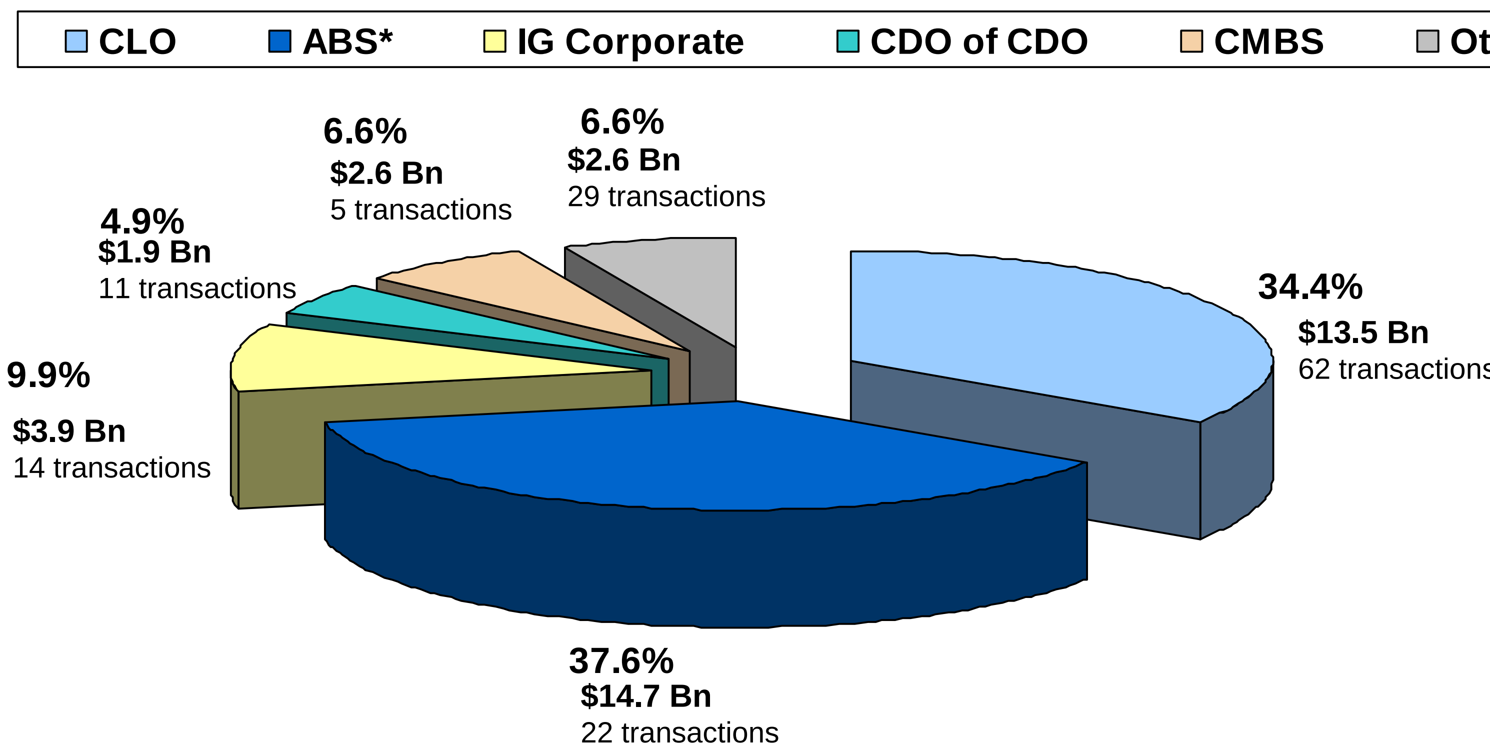
*** Includes all business classes**

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

Review 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

CDO of ABS Overview

- SCA's net par exposure to CDOs of ABS with >50% RMBS collateral was $14.7 billion
- Average attachment of 2.6 times the enhancement required by the rating agencies for AAA
- Limitations on subprime RMBS collateral where the majority of subprime collateral is rated AAA or AA
- None of the CDO tranches that we've credit enhanced have been downgraded or placed on negative watch in connection with the recent rating actions
- 97.8% of our CDOs of ABS fall into the "high grade" category with underlying collateral comprising AAA, AA or A rated securities
- 2006 vintage mezzanine ABS CDO collateral totals 6.6% versus weighted average subordination of 12.6%

