Merrill Lynch Investor Conference 2006

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September 13, 2006

SECURITY CAPITAL ASSURANCE

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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 or FSA;
- changes in regulation or tax laws applicable to us or our customers or suppliers such as our reinsurers;
- changes in the rating agencies’ views on third-party inward reinsurance;
- changes in the availability, cost or quality of reinsurance or retrocessions, including a material adverse change in the ratings of our reinsurers or retrocessionaires;
- changes with respect to XL Capital (including changes in its ownership percentage in us) or our relationship with XL Capital;
- changes that may occur in our operations as we begin operations as a public company;
- changes in accounting policies or practices or the application thereof;
- changes in the officers of our company or our subsidiaries;
- legislative or regulatory developments;
- changes in general economic conditions, including inflation, interest rates, foreign currency exchange rates and other factors; and
- the effects of business disruption or economic contraction due to war, terrorism or natural or other catastrophic events.

Overview

- **XLCA has enhanced it's platform and financial guarantee franchise in the past few years**
  - **Partial IPO completed in August 2006 results in a strong and robust capital structure under a new holding company, Security Capital Assurance ("SCA")**
  - **Claims paying resources of $2.5 billion* pro-forma at June 30, 2006**

- **XLCA has built a widely-accepted financial guarantee business**
  - **Market share of 12% (1st Half 2006)**
  - **Solid and expanding fixed income investor base**

- **In doing so, XLCA has maintained strong credit and pricing discipline**
  - **High quality, well diversified insured portfolio**
  - **ROE consistent with industry peers**

Sources: XLCA & XLFA Q2 2006 operating supplements and S-1.

**** Claims-paying resources calculated as follows: sum total of qualified statutory capital, unearned premium reserve, loss reserves, XLFA non-case reserve, PV of future installment premiums, and $200mm soft capital facility.***

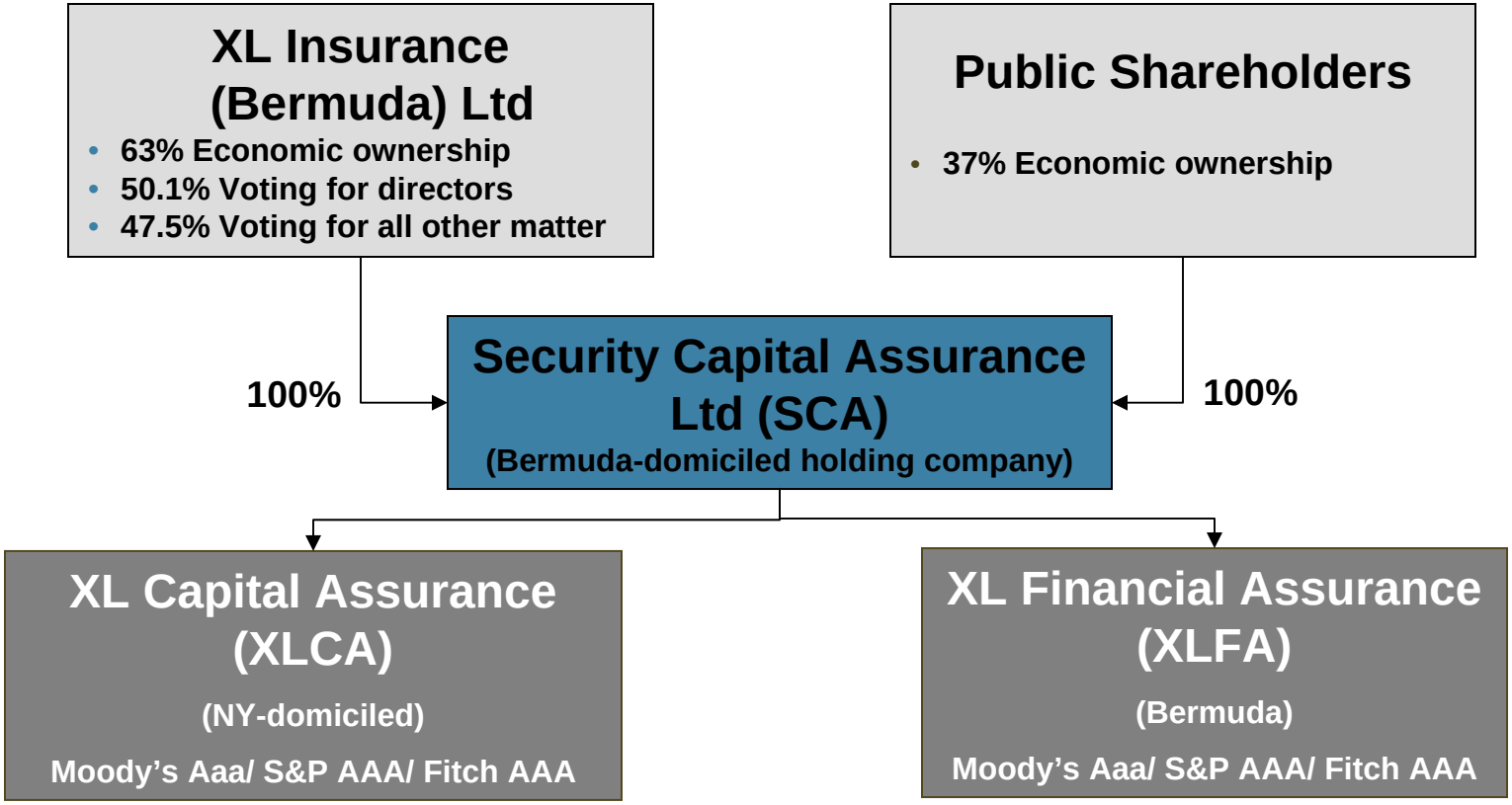
IPO: Security Capital Assurance Ltd

- **In August 2006, XL Capital Ltd ("XL") – through an initial public offering for 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 ($342mm) to support growth of SCA**
- **Following a two week US / European "roadshow" 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 2nd, SCA began trading on the NYSE under the ticker symbol "SCA"**
- **On October 11th, SCA closed at $23.90, up 17.0% over the IPO price**

Benefits of IPO

- **Direct access to capital markets will help finance future growth of SCA**
- **The offering, coupled with governance changes, mitigates the ratings linkage issue**
- **Key governance provisions:**
  - **Majority of SCA board members are independent of XL Capital**
  - **Notwithstanding its 63% economic stake, XL Capital's voting rights have been cut back to:**
    - **50.1% for election of directors**
    - **47.5% for all other board matters**
  - **Compensation plans built around financial guarantee objectives**
- **Other changes**
  - **XL Insurance (Bermuda) Ltd guarantee of XLCA/XLFA's reinsurance agreement has been eliminated as of completion of the IPO for prospective business**

SCA's Triple-A Financial Guarantee Platform



- As of 6/30/06 $447 million in Claims-Paying Resources

Claims paying resources of $2.5 billion pro-forma at June 30, 2006

- Reinsures up to 75% for XLCA
- Preferred shares owned by Financial Security Assurance
- As of 6/30/06 $1.7 billion in Claims-Paying Resources

Key Strategic Goals

- **Maintain triple-A ratings**
  - **Disciplined risk selection**
  - **Prudent operating and financial leverage**
  - **Conservative investment guidelines**
- **Increase return on equity by focusing on high quality, profitable business**
  - **Not market share driven**
  - **Maintain credit and pricing discipline**
- **Provide full array of bond insurance, with emphasis on highly structured credits**
  - **Continue to build diversified book of business**
  - **Global footprint**
- **Value proposition**
  - **Investor and issuer preference for diversification**
  - **Focus on client service and innovation**

