# Syncora Guarantee Inc.

**Statutory Basis Financial Statements**
**Years Ended December 31, 2017 and 2016**
**With Report of Independent Auditors**

# Syncora Guarantee Inc.
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## Report of Independent Auditors

To the Board of Directors of Syncora Guarantee Inc.:

We have audited the accompanying statutory financial statements of Syncora Guarantee Inc., which comprise the statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2017 and 2016, and the related statutory statements of operations and changes in capital and surplus, and of cash flows for the years then ended.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting practices prescribed or permitted by the New York State Department of Financial Services. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles*

As described in Note 4 to the financial statements, the financial statements are prepared by the Company on the basis of the accounting practices prescribed or permitted by the New York State Department of Financial Services, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the statutory basis of accounting described in Note 4 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### *Adverse Opinion on U.S. Generally Accepted Accounting Principles*

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2017 and 2016, or the results of its operations or its cash flows for the years then ended.

***Opinion on Statutory Basis of Accounting***

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and surplus of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in accordance with the accounting practices prescribed or permitted by the New York State Department of Financial Services described in Note 4.

***Emphasis of Matters***

As discussed in Note 1 to the financial statements, the financial statements give retroactive effect to the merger of Syncora Capital Assurance Inc. into the Company on December 31, 2017 in a transaction accounted for as a statutory merger. Our opinion is not modified with respect to this matter.

As discussed in Note 4 to the financial statements, the Company received permitted practices from the New York State Department of Financial Services to (i) carry certain investment balances in excess of stipulated limitations under Articles 14 and 69 of the New York Insurance Law, (ii) release contingency reserves associated with both terminated policies and policies for which the Company has established a case reserve, (iii) de-recognize reserves for unpaid losses, unearned premium reserves and contingency reserves for credits deemed effectively defeased or in-substance commuted, (iv) value surplus notes issued by the Company in settlement of certain policyholder obligations at face value, (v) account for certain acquired entities as salvage recoverable and (vi) in connection with the Company's restructuring transaction, increase earned surplus by allocating the entire balance of gross paid in and contributed surplus to earned surplus. Our opinion is not modified with respect to this matter.

***Other Matter***

Our audit was conducted for the purpose of forming an opinion on the statutory-basis financial statements taken as a whole. The supplemental investment risk interrogatories and reinsurance attestation supplement of the Company as of December 31, 2017 and for the year then ended are presented to comply with the National Association of Insurance Commissioners' Annual Statement Instructions and Accounting Practices and Procedures Manual and for purposes of additional analysis and are not a required part of the statutory-basis financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory-basis financial statements. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the statutory-basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory-basis financial statements or to the statutory-basis financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the statutory-basis financial statements taken as a whole.

PricewaterhouseCoopers LLP

March 29, 2018

# Syncora Guarantee Inc.
## Statements of Admitted Assets, Liabilities and Capital and Surplus
## December 31, 2017 and 2016

| *(U.S. Dollars in thousands, except share amounts)* | 2017 | 2016 |
|---|---|---|
| **Admitted Assets** | | |
| Bonds, at amortized cost (fair value: $910,094 and $1,199,864) | $ 873,534 | $ 1,188,552 |
| Preferred stock, at amortized cost (fair value: $31,895 and $2,582) | 17,768 | 2,582 |
| Common stocks, at fair value (cost: $53,704 and $40,440) | 59,218 | 45,361 |
| Investment in subsidiaries: | | |
| Syncora Investment Holdings | 14,516 | 46,638 |
| Cash, cash equivalents and short-term investments (fair value: cash $25,941 and $14,498; cash equivalents $282,869 and $93,969; and short-term investments $370 and $38,476) | 309,180 | 146,943 |
| Restricted cash and short-term investments | 755 | 1,341 |
| Other invested assets | 14,409 | 5,489 |
| Derivative instruments | 348 | 50 |
| Total cash and invested assets | 1,289,728 | 1,436,956 |
| Accrued investment income | 6,485 | 9,017 |
| Premiums receivable | 1,648 | 1,584 |
| Receivables from parent, subsidiaries and affiliates | - | 7,938 |
| Other assets | 4,232 | 5,403 |
| Total admitted assets | $ 1,302,093 | $ 1,460,898 |
| **Liabilities and Capital and Surplus** | | |
| Liabilities | | |
| Unearned premium revenue, net | $ 181,077 | $ 218,651 |
| (Loss recoverables) and loss adjustment expenses | (263,748) | (65,500) |
| Mandatory contingency reserve | 47,625 | 101,837 |
| Accounts payable and accrued expenses | 3,784 | 1,291 |
| Payables to parent, subsidiaries and affiliates | 10,343 | 16,198 |
| Payable for securities | 5,247 | - |
| Other liabilities | 141 | 137 |
| Total liabilities | (15,531) | 272,614 |
| Capital and surplus | | |
| Common stock (par value $7,500 per share; 8,000 shares authorized; 2,000 shares issued and outstanding) | 15,000 | 15,000 |
| Preferred stock - Series B non-cumulative perpetual (655 shares held as treasury stock) | 200,000 | 200,000 |
| Surplus notes | 548,506 | 556,158 |
| Unassigned funds | 554,118 | 417,126 |
| Total capital and surplus | 1,317,624 | 1,188,284 |
| Total liabilities and capital and surplus | $ 1,302,093 | $ 1,460,898 |