Underwriting ABS CDOs

- Risk Mitigation
  - Always attach at super-senior AAA levels (average of 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
  - Participate only in <u>high-grade</u> ABS CDOs since 2005.
    - limits on subprime exposure
    - limits on CDO exposure, biased towards AAA and AA tranches
  - Collateral level review with involvement of SCA's credit officers

Key Risks in ABS CDOs

- 2006 vintage subprime RMBS - potential for elevated loss rates
- Embedded mezzanine ABS CDO tranches
- Interest rate, default timing and structural risks

Performance Of Subprime Mortgage Pools Will Display Significant Variations

Projected Subprime Mortgage Cumulative Pool Losses*

	Vintage			
Percentile	Pre-2005	2005	2006	2007
25th	3.5%	7.4%	10.0%	8.0%
50th	4.2%	9.0%	12.5%	10.0%
75th	5.2%	11.0%	15.0%	12.0%

- Based on currently available data and trends, SCA forecasts median 2006 vintage subprime pool losses at 12.5%
  - Consistent with 3rd party forecasts
- Divergence of forecast losses by quartile and vintage supports our view that good credit risk managers can outperform the market
- In a July 2007 ratings review of subprime RMBS, Moody's noted that 60% of its rating actions were on tranches backed by loans from just four originators (Fremont, Long Beach, New Century, and WMC)

**Source: SCA Management estimate*

CDO Managers

- Selecting the right ABS CDO manager is a critical aspect of SCA’s underwriting
- Dispersion of subprime RMBS deal performance provides one context in which managers can out-perform the market
- Tactics for outperforming the subprime RMBS market include emphasizing:
  - Higher quality originators and servicers
  - Loan seasoning
  - Better performing loan types (e.g. full doc, low LTV loans)
  - Stronger deal structures

SCA ABS CDO Statistics

Composition of Subprime RMBS and Mezz ABS CDO Buckets

- In ABS CDOs guaranteed by SCA, the presence of mezz ABS CDO collateral is both limited and of high quality
  - Mezz ABS CDO collateral rated less than double-A comprises only 2.9% of all CDO of ABS collateral
  - Subprime RMBS rated less than double-A comprises only 5.2%
- The weighted-average subordination in SCA's CDOs of ABS is 12.6%

	Collateral as % of "outer" ABS CDO					
Subprime RMBS Bucket	Total	AAA	AA	A	BBB	BIG
pre-2005	1.9%	1.0%	0.2%	0.3%	0.4%	0.1%
2005	3.6%	0.7%	1.9%	0.9%	0.1%	0.0%
2006	8.1%	0.7%	4.7%	2.6%	0.1%	0.0%
2007	4.6%	0.6%	3.3%	0.7%	0.0%	0.0%
Mezz ABS CDO Bucket	Total	AAA	AA	A	BBB	BIG
pre-2005	0.5%	0.3%	0.2%	0.0%	0.0%	0.0%
2005	2.4%	0.7%	0.9%	0.7%	0.0%	0.0%
2006	6.6%	1.4%	3.5%	1.5%	0.2%	0.0%
2007	3.1%	1.4%	1.3%	0.3%	0.0%	0.0%