Pricing Discipline

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

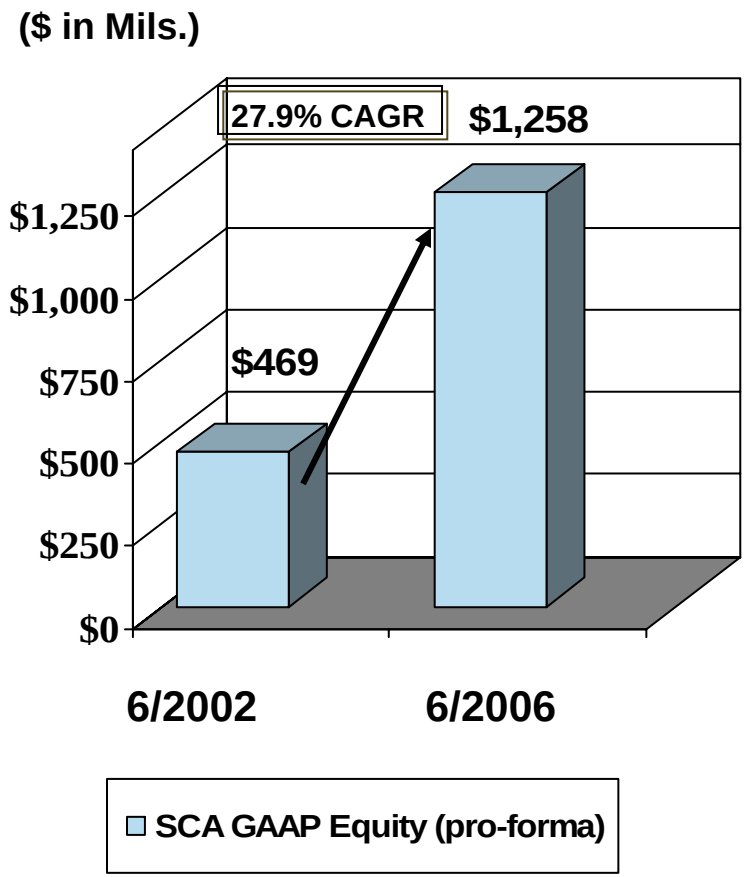
	INDUSTRY				SCA		SCA	SCA		Industry	
S&P's Avg. Premium Rates	2002	2003	2004	2005	2005		Q206	Q205		Q206	Q205
US Public Finance	0.50%	0.64%	0.55%	0.51%	0.55%		0.67%	0.48%		0.53%	0.48%
ABS	0.21%	0.29%	0.20%	0.19%	0.15%		0.12%	0.19%		0.18%	0.25%
International Structured	0.19%	0.26%	0.20%	0.21%	0.49%						
International Public Finance	2.07%	2.30%	2.36%	1.29%	1.87%						

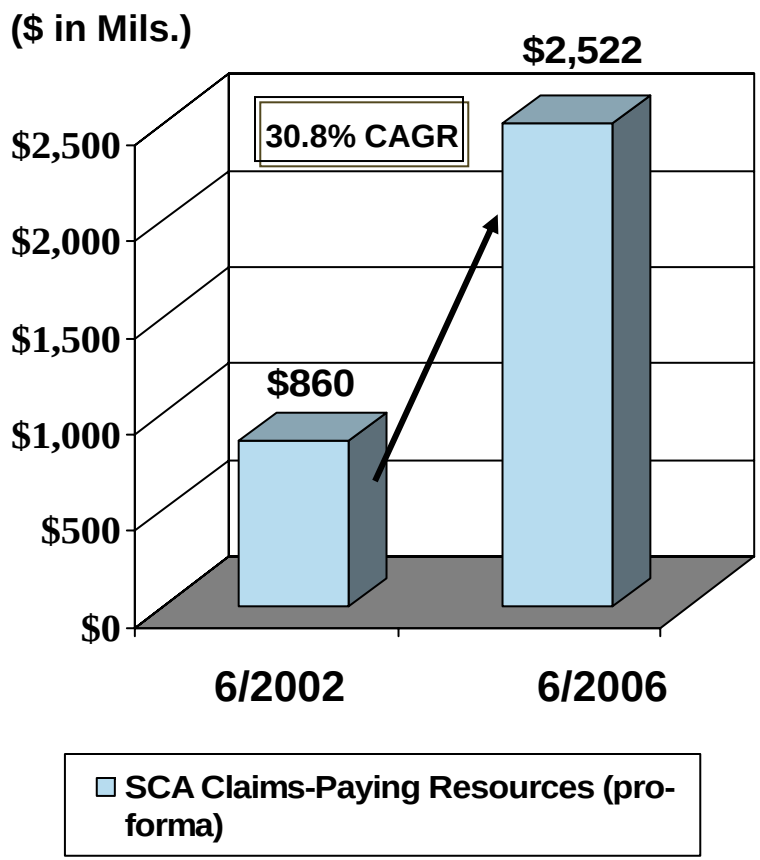
	INDUSTRY				SCA		SCA	SCA		Industry	
S&P's Profitability Index	2002	2003	2004	2005	2005		Q206	Q205		Q206	Q205
US Public Finance	5.87%	7.59%	6.56%	5.57%	5.77%		5.42%	4.50%		5.25%	5.62%
ABS	10.79%	12.82%	10.27%	8.29%	7.93%		9.25%	9.92%		10.05%	9.65%
International Structured	17.44%	16.76%	13.47%	12.25%	6.94%						
International Public Finance	10.43%	13.67%	13.76%	10.44%	13.64%						

***SCA's profitability index for international structured finance is skewed by underweighting in European CDO's.**

Source: S&P

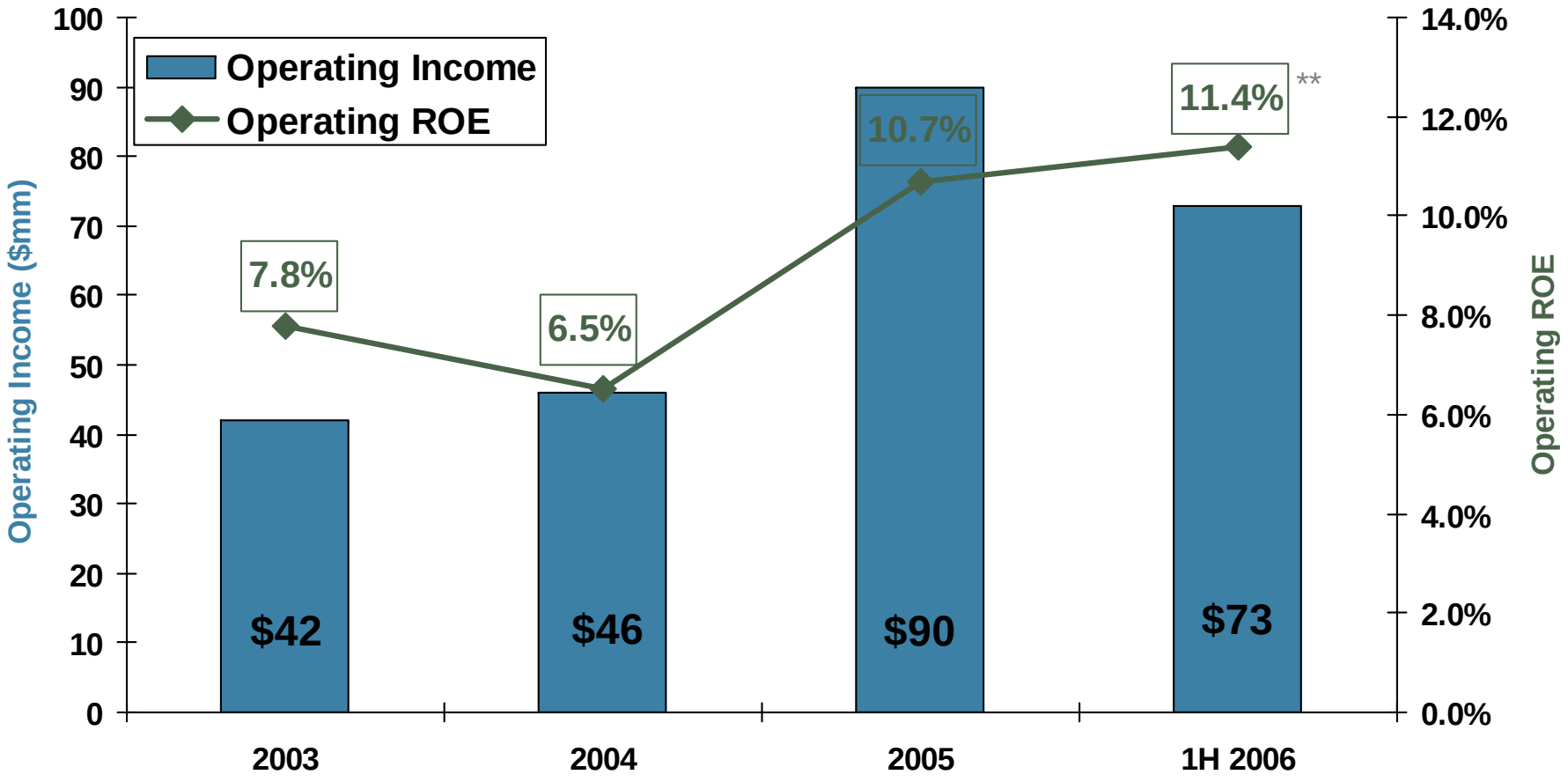
SCA Capital Resources Have Grown Significantly