The accompanying notes to statutory basis financial statements are an integral part of these statements

## Syncora Guarantee Inc.
### Statements of Operations and Changes in Capital and Surplus
### Years Ended December 31, 2017 and 2016

| *(U.S. Dollars in thousands)* | 2017 | 2016 |
|---|---|---|
| **Underwriting** | | |
| Net premiums written | $ 14,190 | $ 18,072 |
| Change in unearned premium revenue | 37,574 | 55,893 |
| Net premiums earned | 51,764 | 73,965 |
| Deductions (benefit) | | |
| Net recoveries on losses and loss adjustment expenses | (88,289) | (29,487) |
| Underwriting expenses | 47,003 | 61,756 |
| Total underwriting (benefit) deductions | (41,286) | 32,269 |
| Net underwriting gain | 93,050 | 41,696 |
| **Investment Income** | | |
| Net investment (expense) income, net of surplus notes interest expense of $47,348 and $46,775, and investment expenses of $1,403 and $1,493 | (3,079) | 3,661 |
| Net realized capital losses | (21,544) | (13,742) |
| Net investment loss | (24,623) | (10,081) |
| **Other Income** | | |
| Fees and other income | 2,136 | 14,498 |
| Total other income | 2,136 | 14,498 |
| Income before federal income tax expense | 70,563 | 46,113 |
| Current federal and foreign income tax expense | 26 | 857 |
| Net income | $ 70,537 | $ 45,256 |
| **Capital and Surplus** | | |
| Capital and surplus, beginning of year | $ 1,188,284 | $ 1,086,957 |
| Net income | 70,537 | 45,256 |
| Change in nonadmitted assets | 7,635 | 10,961 |
| Change in net deferred income tax | (1,259) | (869) |
| Change in provision for reinsurance | - | 133 |
| Change in surplus notes - principal discount | - | (19,951) |
| Change in surplus notes - principal payment | (7,652) | (8,225) |
| Reclassification from additional paid-in capital - pursuant to permitted practice | - | (2,066,923) |
| Reclassification to unassigned funds - pursuant to permitted practice | - | 2,066,923 |
| Change in additional paid-in capital - surplus notes principal discount | - | 19,951 |
| Net unrealized (losses) gains - Syncora Investment Holdings | (3,731) | 8,330 |
| Net unrealized gains - other | 9,648 | 649 |
| Change in mandatory contingency reserve | 54,212 | 45,562 |
| Change in unrealized losses on derivative instruments | (50) | (470) |
| Change in capital and surplus for the year | 129,340 | 101,327 |
| Capital and surplus, end of year | $ 1,317,624 | $ 1,188,284 |

The accompanying notes to statutory basis financial statements are an integral part of these statements.