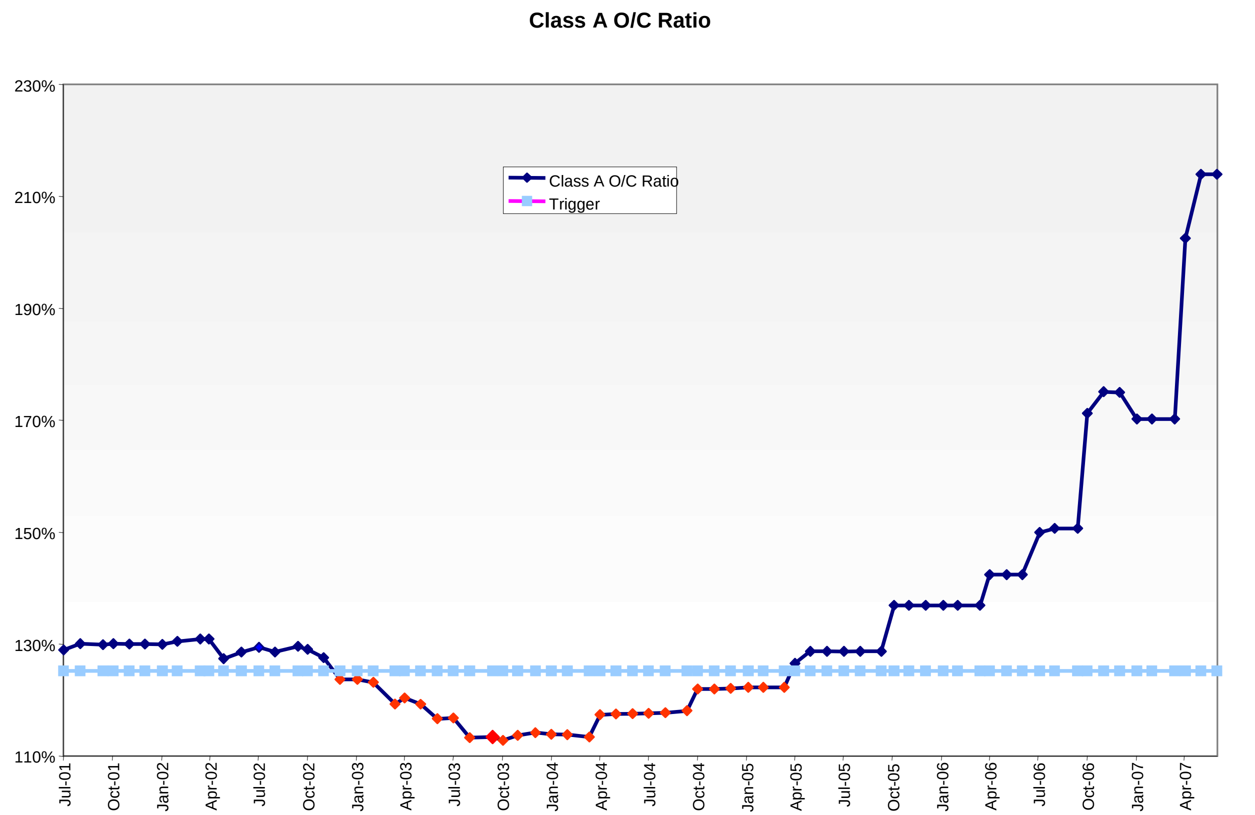
Discussion of CDO Triggers

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 all principal payments and excess interest from the collateral 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
- In the 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 and re-allocated principal payments
- 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



SECURITY CAPITAL ASSURANCE

Underwriting case study - August 2006

$2.2 billion high grade ABS cash-flow CDO

- SCA wrapped $1.06 billion or 51.2% of the $2.07 billion Class A-1 notes
  - SCA subordination 5.9% versus 2.7% Triple-A subordination

- Portfolio of high-grade ABS securities
  - Minimum of 40% required to be AAA/Aaa rated
  - NO single A securities
  - 30% maximum sub-prime securities
  - CDO bucket 15%

- Diverse portfolio
  - Minimum of 120 securities
  - Max size per security 2.0% (AAA) and 1.5% (AA)
  - Max per CDO issuer 1.0%

Underwriting case study - manager review

Experienced managers with strong investment processes

- Credentials / Resume
  - How have the CDOs they have managed performed?
- Senior team / Depth and Experience
  - Do they have an appropriate level of experience in managing ABS asset classes? Have they managed through a previous credit cycle?
- Process / Philosophy
  - Do we think of risk in a common manner?

Underwriting case study - structural features

Key triggers

- OC ratios

	Trigger	Actual	Cushion
– Class A Overcollateralization Ratio	102.50%	102.73%	0.23%
– Class B Overcollateralization Ratio	101.56%	101.78%	0.22%
– Class C Overcollateralization Ratio	100.81%	101.03%	0.22%
– Class D Overcollateralization Ratio	100.31%	100.43%	0.12%

- Asset haircuts

Moody's Rating	Discount
Baa1	1%
Baa2	2%
Baa3	5%
Ba1 / Ba2	10%
Ba3	20%
B1 / B2 / B3	30%
Less than B3	50%

Underwriting case study - stress analysis

Top down cashflow analysis

- Migrate portfolio to worst case assumptions
  - Ratings composition, recovery rates, WARF, WAL
- Stress scenarios
  - 27 scenarios
  - Vary defaults and interest rates
  - Front loaded and back loaded scenarios

Underwriting case study - additional analysis

Ratings migration analysis

- Ratings migration as proxy for default
  - Assumes anything below B2 equals default
- Downgrade analysis
  - If all securities downgraded to BBB+, then portfolio would need to withstand 11.5% cumulative default to maintain AAA rating
  - Our portfolio could withstand downgrade from AA+ to BBB+ (6 notches) and still have AAA ratings on the senior tranche