Source: SCA

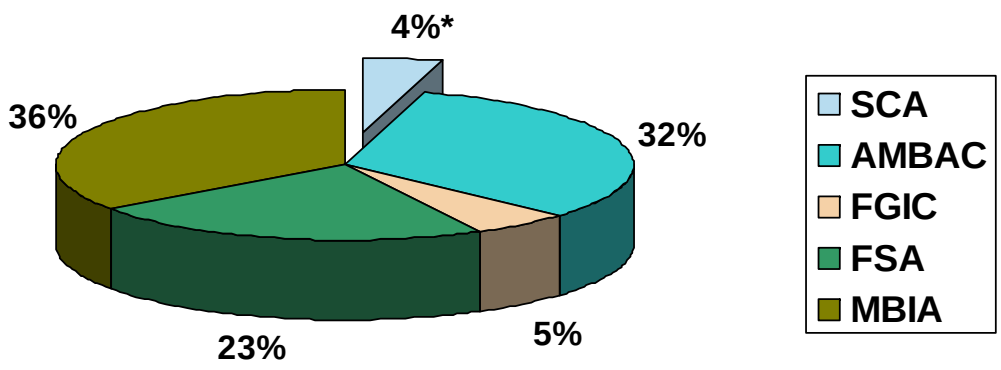
Operating Income and ROE*



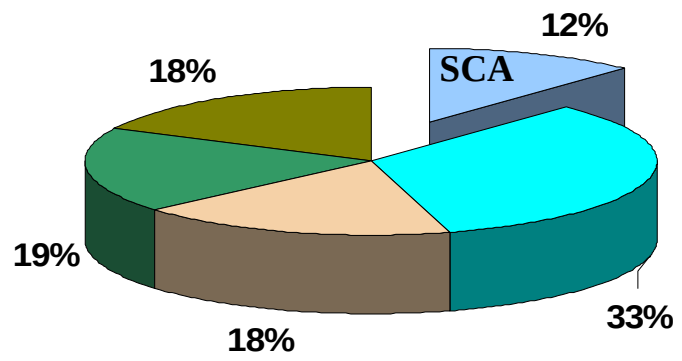
*Non GAAP measure: see reconciliation at the end of the presentation

**Projected normalized run rate

SCA Market Share



Global Market Share of Adjusted Gross Premium at Year-End 2001

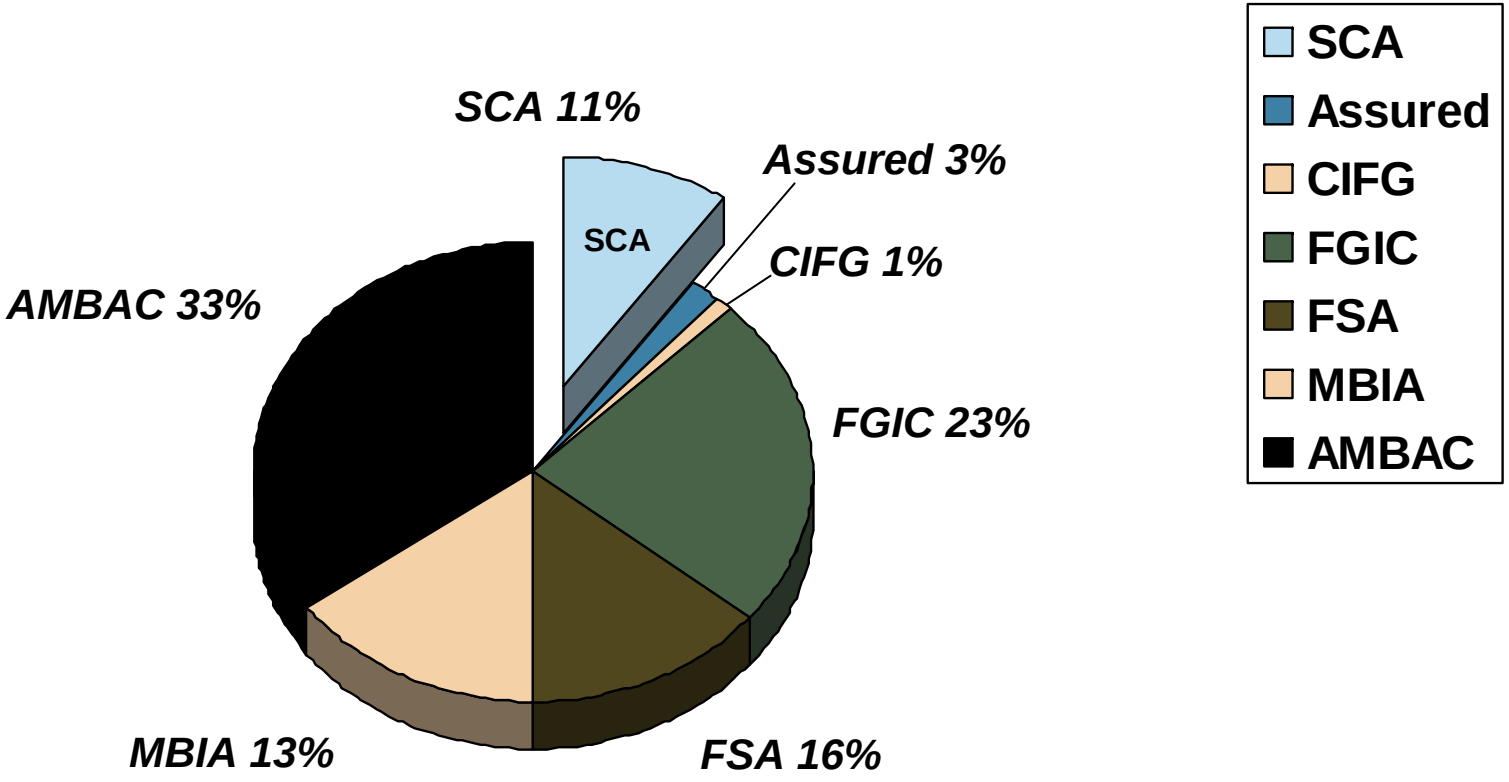


Global Market Share of Adjusted Gross Premium at 1H-2006:

Source: Industry operating supplements

**** Based on XLCA's AGP in 2001***

U.S. ABS & MBS Market Share - 1st Half 2006



Total 1H-2006 Wrapped Issuance = $37.8 Billion

Source: Asset-Backed Alert, 7/14/2006

U.S. Public Finance Market Share

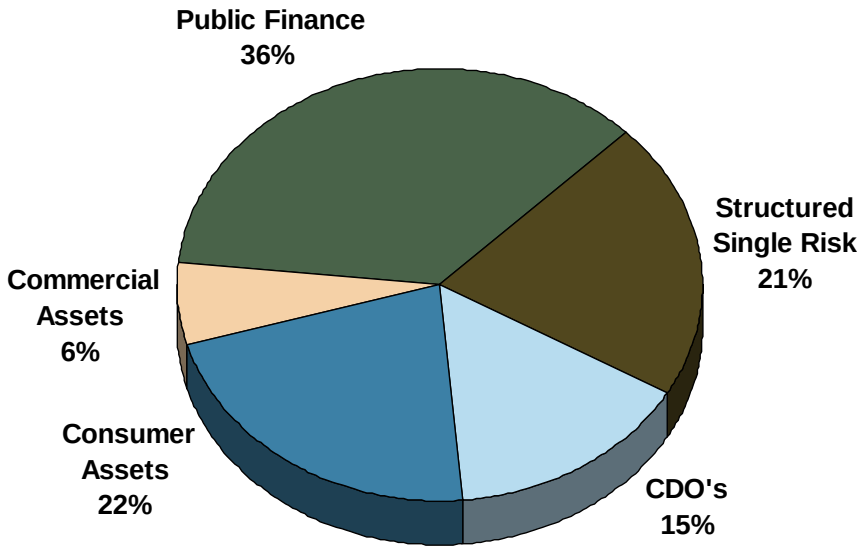
Top Bond Insurers in Public Finance: First Half 2006

Rank	Firm	Amount (Mils.)	% Share	# Issues
1	AMBAC	$21,141	24%	570
2	MBIA	$19,653	23%	600
3	FSA	$19,175	22%	765
4	FGIC	$13,189	15%	193
5	SCA	$9,004	10%	397
6	CIFG	$3,478	4%	201
7	Radian	$1,436	2%	105