# Syncora Guarantee Inc.
## Statements of Cash Flows
## Years Ended December 31, 2017 and 2016

| *(U.S. Dollars in thousands)* | 2017 | 2016 |
|---|---|---|
| **Cash from Operations** | | |
| Premiums collected, net of reinsurance | $ 14,133 | $ 19,996 |
| Underwriting expenses paid | (40,529) | (64,821) |
| Net investment income collected | 40,642 | 38,555 |
| Net investment expenses and interest paid, including surplus notes interest of $47,348 and $46,775 | (48,975) | (48,042) |
| Loss recovery from Pike Pointe distribution | - | 46,430 |
| Benefits and loss related payments, net of other recoveries | (109,960) | (80,712) |
| Federal income taxes recovered (paid) | 14,434 | (885) |
| Fee income and other, net | 2,137 | 14,498 |
| Net cash used in operations | (128,118) | (74,981) |
| **Cash from Investments** | | |
| Proceeds from bonds sold, matured or repaid | 590,908 | 1,023,795 |
| Proceeds from stocks sold | 31,334 | 13,111 |
| Bonds acquired | (281,849) | (984,479) |
| Common stocks acquired | (40,315) | (32,253) |
| Other invested assets | 1,608 | (638) |
| Net cash provided by investments | 301,686 | 19,536 |
| **Cash from Financing and Miscellaneous Sources** | | |
| Pay down on surplus notes | (7,652) | (8,225) |
| Other cash provided by miscellaneous sources | (4,265) | 447 |
| Other cash used in financing and miscellaneous sources | (11,917) | (7,778) |
| Net change in cash, cash equivalents, restricted cash and short-term investments | 161,651 | (63,223) |
| Cash, cash equivalents, restricted cash and short-term investments, beginning of year | 148,284 | 211,507 |
| Cash, cash equivalents, restricted cash and short-term investments, end of year | $ 309,935 | $ 148,284 |
| **Supplemental Non-Cash Flow Information** | | |
| Reclassification of additional paid-in capital to unassigned funds - pursuant to permitted practice | $ - | $ 2,046,972 |
| Transfer of investments from subsidiary | $ 26,983 | $ - |
| Return of capital from subsidiary | $ (27,612) | $ - |
| Net payable for securities | $ (5,247) | $ (41) |
| Surplus notes principal discount | $ - | $ 19,951 |
| Securities distributed to Syncora Guarantee from Pike Pointe (See note 6) | $ - | $ 3,570 |

The accompanying notes to statutory basis financial statements are an integral part of these statements.

## 1. Organization and Business

Syncora Guarantee Inc. ("Syncora Guarantee" or the "Company") is an insurance company domiciled in the State of New York and was licensed to conduct financial guarantee insurance business throughout all 50 of the United States, as well as in the Commonwealth of Puerto Rico, the District of Columbia, and the U.S. Virgin Islands. However, because of the events discussed below, as of December 31, 2017, 28 states have suspended or revoked Syncora Guarantee's license to conduct insurance business in such states or jurisdiction, placed an order of impairment against it, or Syncora Guarantee voluntarily agreed to cease writing business in such states. Syncora Guarantee, however, continues to collect premiums on existing business in such states and management anticipates that it will be able to continue to collect such premiums. Additional states may suspend Syncora Guarantee's license, place an order of impairment against it or, in lieu of a suspension or order, Syncora Guarantee may voluntarily agree to cease writing business in additional jurisdictions. Syncora Guarantee opted not to renew its license in the U.S. Virgin Islands and the Commonwealth of Puerto Rico.

Prior to January 2008, Syncora Guarantee was primarily engaged in the business of providing (i) credit enhancement on fixed and variable rate debt obligations through the issuance of financial guarantee insurance policies, and (ii) credit protection on specific referenced credits or on pools of specific referenced credits through the issuance of financial guarantee insurance policies covering the obligations under credit default swap ("CDS") contracts issued by trusts established to comply with the New York Insurance Law (the "NYIL"). Syncora Guarantee ceased writing substantially all new business in January of 2008.

Financial guarantee insurance policies obligate the insurer to provide an unconditional and irrevocable guarantee to the holder of a debt obligation of full and timely payment of certain principal and interest when due. In the event of a default under the debt obligation, the insurer has recourse against the issuer and/or any related collateral (which is more common in the case of insured asset-backed obligations or other non-municipal debt) for amounts paid under the terms of the policy. CDS contracts are derivative contracts that offer credit protection relating to a particular security or pools of specified securities. Under the terms of a CDS contract, the seller of credit protection makes a specified payment to the buyer of credit protection upon the occurrence of one or more specified credit events with respect to a referenced security. Credit derivatives typically provide protection to a buyer rather than credit enhancement of a debt security as in traditional financial guarantee insurance.

Effective December 31, 2017, Syncora Capital Assurance Inc., a wholly owned subsidiary of the Company, merged with and into the Company. As a result of the merger, the statement of admitted assets, liabilities and capital and surplus as of December 31, 2016, and the related statutory statements of operations and changes in capital and surplus and, cash flows for the year ended December 31, 2016 and related footnote disclosures were restated to include Syncora Capital Assurance Inc.'s financial information as if it was merged as of January 1, 2016.