Questions and Answers

Appendices

SCA-guaranteed ABS CDOs with collateral pools consisting of >50% RMBS as of June 30, 2007

Vintage	Deal Type	Net Par Insured ($millions)	Collateral Composition as a % of Deal: Total RMBS	Subprime RMBS	CMBS	Other ABS	CDO	CDO Tranche Ratings (Moody's/S&P)	Aaa/AAA Subordination	SCA Subordination	SCA Multiple of AAA
*High Grade ABS CDOs (RMBS >50%)***											
2004	CDO of High Grade ABS	890.0	56.1	8.8	5.2	23.2	15.5	Aaa/AAA	2.7%	11.1%	4.1
2005	CDO of High Grade ABS	300.0	100.0	70.9	-	-	-	NR/AAA	4.1%	9.3%	2.3
2006	CDO of High Grade ABS	1,260.6	70.1	16.2	-	-	29.9	Aaa/AAA	6.1%	11.8%	1.9
2006	CDO of High Grade ABS***	892.4	69.5	11.8	11.7	8.4	10.4	Aaa/AAA	7.0%	11.5%	1.6
2006	CDO of High Grade ABS	1,107.9	65.6	10.2	9.3	-	25.0	Aaa/AAA	6.1%	11.4%	1.9
2006	CDO of High Grade ABS	1,058.6	73.2	8.8	10.0	-	16.9	Aaa/AAA	2.7%	5.9%	2.2
2006	CDO of High Grade ABS	572.7	54.3	22.6	17.1	-	28.6	Aaa/AAA	6.7%	15.0%	2.2
2006	CDO of High Grade ABS	648.6	72.6	18.6	-	-	27.4	Aaa/AAA	6.6%	20.0%	3.1
2006	CDO of High Grade ABS	949.8	74.9	10.1	-	-	25.1	Aaa/AAA	5.0%	13.9%	2.8
2006	CDO of High Grade ABS	360.9	70.4	18.3	-	-	29.6	Aaa/AAA	4.3%	15.0%	3.5
2007	CDO of High Grade ABS***	893.0	80.4	14.4	1.1	1.5	17.0	Aaa/AAA	2.5%	6.0%	2.4
2007	CDO of High Grade ABS	421.1	65.9	13.6	1.2	4.1	28.8	Aaa/AAA	4.6%	15.0%	3.3
2007	CDO of High Grade ABS	827.6	52.9	-	28.6	8.8	9.8	Aaa/AAA	7.0%	14.0%	2.0
2007	CDO of High Grade ABS	433.1	68.6	17.7	-	-	31.4	Aaa/AAA	2.8%	10.0%	3.5
2007	CDO of High Grade ABS	601.6	69.6	27.3	-	-	30.4	Aaa/AAA	3.8%	15.0%	3.9
2007	CDO of High Grade ABS	505.3	67.9	26.5	2.1	-	30.0	Aaa/AAA	4.3%	15.0%	3.5
2007	CDO of High Grade ABS	1,455.0	45.0	33.2	17.0	11.4	26.6	Aaa/AAA	4.5%	9.8%	2.2
2007	CDO of High Grade ABS	798.9	84.5	24.6	-	1.9	13.6	Aaa/AAA	7.5%	17.0%	2.3
2007	CDO of High Grade ABS	370.6	76.1	27.6	-	-	23.9	Aaa/AAA	4.1%	15.0%	3.7
	Total	14,347.7						Averages	5.0%	12.2%	2.6
*Mezzanine ABS CDOs (RMBS >50%)***											
2002	CDO of Mezz ABS	110.4	58.7	29.3	-	35.4	5.9	Aaa/AAA	16.9%	29.8%	1.8
2003	CDO of Mezz ABS*	92.8	90.5	31.0	-	9.5	-	Aaa/AAA	20.1%	26.8%	1.3
2004	CDO of Mezz ABS	127.3	73.4	43.6	5.8	3.4	17.3	Aaa/AAA	15.0%	32.9%	2.2
	Total	330.6						Averages	17.1%	30.3%	1.8
	Grand Total Net Par Exposure	14,678.3									

** Transaction is preinsured - SCA wraps over a third party AAA monoline wrap*
***CDO's of ABS with >50% RMBS Collateral*
**** Updated as of 8-14-2007*