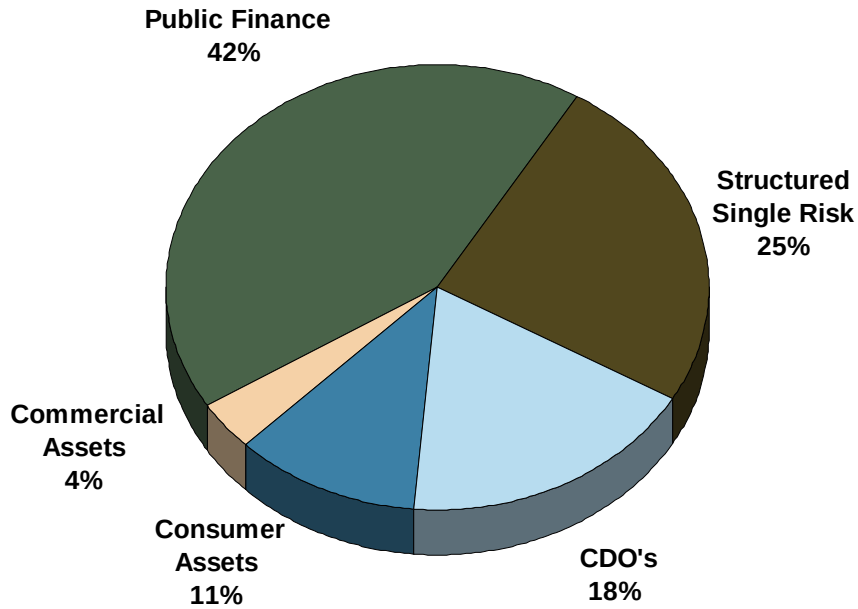
Source: The Bond Buyer, Thomson Financial. XLCA ranked 5th by par value; 4th by number of issues.

SCA Insured Portfolio Diversification

Breakdown by product segment YE2004 – 2Q2006



$66.9 Billion Net Par Outstanding at 12/31/2004

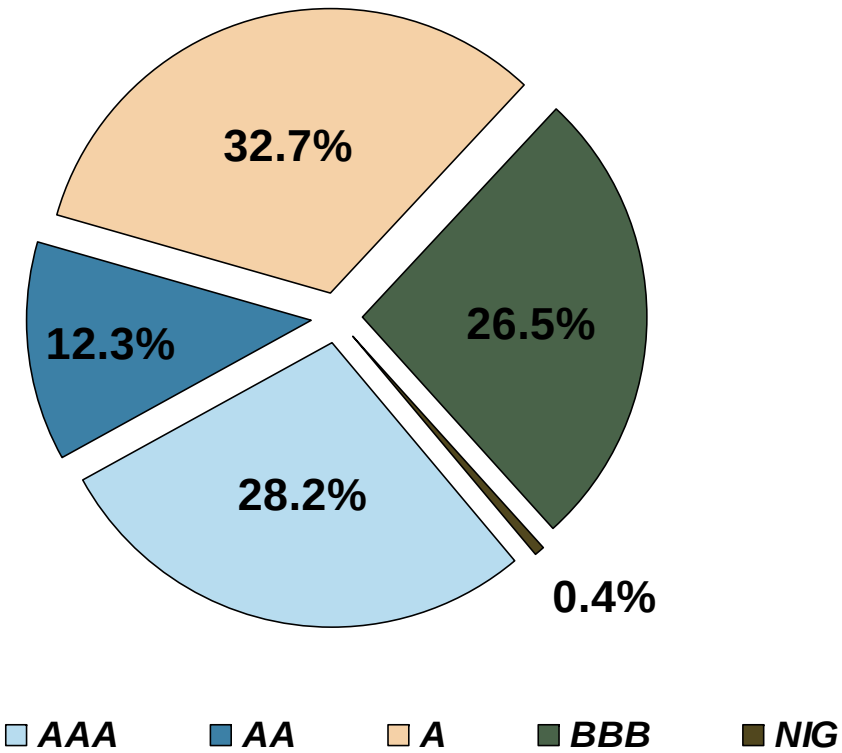


$98.7 Billion Net Par Outstanding at 6/30/2006

Weighted average credit rating: A+

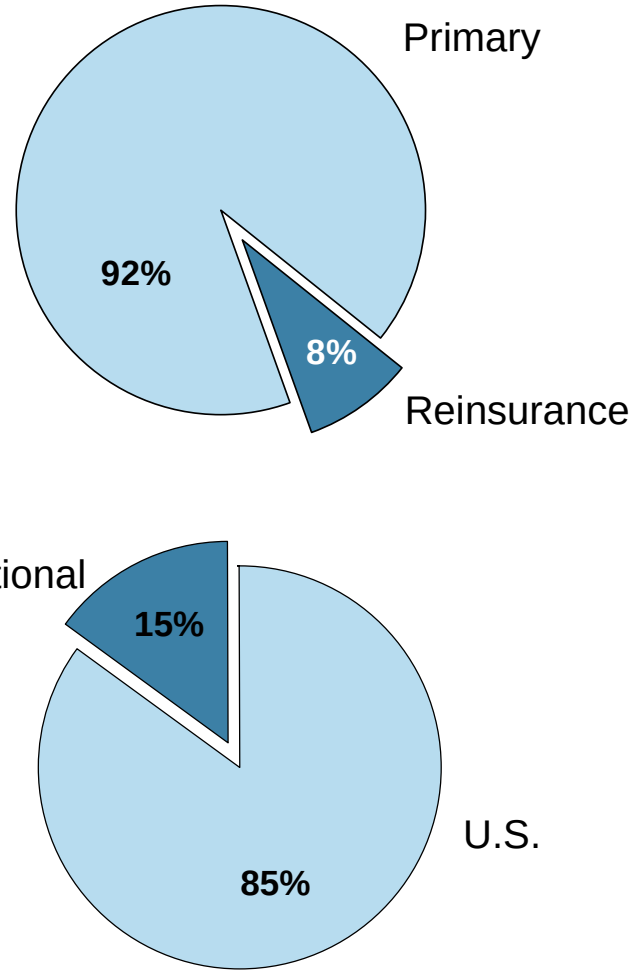
SCA Portfolio Overview: as of June 30, 2006
$98.7bn Net Par Outstanding