The Company is 100% owner of non-insurance holding companies: (i) Pike Pointe Holdings, LLC ("Pike Pointe"), which wholly owns a number of subsidiaries that ultimately own and operate certain toll road facilities located in the United States and Canada and (ii) Syncora Investment Holdings LLC, ("Syncora Investment Holdings"). The Company is also a 100% owner of a non-insurance company, Syncora Securities Holdings LLC, ("Syncora Securities"). See Note 6.

### 2. Completion of Restructuring Transactions and Description of the Transactions Comprising the 2009 Master Transaction Agreement

*Description of 2016 Restructuring Transactions:*

On August 12, 2016, Syncora Holdings US Inc. ("SHI"), a wholly-owned subsidiary of Syncora Holdings ("SHL"), completed a surplus note exchange offer and proxy solicitation for the variation of rights to the SHL Preferred Shares, which are part of its restructuring transactions. Upon closing of the transactions (collectively "Restructuring Transactions"), the following interrelated events occurred:

- Holders of the Company's outstanding long-term and short-term surplus notes provided a $70.0 million discount ($55.2 million and $14.8 million of long-term and short-term surplus notes, respectively), including principal, paid-in-kind interest and accrued interest, in exchange for 17.3 million newly issued common shares of SHL.

- The rights attached to all externally held SHL Preferred Shares were varied such that they were automatically converted into 13.0 million newly issued SHL common shares and $40.0 million of reallocated surplus notes ($31.5 million and $8.5 million of long-term and short-term surplus notes, respectively) provided from the discount described above. In addition, upon completion of the variation, all of the SHL Preferred Shares held by SHL, or its affiliates were cancelled and no SHL Preferred Shares remain outstanding.

- The remaining $30.0 million of discounted long-term and short-term surplus notes were transferred to and cancelled by the Company. The principal component of the $30.0 million discount is considered an equity transaction as it was transacted between related parties, and therefore reported through gross paid in and contributed surplus (prior to the application of the permitted practice as described below).

- Pursuant to an amended and restated tax sharing agreement, the Company reallocated $1.75 billion of excess net operating losses to SHI for its sole use and benefit, where these net operating losses may be used more broadly. In addition, SHI provided contractual protections relating to the preservation and utilization of the Company retained net operating losses. The amendments to the tax sharing agreement did not have any effect on the Company's policyholders' surplus.

- The Company made a net cash payment of $55.0 million on its long-term and short-term externally held surplus notes after receiving approval from the NYDFS. In accordance with statutory accounting principles, interest was not recorded by the Company as an expense until approval for such payment was granted by the NYDFS. This payment was recorded as an $8.2 million reduction to principal of short-term surplus notes and a $46.8 million payment of paid-in-kind and accrued interest on both the long-term and short-term surplus notes. There can be no assurance the NYDFS will grant approval for future payments on the Company's surplus notes.

- The NYDFS granted the Company permission to increase its earned surplus to the greatest extent possible given its current gross paid in and contributed surplus by allocating the entire balance of that account to earned surplus. The Company has reflected this permitted practice as of September 30, 2016.

*Description of the Transactions Comprising the 2009 MTA:*

On July 15, 2009, Syncora Guarantee consummated a Master Transaction Agreement with certain of its financial counterparties to CDS contracts insured by its financial guaranty insurance policies and certain related transactions (hereafter referred to collectively as the “2009 MTA”) which, along with approval of the New York State Department of Financial Services ("NYDFS") to apply certain accounting practices in connection with the preparation of Syncora Guarantee’s statutory financial statements to certain of the transactions comprising the 2009 MTA, resulted in Syncora Guarantee’s return to compliance with its regulatory minimum capital and surplus.

The 2009 MTA consisted of the following primary components:

(1) the restructure, effective defeasance or, in-substance, commutation (in whole or in part) of substantially all of the Company’s exposure to such CDS contracts, in exchange for which the Company paid the Counterparties consideration comprised of approximately $1.2 billion in cash, issuance of $625.0 million surplus notes of the Company and the transfer of common shares of Syncora Holdings Ltd. (“Syncora Holdings”), a Bermuda-based holding company;

(2) the reinsurance or novation of certain business to a newly formed, wholly-owned insurance subsidiary of the Company, Syncora Capital Assurance Inc. (prior to merger), in which the Company also issued back-up guarantees on such novated guarantees. See Note 6 for merger discussion;

(3) the effective defeasance or, in-substance, commutation, of certain of the Company’s exposure to insured residential mortgage backed securities (“RMBS”). See below for further discussion; and

(4) certain other transactions to remediate loss exposure, which primarily consisted of certain commutations of its other guarantees and assumed reinsurance, and the termination of its office lease agreement.