SECURITY CAPITAL ASSURANCE

SCA-guaranteed CDO of CDO exposure as of June 30, 2007

CDO Tranches by CDO Type as a % of Deal

Vintage	Deal Name	Net Par Insured ($millions)	SCA Subordination	Ratings (Moody's/ S&P)	% CDO Collateral	% Direct ABS Collateral	High Grade ABS CDO	Mezz ABS CDO	CLO	CBO	CDO of CDO	EM CDO	Trups	CRE CDOs
2006	CDO of CDOs	150.0	48.9%	Aaa/AAA	100.0%	0.0%	7.5%	16.6%	75.8%	0.0%	0.0%	0.0%	0.0%	0.0%
2005	CDO of CDOs	155.0	38.0%	Aaa/AAA	95.9%	4.1%	9.7%	2.3%	68.4%	2.0%	5.0%	6.4%	0.0%	2.2%
2005	CDO of CDOs	724.5	34.0%	Aaa/AAA	82.7%	17.3%	3.7%	23.5%	30.9%	11.1%	2.5%	1.2%	7.4%	2.5%
2005	CDO of CDOs	174.5	37.6%	Aaa/AAA	100.0%	0.0%	23.3%	13.0%	41.4%	1.8%	4.8%	8.8%	6.7%	0.0%
2004	CDO of CDOs	109.6	28.0%	Aaa/AAA	100.0%	0.0%	0.0%	4.1%	91.0%	0.0%	0.0%	4.8%	0.0%	0.0%
2003	CDO of CDOs	6.3	69.1%	Aaa/AAA	57.5%	42.5%	0.0%	0.0%	0.0%	57.5%	0.0%	0.0%	0.0%	0.0%
2003	CDO of CDOs	248.0	23.6%	Aaa/AAA	100.0%	0.0%	0.4%	0.9%	65.9%	32.8%	0.0%	0.0%	0.0%	0.0%
2002	CDO of CDOs	270.0	8.5%	Aaa/AAA	100.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%
2002	CDO of CDOs	36.0	34.3%	Aaa/AAA	100.0%	0.0%	0.0%	12.6%	55.6%	23.7%	0.0%	8.2%	0.0%	0.0%
2001	CDO of CDOs	13.3	51.6%	Aaa/AAA	77.7%	22.3%	0.0%	0.0%	29.3%	48.4%	0.0%	0.0%	0.0%	0.0%
2000	CDO of CDOs	16.3	53.3%	Aaa/AA	100.0%	0.0%	0.0%	0.0%	31.8%	68.2%	0.0%	0.0%	0.0%	0.0%
	Total Net Par Exposure	1,903.4	30.9%		92.8%	7.2%	5.0%	12.2%	56.6%	10.4%	1.8%	2.2%	3.4%	1.1%

Reconciliation of non-GAAP items

Net Income to Operating Income and Core Income	Three Months		Six Months	
(U.S. dollars in millions)	6/30/2007	6/30/2006	6/30/2007	6/30/2006
Net income	$ 25.9	$ 36.4	$ 63.2	$ 53.1
Net realized gains (losses) on investments	(1.7)	(10.7)	(1.5)	(16.4)
Net realized and unrealized gains (losses) on derivative financial instruments	(22.2)	0.3	(29.1)	(3.5)
Adjustment for perpetual non-cumulative preference shares	4.3	-	4.3	-
Expenses incurred in secondary offering	(1.0)	-	(1.0)	-
Operating Income	46.4	46.8	90.5	73.1
Effect of refundings	5.0	21.5	6.0	23.2
Core Income	$ 41.4	$ 25.3	$ 84.5	$ 49.9

Total Shareholders' Equity to Total Common Shareholders' Equity to Adjusted Common Book Value (ABV)	As of	
(U.S. dollars in millions)	6/30/2007	12/31/2006
Total shareholders' equity	$ 1,654.5	$ 1,366.5
Less: preferred shareholders' equity	(246.6)	-
Total common shareholders' equity	1,407.9	1,366.5
Deferred premium revenue net of prepaid reinsurance premiums and DAC	643.0	610.0
NPVFIP	440.3	378.8
Total ABV	$ 2,491.2	$ 2,355.3