Underlying Credit Rating



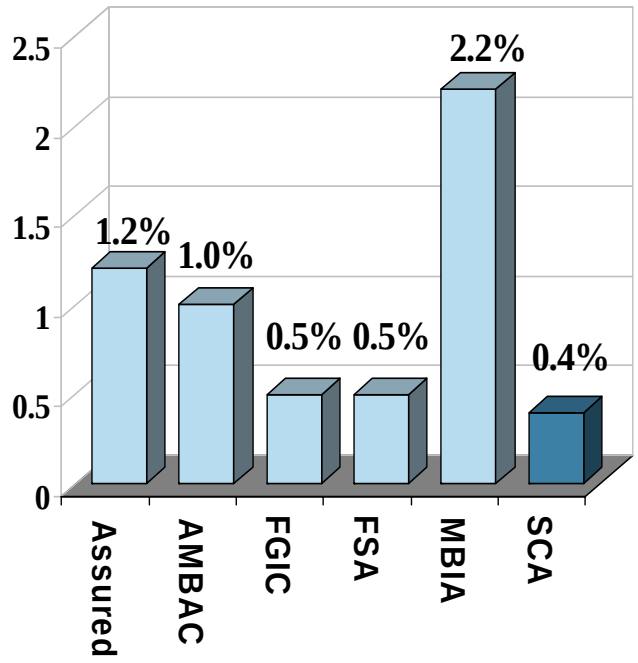
Weighted average credit rating: A+

Business Mix



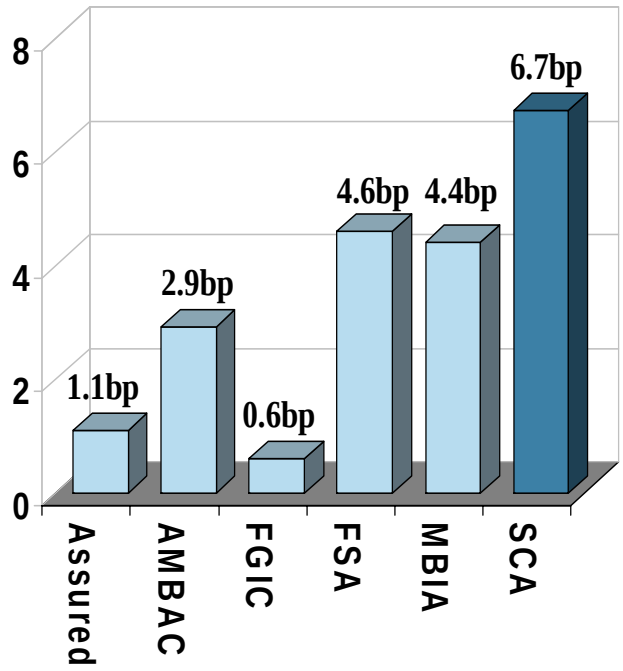
SCA Risk Management Approach

Non-Investment Grade Exposure as % of Par



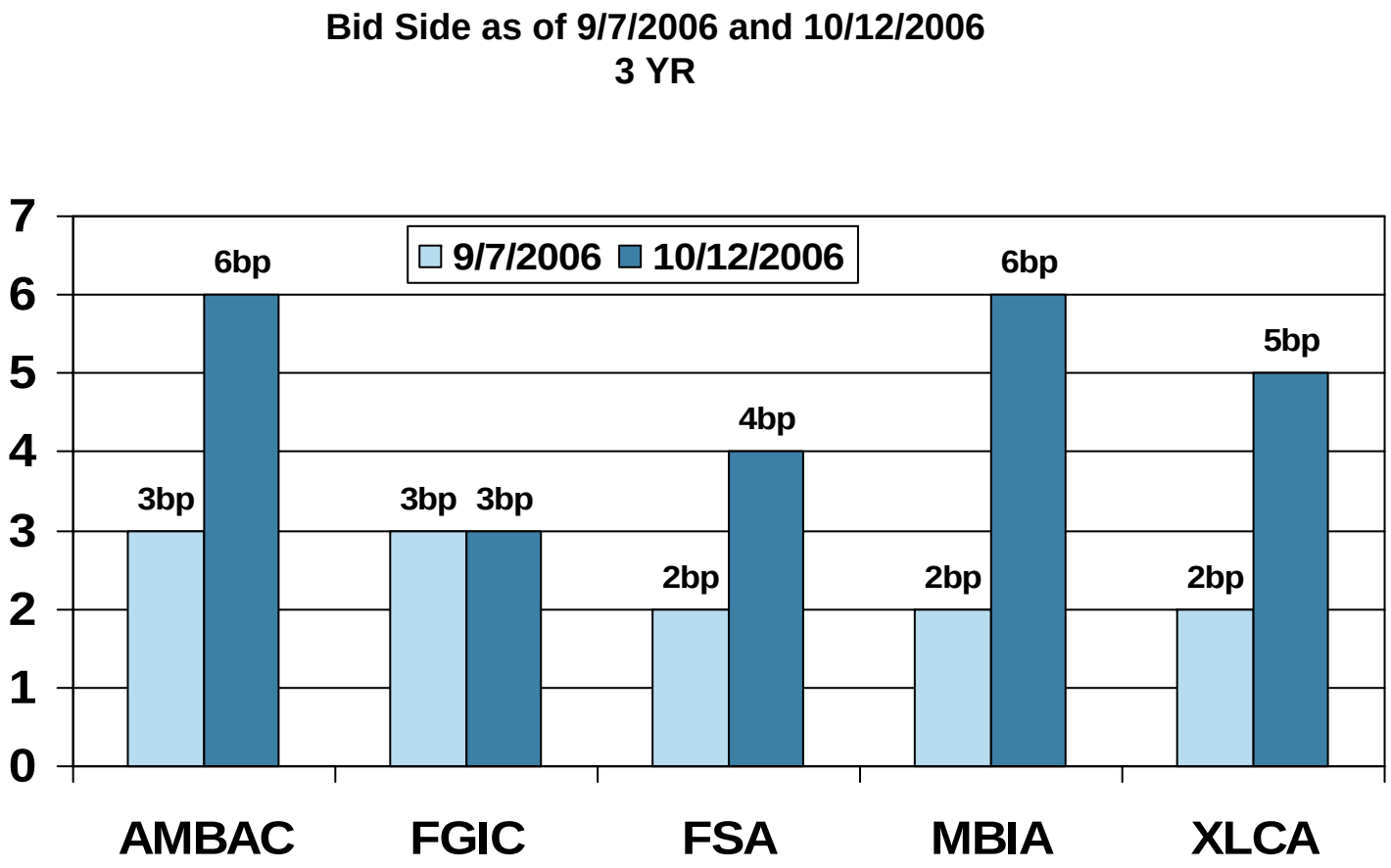
at 6/30/2006

Unallocated Loss Reserves as % of Par



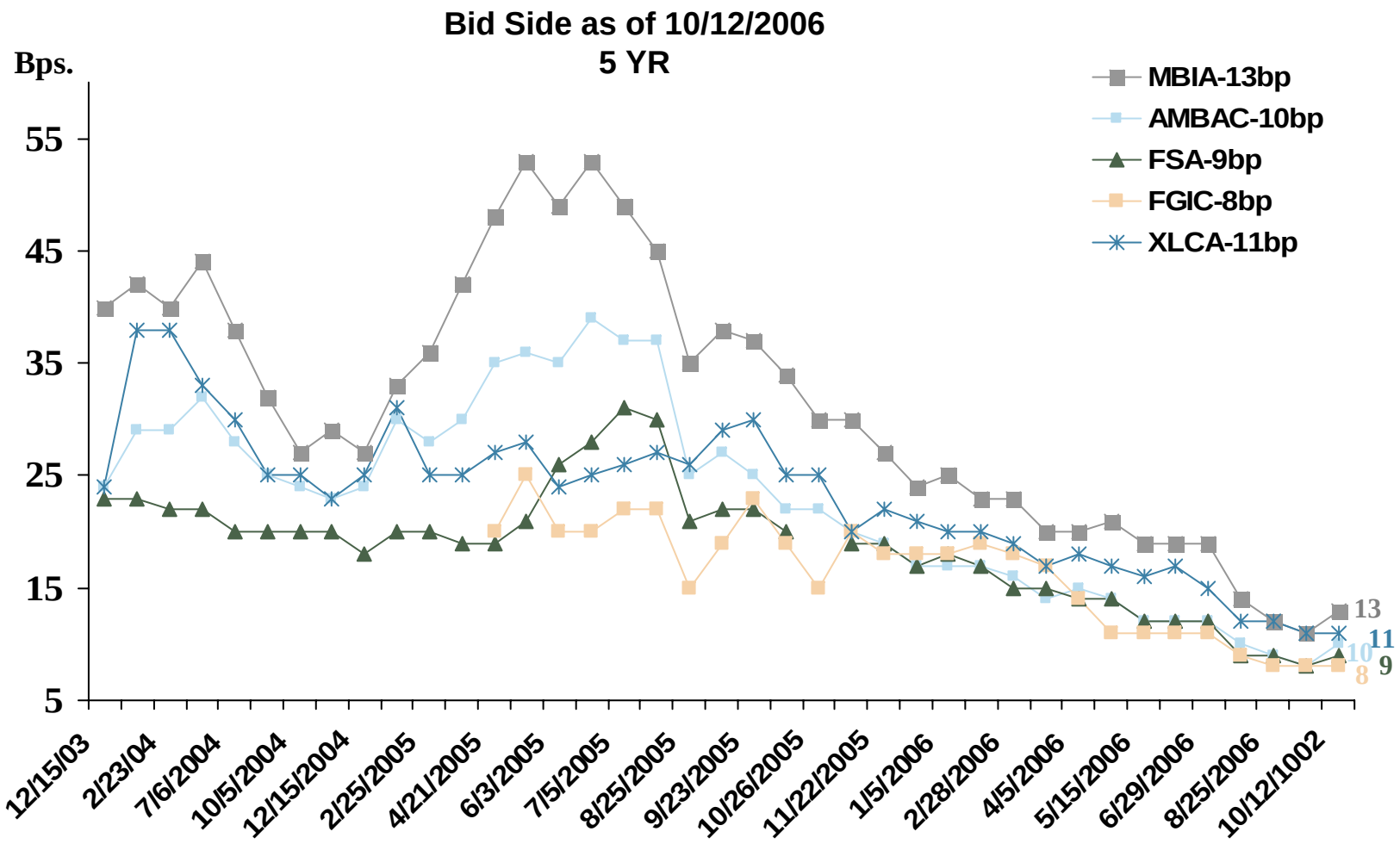
at 6/30/2006

Credit Default Swap Spreads



Source: Deutsche Bank Securities as of 9-7-2006 and 10/12/2006

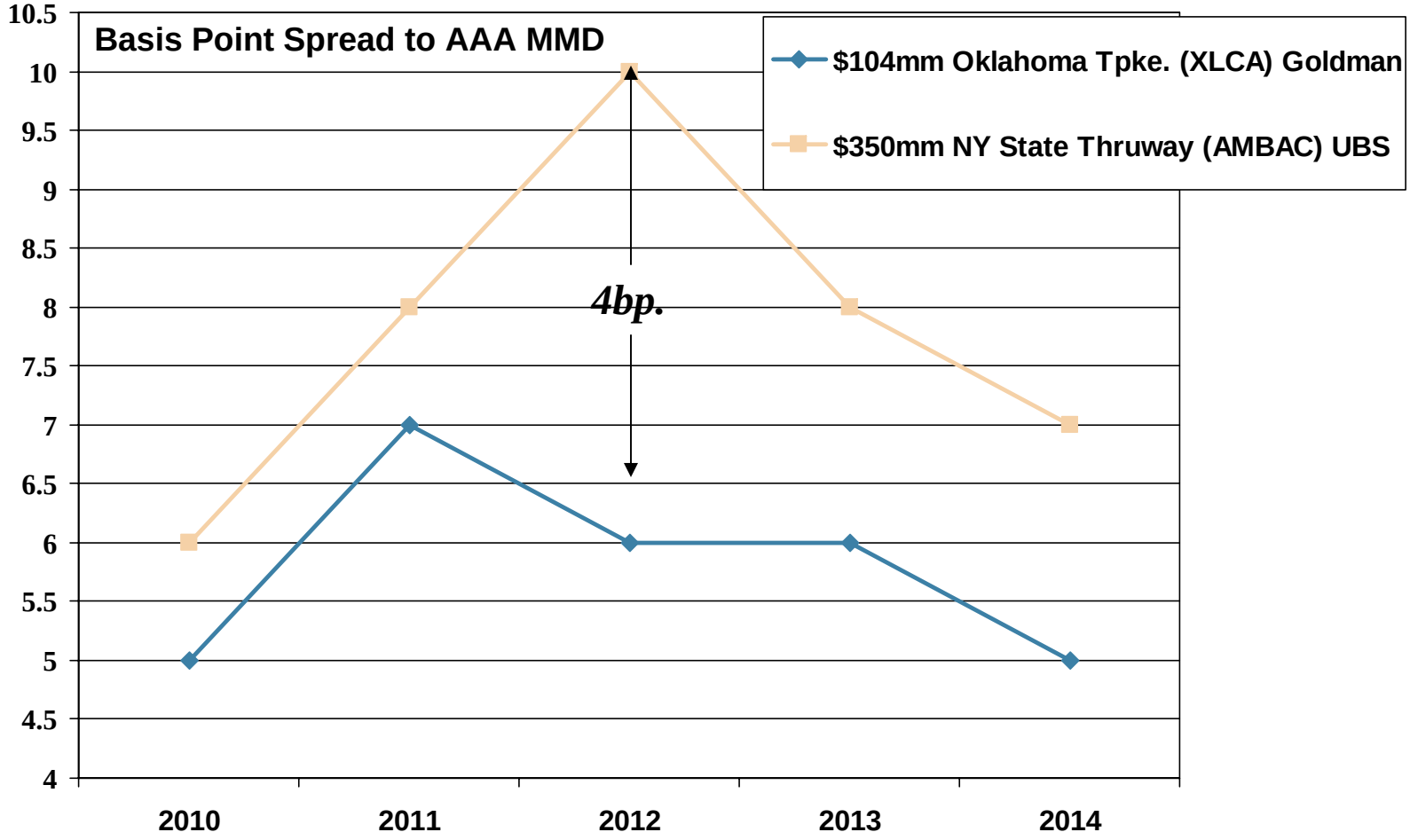