The 2009 MTA also contains a number of significant restrictive covenants applicable to the Company and Syncora Holdings Ltd. (collectively, the “Syncora MTA Parties”), which remain in effect until the Company’s surplus notes have been paid in full and, with respect to certain covenants, until certain policies issued by and CDS contracts insured by the Company are no longer in effect. These include prohibitions on:

i. the Syncora MTA Parties entering into a new or amending the existing tax sharing agreement or entering into specified related party transactions (subject to specified exceptions);

ii. the Company writing new business; incurring indebtedness and other material voluntary obligations (subject in each case to specified exceptions and limitations); merging, consolidating or selling, assigning or transferring or disposing of (including by way of reinsurance, recapture or otherwise) all or any material portion of their respective assets (subject to specified exceptions); and

iii. the Company making any payments with respect to its short-term or long-term surplus notes except with respect to all such notes on a pro rata basis and on the same terms; paying dividends on or repurchasing, redeeming, exchanging or converting its equity securities (or of any of its direct or indirect parent’s equity securities) or making investments (subject to specified exceptions).

On August 24, 2015, the Company and Syncora Capital Assurance Inc. (prior to merger) executed certain amendments to the 2009 MTA to, among other things, eliminate or modify certain contractual constraints, including, among other things, restrictions on the Company's ability to issue equity securities and restrictions on selling Existing Surplus Notes, reduce the requisite consenting percentages for future amendments to 50% by value from 75% by vote and value; and bifurcate voting between Company-only matters and Syncora Capital Assurance Inc. (prior to merger) - only matters all of which provide the Company with increased financial and operating flexibility. After giving effect to this amendment, the Company remains subject to certain prohibitions, future changes to which would require, in most cases, Company-only vote at a 50% voting threshold by value.

*Effective Commutation or Defeasance of Syncora Guarantee's Exposure to Insured RMBS Securities (the "RMBS Offer")*

In connection with the 2009 MTA, the Company invested in a fund (the "RMBS Fund") that executed certain transactions designed to effectively defease or, in-substance, commute the Company's exposure on certain of its financial guarantee insurance policies written on RMBS. The RMBS Fund purchased certain of such RMBS in return for a trust certificate of an owner trust representing the uninsured cash flows of such RMBS ("Uninsured Cash Flow Certificate") plus a cash payment. In general, the RMBS Fund contributed any such purchased RMBS (and certain of the Company's reimbursement rights) to separate owner trusts in return for certificates representing the cash flows consisting of insurance payments made on the policies insuring such RMBS ("Insurance Cash Flow Certificates"). In return for such investments, the Insurance Cash Flow Certificates were distributed to the Company. The Company will, should the cash flows from the underlying RMBS transaction be sufficient, receive certain reimbursement payments in respect of insurance payments previously made by the Company on such RMBS. The Company also entered into several alternative transactions effectively replicating the economics of the RMBS Offer.

In addition to the RMBS Offer, as part of its on-going strategic plan, the Company directly purchased certain RMBS that it had insured. Such directly purchased RMBS were exchanged by the Company for Insurance Cash Flow Certificates and Uninsured Cash Flow Certificates using the mechanics described above. The Uninsured Cash Flow Certificate may either be held or resold by the Company. The Company continues to purchase certain of its insured RMBS.

For the years ended December 31, 2017 and 2016, the Company paid gross RMBS claims aggregating \$10.8 million and \$21.1 million of which \$9.9 million and \$18.3 million, respectively, were returned to the Company as a result of receipts from Insured Cash Flow Certificates.

See "(c)" to the table in Note 4 for a description of the accounting for such effective defeasances or, in-substance, commutations.

## 3. Description of Significant Risks and Uncertainties, and Description of Syncora Guarantee's On-Going Strategic Plan

The Company is exposed to significant risks and uncertainties that may materially affect its financial and liquidity position. These relate to, among other things, (i) the potential for future adverse loss and claims development on its insured obligations and (ii) a potential liquidity mismatch resulting from the timing of anticipated future claims payments and subsequent cash recoveries (including recovery of salvage on Puerto Rico and other credits) related to these claims payments. These risks and uncertainties are discussed more fully below and could materially and adversely affect the Company's results of operations, financial condition and liquidity.