Reconciliation of non-GAAP items

Total Premiums Written to AGP and ANP	Three Months		Six Months	
(U.S. dollars in millions)	6/30/2007	6/30/2006	6/30/2007	6/30/2006
Total premiums written	$ 70.7	$ 107.6	$ 175.6	$ 189.8
Total upfront premium written	31.9	74.6	104.7	127.0
Total installment premium written	38.8	33.0	70.9	62.8
PVFIP	42.7	49.6	76.8	77.9
AGP	113.4	157.2	252.4	267.6
Ceded premiums net of commission received	6.9	2.1	17.7	9.6
ANP	$ 106.5	$ 155.1	$ 234.7	$ 258.1

Net Premiums Earned to Core Net Premiums Earned	Three Months		Six Months	
(U.S. dollars in millions)	6/30/2007	6/30/2006	6/30/2007	6/30/2006
Net premiums earned	$ 54.2	$ 55.5	$ 100.6	$ 93.4
Earned premium recognized from refundings, calls and other accelerations	5.7	23.2	7.0	25.2
Core net premiums earned	$ 48.5	$ 32.3	$ 93.6	$ 68.2

Non-GAAP financial measures

Adjusted Gross Premiums (AGP)

AGP 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 AGP 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 AGP to industry figures on a quarterly basis and uses this measure to assess employee productivity, as well as our market share and competitive position. Also, AGP is considered among other factors when determining compensation to employees. In addition to presenting total premiums written, we believe that disclosure of AGP 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 total 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

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 excludes the impact of refundings, calls and other accelerations that management cannot control or predict.

Operating Income and Core Income

While operating income and core income are not substitutes for net income computed in accordance with GAAP, they are useful measures of performance used by management, equity analysts and investors. We believe operating income and core income enhances the understanding of our results of operations by highlighting the underlying profitability of our business. Operating income measures net income available to common shareholders, as determined in accordance with GAAP, excluding net realized gains (losses) on investments and net realized and unrealized gains (losses) on derivative financial instruments, and expenses related to XL Capital's secondary offering of SCA shares. In addition, in determining operating income, we have made an adjustment to the amount of dividends on our perpetual non-cumulative preference shares reported in accordance with GAAP during the period to reflect the amount of such dividends that would be attributable to the period as if such dividends were accrued ratably over the period. Core income represents operating income excluding the impact of refundings, calls and other accelerations. The definitions of operating income and core income used by the Company may differ from definitions of operating income and core income used by other public holding companies of financial guarantors.

Net realized gains and (losses) on investments and net realized and unrealized gains and losses on derivative financial instruments (which principally consist of credit derivatives we issue and interest rate swap contracts we guarantee) are excluded from operating earnings because they are heavily influenced by, and fluctuate, 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 investment income (or loss) and realized gains (or losses) on investments is an integral part of our operations, the determination to realize gains (or losses) on investments 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 net gains (or losses) on investments 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 gains (or losses) on investments is largely opportunistic. In addition, with respect to credit derivatives and guaranteed interest rate swap contracts discussed above, because we generally hold such contracts to maturity and, accordingly, will not realize the periodic effect of the changes in fair value of these instruments, we exclude such changes from operating income (similar to other companies in the financial guarantee industry) as the changes in fair value each quarter are not indicative of underlying business performance of our operations. In regard to the adjustment discussed above relating to dividends on our perpetual non-cumulative preference shares, while such dividends are non-cumulative and are at the discretion of the board of directors, we anticipate that such dividends will be declared and we believe that this adjustment better correlates the cost of this capital to the benefits derived therefrom during the period. Also, in determining operating income for the three and six month periods ended June 30, 2007, we excluded from operating income expenses incurred by the Company in connection with the secondary offering of our common shares by XL Capital as such expenses are not related to the conduct of the Company’s business.

Adjusted Book Value

Adjusted Book Value (“ABV”) represents GAAP book value attributable to common shareholders plus the after-tax effects of deferred premium revenue, net of prepaid reinsurance premiums and deferred acquisition costs, plus the after-tax effect of the net present value of future installment premiums. Since the Company expects these items to affect future results and, in general, they do not require any additional future performance obligation on the Company's part, ABV provides an indication of the Company's value in the absence of any new business activity. While ABV is not a substitute for GAAP book value, the Company believes the presentation of ABV provides another useful measure of the value of the Company for management, equity analysts and investors. The net present value of future installment premiums included in ABV may differ materially from actual future installment premiums collected due to changes in market interest rates, refinancing activity, pre-payment speeds, defaults, and other factors that management cannot control or predict.