Credit Default Swap Spreads



Source: Deutsche Bank Securities as of 10-12-2006

Public Finance Trading Levels

Oklahoma Turnpike Primary Market Pricing Comparison



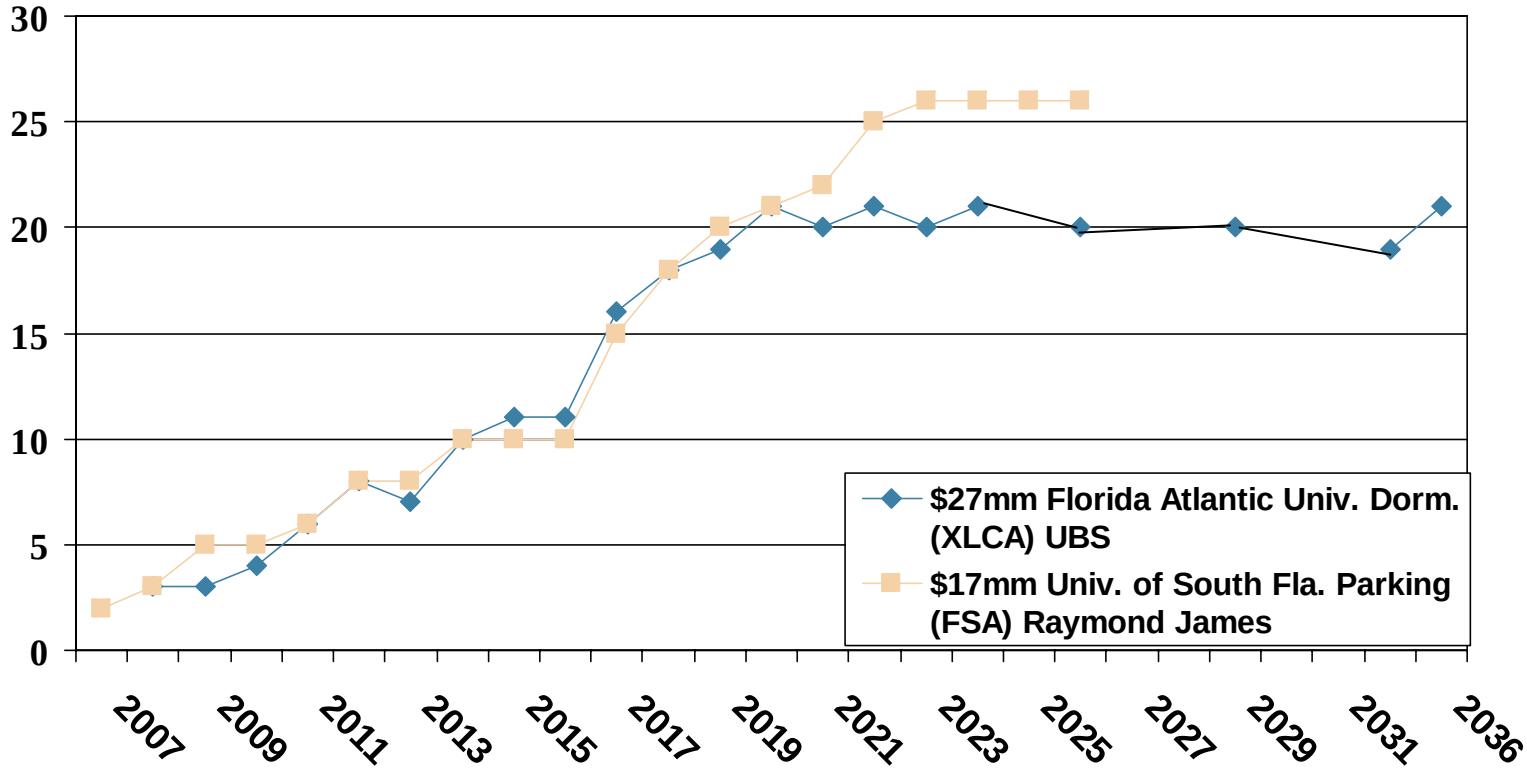
Source: Bloomberg. Both issues rated AA- underlying by S&P. Okla. Tpke. bonds are non-callable, and the comparable Thruway maturities are non-callable. Okla.Tpke. bonds were priced week of 8/7/2006 and the Thruway bonds were priced week of 7/10/2006. Similar coupon structure.