*Description of Significant Risks and Uncertainties and Other Matters*

- As of December 31, 2017, the Company has $244.2 million of net exposure to Puerto Rico (excluding interest outstanding of $75.4 million), which includes direct insurance and reinsurance of bond policies and direct investments by the Company as a result of remediation transactions. This exposure relates primarily to bonds issued by the Puerto Rico Electric Power Authority ("PREPA") of $127.5 million (excluding interest outstanding of $37.6 million) and general obligation bonds of the Commonwealth of Puerto Rico (the "Commonwealth") of $91.4 million (excluding interest outstanding of $28.1 million) and $25.3 million of net exposure to other obligations of Puerto Rico (excluding interest outstanding of $9.7 million). In July 2017, Syncora Capital Assurance Inc. (pre merger) paid approximately $112.6 million in net claims, representing principal and interest due on July 1, 2017 maturities primarily related to Commonwealth and PREPA exposures. Syncora Guarantee, as a result of the merger with Syncora Capital Assurance Inc., now directly owns all rights and interests of the bondholders with respect to these payments. Recoveries relating to these rights and interests could be long-dated, which could have a material adverse effect on the Company's short-term liquidity needs. Given that the Puerto Rico proceedings under PROMESA (as detailed below) may continue for an extended period, the Company may be required to make further material claims payments and therefore further increasing the proportion of its assets that are comprised of salvage and subrogation rights.

  On June 30, 2016, the President enacted the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"), which provides Puerto Rico and its instrumentalities with both an in-court (Title III) and out-of-court (Title VI) process to restructure debts and bind holdouts. PROMESA provides for the establishment of an Oversight Board, which the President appointed on August 31, 2016, with the authority to approve adjustments of debt of Puerto Rico and its instrumentalities, including PREPA.

  On May 3, 2017, the Oversight Board filed a petition under Title III on behalf of the Commonwealth. On June 27, 2017, the Oversight Board voted to reject the RSA, which resulted in the termination of the RSA on June 29, 2017. On July 2, 2017, the Oversight Board filed a petition under Title III on behalf of PREPA. The Commonwealth's and PREPA's Title III proceedings increase the risk and uncertainty relating to the ultimate recovery on the Commonwealth's general obligations bonds and of PREPA's power revenue bonds.

  On June 14, 2017, the judge overseeing the Title III proceedings entered an order appointing a team of mediators to facilitate confidential settlement negotiations of any issues arising in those proceedings. The Company is participating in the mediation process.

  On July 18, 2017, certain creditors of PREPA, including Syncora Guarantee, filed a motion in PREPA's Title III case seeking relief from the automatic stay in order to commence an action to enforce their statutory right to appoint a receiver. On September 14, 2017, this motion was denied by Judge Swain. On September 28, 2017, the Company and the other creditors appealed the decision to the United States Court of Appeals for the First Circuit.

  On September 20, 2017, Hurricane Maria made landfall on Puerto Rico causing extensive and widespread damage to property and infrastructure, including loss of electric power throughout the island. The effects of Hurricane Maria are still being assessed but it is expected to have a negative effect on the local economy. It will also likely delay any restructuring resolution and reduce ultimate recoveries to bond holders.

  As Puerto Rico and certain of its instrumentalities have defaulted on their debt obligations and given the effects of Hurricane Maria on Puerto Rico, the Company may experience further losses on these insured obligations which could have a material adverse effect on the Company's surplus, liquidity and financial position.

- The Company faces a potential liquidity mismatch between expected future claims payments and recoveries relating to these claims. As of December 31, 2017, the Company anticipates that it may be requested to make gross claim payments in the period 2018 to 2029 of at least approximately $338.7 million, excluding remediated RMBS claims, followed in later years (in some cases significantly later years) by recoveries of these claims payments. The Company also remains exposed to a number of other credits with exposure to refinancing risk and the risk of material principal repayments with an aggregate par outstanding of $2.9 billion, in each case as of December 31, 2017. The amount and timing of the recoveries related to future claims payments are subject to greater uncertainty than the amount and timing of such future claims payments themselves. Pursuant to the Company's accounting policy and guidance under SSAP, the net present value of estimated claims and recoveries (including salvage and subrogation) are reflected in the Company's loss reserves (see the Company's accounting policy on reserves in Note 4). Because of the inherent uncertainty in estimating future claim payments and recoveries (including, whether, when and to what extent investment grade and non-investment grade credits may be able to refinance), no assurance can be given that the amount or timing of claims payments, related recoveries, or ultimate losses match the Company's estimates, and such differences could materially and adversely affect the Company's results of operations, financial condition and liquidity. The Company may also experience significant adverse development on its insured obligations that may place further demands on the Company's liquidity and financial position. See Note 11 "*Schedule of Insured Financial Obligations with Credit Deterioration*" caption for further discussion.