Public Finance Trading Levels

Spread to AAA MMD

Florida Competitive New Issue Comparison

Similar discount coupon structure and call features on both issues

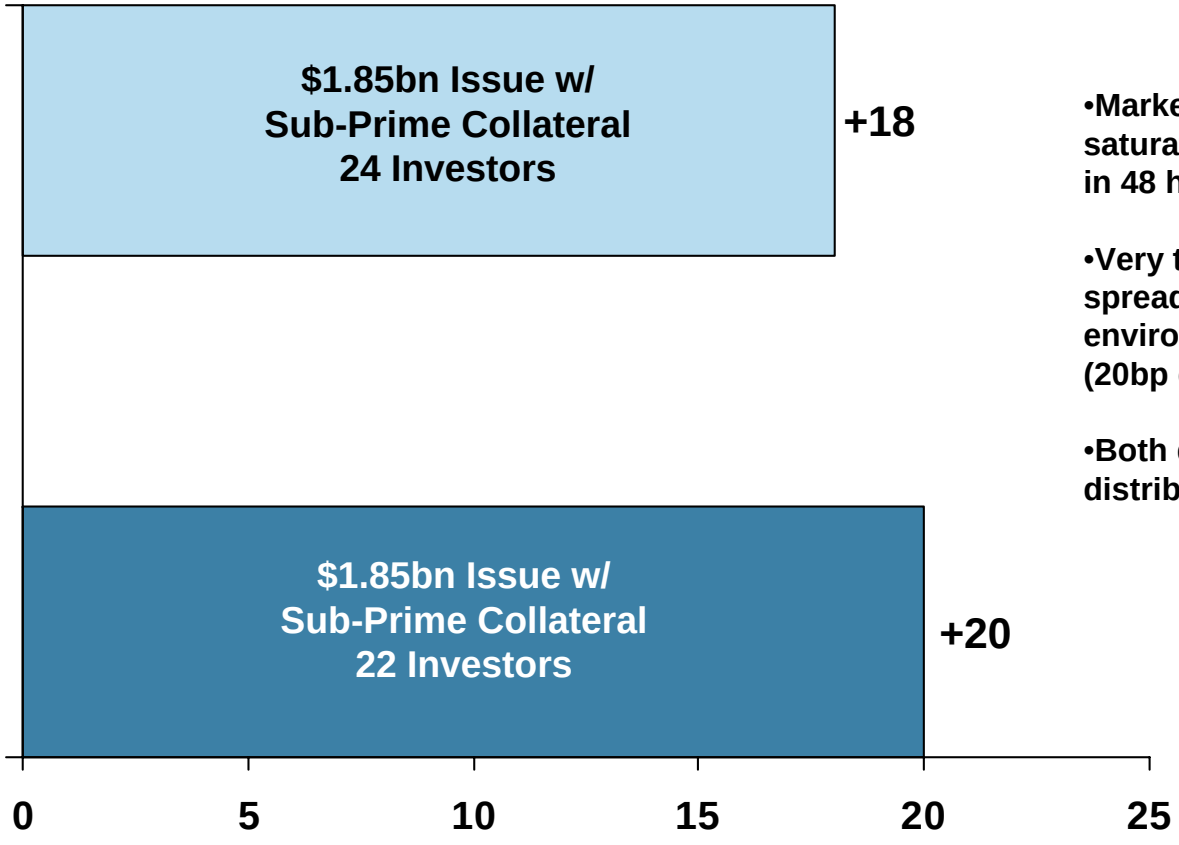


Source: Bloomberg. Fla. Atlantic Univ. Dorm Revs priced with XLCA on 7/27/06, with a premium call on 7/1/16 @101, and underlying of A2/A. Univ. of South Fla. Parking Revs priced with FSA on 8/2/06, with a premium call on 7/1/16 @ 101, and an underlying of A1/AA-. Similar discount coupon structure on both issues.

ABS New Issue Comp vs. AMBAC

Countrywide HELOC's - Series C & D

Spread to 1 Month LIBOR



- **Market saturation ($4bn in 48 hrs.)**
- **Very tight spread environment (20bp cutoff)**
- **Both deals well distributed**

Recent XLCA wrapped ABS Comps

Recent XLCA Wrapped ABS Deals and Comps

Issuer	Collateral	Date	Amount	WAL	Index	Spread	Insurer/Banker
Ford Credit	Floorplan	6/28/2006	$300.0	4.97	Libor	25	XLCA
Cendant Car Rental	Rental Cars	6/2/2006	$600.0	3.29			XLCA / Barclays
CAC	Subprime Auto	4/18/2006	$100.0	0.91	EDSF	15	XLCA / Wachovia
Capital One	Subprime Auto	4/25/2006	$563.0	0.3	3M Libor	-2	AMBAC / Bank of America
Capital One	Subprime Auto	4/25/2006	$708.0	0.95	EDSF	-1	AMBAC / Bank of America
Capital One	Subprime Auto	4/25/2006	$764.0	2	Swaps	2	AMBAC / Bank of America
Capital One	Subprime Auto	4/25/2006	$715.0	3.28	1M Libor	1	AMBAC / Bank of America
Triad Auto	Subprime Auto	5/25/2006	$167.0	0.21	1M Libor	-1	FSA / Citigroup
Triad Auto	Subprime Auto	5/25/2006	$257.0	0.95	EDSF	0	FSA / Citigroup
Triad Auto	Subprime Auto	5/25/2006	$327.5	2.29	Swaps	4	FSA / Citigroup
Triad Auto	Subprime Auto	5/25/2006	$164.0	3.59	1M Libor	12	FSA / Citigroup
Indy Mac	Neg. Am Mtgs.	4/24/2006	$162.6	3.13	MTA	93	XLCA / Greenwich
Indy Mac	Neg. Am Mtgs.	4/24/2006	$137.0	3.14	Libor	21	XLCA / Greenwich
RALI/RFC	Neg. Am Mtgs.	4/25/2006	$81.8	3.19	MTA	93	XLCA / Greenwich
RALI/RFC	Neg. Am Mtgs.	4/25/2006	$55.9	3.19	Libor	21	XLCA / Greenwich
Harbourview	Neg. Am Mtgs.	4/28/2006	$151.5	3.11	Libor	19.5	XLCA / Greenwich
Harbourview	Neg. Am Mtgs.	4/28/2006	$69.6	3.11	Libor	19	XLCA / Greenwich
Harbourview	Neg. Am Mtgs.	4/28/2006	$95.3	3.12	Libor	21	XLCA / Greenwich
Harbourview	Neg. Am Mtgs.	4/28/2006	$19.3	3.11	Libor	24	XLCA / Greenwich
Drivetime	Subprime Auto	5/12/2006	$34.7	0.18	Libor	1	XLCA / Greenwich
Drivetime	Subprime Auto	5/12/2006	$133.3	1	EDSF	7	XLCA / Greenwich
Drivetime	Subprime Auto	5/12/2006	$72.0	2.2	Swaps	12	XLCA / Greenwich
Harborview	Neg. Am Mtgs.	6/29/2006	$106.2	3.18	MTA	92	XLCA / Greenwich
Greenpoint Mortgage	Neg. Am Mtgs.	4/27/2006	$259.7	3.27	1M Libor	21	Ambac / Bear Stearns
RALI	Neg. Am Mtgs.	5/30/2006	$71.8	3.17	1M Libor	25	Uninsured / UBS
RALI	Neg. Am Mtgs.	5/30/2006	$39.5	3.17	1M Libor	28	Uninsured / UBS
RALI	Neg. Am Mtgs.	5/30/2006	$23.1	3.17	1M Libor	28	Uninsured / UBS
RALI	Neg. Am Mtgs.	6/29/2006	$181.3	3.22	1M Libor	26	Uninsured / Greenwich
Indy Mac	Neg. Am Mtgs.	5/31/2006	$40.1	0.8	1M Libor	10	Uninsured / Lehman
Indy Mac	Neg. Am Mtgs.	5/31/2006	$17.4	2.1	1M Libor	12	Uninsured / Lehman
Indy Mac	Neg. Am Mtgs.	5/31/2006	$24.2	3.55	1M Libor	28	Uninsured / Lehman
Indy Mac	Neg. Am Mtgs.	5/31/2006	$58.9	4.97	1M Libor	40	Uninsured / Lehman
Greenpoint Mortgage	HELOC	8/28/2006	$1,331.8	1.48	1M Libor	17	XLCA / Lehman
Greenpoint Mortgage	HELOC	8/28/2006	$500.0	1.48	1M Libor	17	CIFG / Lehman
Countrywide	HELOC	8/11/2006	$76.0	2.22	1M Libor	15	MBIA / Countrywide
Countrywide	HELOC	8/11/2006	$924.0	2.22	1M Libor	15	MBIA / Countrywide

Recent XLCA wrapped Global Infrastructure Comps

Recent XLCA Wrapped Global Infrastructure Deals and Comps

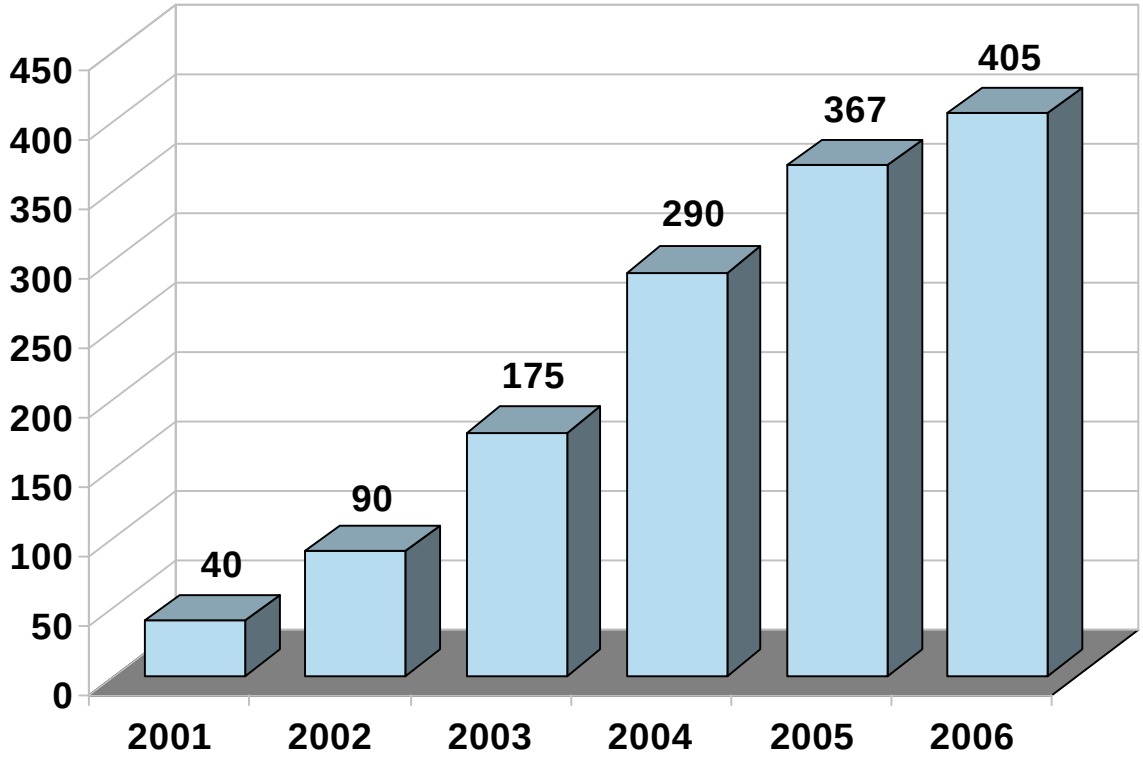
Camino - Wrapped Bank Debt

E18 Norway - Wrapped Bank Debt

Issuer	Collateral	Date	Amount	WAL	Index	Spread	Insurer / Underwriter
South Lanarkshire		6/28/2006	GBP 320.3	20.53	Gilts	55.4	XLCA / CIBC
Sheffield University		May-06	GBP 320.3		Gilts	54	FSA
Birmingham Hospital		Jun-06	GBP 300.0		Gilts	51.4	FGIC
Barts Hospital		Apr-06	GBP 1,000.0		Gilts	51.5	Ambac/FSA

Investor Acceptance - U.S. Public Finance

Public Finance Investor Growth for XLCA - Cumulative Investors Identified 2001-2006

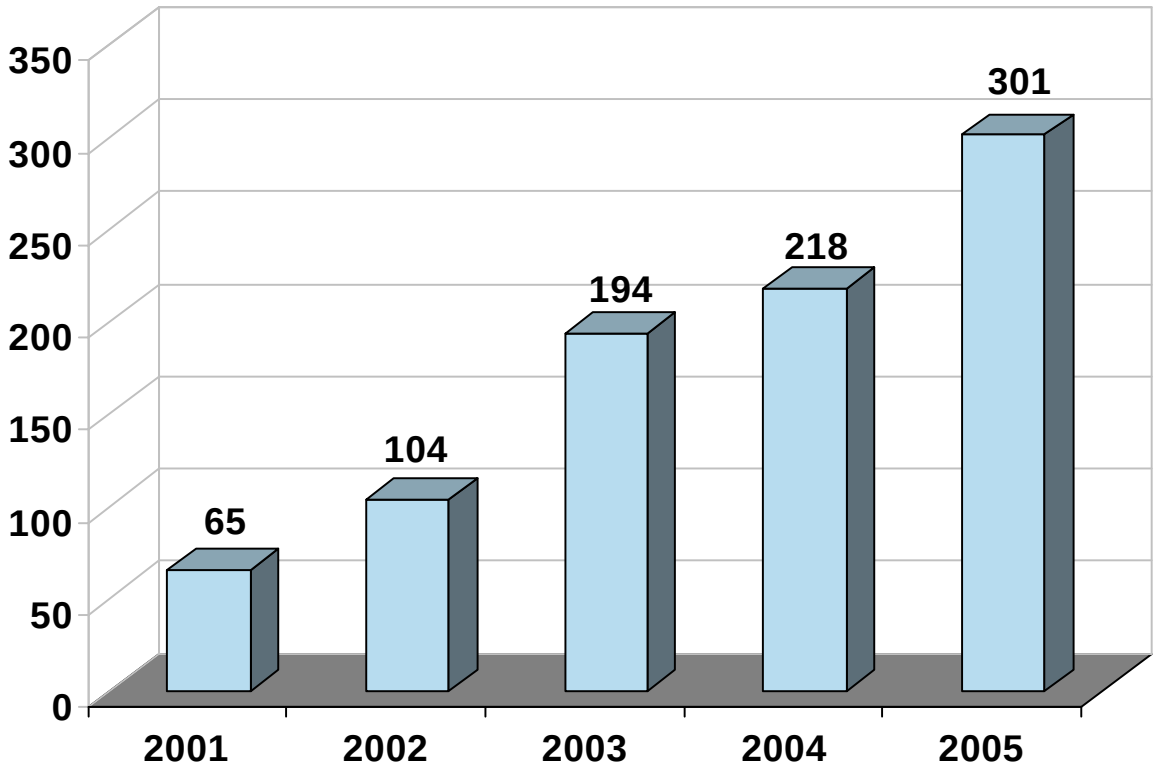


Includes Funds, Money Managers, Insurance Companies and Bank Trusts

****Sources: BondWatch, and XLCA***

Investor Acceptance – Structured Finance

Structured Finance Investor Growth for XLCA - Cumulative Investors Identified 2001-2005



Source: XLCA estimate

In Conclusion

- **SCA's financial guarantee business is in sixth year of operation**
- **Highlights:**
  - **Increased claims paying resources to $2.5 billion, a CAGR of 30.6% per year***
  - **Improved ratings stability and capital resiliency through SCA IPO**
  - **Increased market share in the financial guarantee industry from 8% to 12% (of AGP) in the first six months of 2006**
  - **Improved operating ROE from 10.7% in 2005 to 11.4% in the first six months of 2006**
  - **Built fixed income investor base**
    - **400+ US public finance investors**
    - **300+ Domestic & international STF investors**
  - **Built a high quality, highly diversified insured portfolio**

Calculated from 6/2002 to 6/2006

Reconciliation of non-GAAP items

Reconciliation of Adjusted Gross Premiums to Total Premiums Written

(in millions)

	2003	2004	2005	1H 2006
Adjusted Gross Premiums	$ 360	$ 295	$ 396	$ 268
Less: PV of future installments	(145)	(128)	(233)	(138)
Total upfront premiums written	215	167	163	130
Total installment premiums written	104	110	122	60
Total premiums written	$ 319	$ 277	$ 285	$ 190

Reconciliation of Operating Income to Net Income Available to Common Shareholders

(in millions)

	2003	2004	2005	1H 2006
Operating Income	$ 42	$ 46	$ 90	$ 73
Net realized (losses) gains on investments	4	0	(3)	(16)
Net realized and unrealized gains (losses) on credit derivatives	15	13	(7)	(4)
Net income available to common shareholders	$ 61	$ 59	$ 80	$ 53

Reconciliation of Adjusted Book Value to Shareholders' Equity

(in millions)

	2003	2004	2005	1H 2006
Adjusted book value	$ 1,107	$ 1,457	$ 1,749	$ 2,204
Less: Deferred premium revenue	(386)	(487)	(593)	(671)
Less: Present value of future installment premiums	(251)	(304)	(464)	(461)
Add: Deferred acquisition costs	18	45	60	71
Add: Prepaid reinsurance premiums	109	58	70	65
Subtotal of adjustments	(510)	(688)	(927)	(996)
Adjustment for tax effect	95%	95%	95%	95%
Net adjustments	(485)	(652)	(881)	(946)
Shareholders' equity	$ 622	$ 805	$ 868	$ 1,258

Includes $342mm of proceeds form IPO + $23.4mm infusion from XL

Non-GAAP financial measures

Adjusted Gross Premiums

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

Non-GAAP financial measures

Operating Income

Operating income, which is a non-GAAP financial measure, is defined as net income excluding realized gains (losses) on investments and 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 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.

Non-GAAP financial measures

Adjusted Book Value

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