- Any payment of principal or interest on the short-term and long-term surplus notes issued by the Company is subject to the satisfaction of conditions precedent, including, without limitation, prior regulatory approval by the NYDFS. The Company remains exposed to significant risks and uncertainties that may materially and adversely affect its financial condition, liquidity position and ability to make future payments on its surplus notes. Consequently, there can be no assurance as to whether and when the NYDFS will approve any future payments on the short-term or long-term surplus notes. Any payment by the Company of principal or interest on its short-term or long-term surplus notes could have a potential material adverse effect on the Company's prospective policyholders' surplus and liquidity position.

- The Company has significant exposure to public finance transactions (including specifically Puerto Rico), which pose a risk of material adverse development, including but not limited to event driven developments, such as adverse outcomes or rulings in bankruptcy proceedings, political, operational, legal and regulatory actions, over which the Company has no control. Such adverse developments could have a material adverse effect on the Company's liquidity and financial position, on the Company's estimate of reserves for losses, and on the various assumptions underlying such reserves for losses. Under certain conditions, many of which are outside the Company's control, these exposures to public finance transactions may result in significant increases in claims beyond that assumed in the Company's current reserve estimate, which could have a material adverse effect on the Company's liquidity and financial position.

- The Company also continues to have significant exposure to a number of large structured single risk transactions (3 transactions with an aggregate insured net principal outstanding of $695.0 million) with material risk of adverse development, including event driven risks, such as political, operational, bankruptcy, legal and regulatory actions. Such adverse events could have a material adverse effect on the Company's surplus, liquidity and financial position.

- The Company and its financial position will continue to be subject to risk of global financial and economic conditions that could materially and adversely affect the amount of potential losses (including the timing and amount of potential claims and subsequent recoveries) incurred on transactions it guarantees, the value of its investment portfolio, and otherwise materially and adversely affect the Company. With respect to the Company's investment portfolio, a prolonged period of low interest rates, along with declining investment balances, may adversely affect the Company's ability to generate sufficient investment income to fund its future obligations. Issuers or borrowers whose securities or loans the Company insures or holds as well as the Company's counterparties under swaps and other derivative contracts may default on their obligations to the Company due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud or other reasons. Additionally, the underlying assets supporting securities that the Company has guaranteed may deteriorate further, causing these securities to incur losses

- The Company has direct insurance and reinsurance exposure to certain credits within European countries. Global economic conditions have been negatively affected with concerns about the continued sovereign debt crisis within the European region and the possibility that certain European Union member states will default on their debt obligations or leave the European Union. The continued uncertainty over the outcome of the European Union governments' efforts to provide financial support for sovereigns and sub-sovereigns and the possibility of further deteriorating conditions in Europe could have a material adverse effect on the Company's financial and liquidity position. As of December 31, 2017, the Company's in-force guaranteed principal exposure to the European Union was approximately $5.4 billion of which $4.9 billion of net exposure is to credits in the UK and denominated in British Pound sterling and $256.4 million was specifically related to certain credits in higher risk countries, such as Portugal and Italy. The United Kingdom held a referendum on June 23, 2016, in which a majority of voters voted to exit the European Union ("Brexit"). Negotiations have commenced to determine the future terms of the United Kingdom's relationship with the European Union. Brexit has caused currency exchange rate fluctuations that resulted in the weakening of the British Pound, in which a portion of the Company's insured portfolio is denominated. Until there is greater certainty on the terms and conditions of the United Kingdom's relationship with the European Union, the Company cannot provide any assurance of its effect on its business, results of operations, liquidity and surplus, which could be material and adverse.

- The Company is materially exposed to foreign exchange risk as the Company's insured debt obligations are denominated in a number of foreign currencies and the U.S. dollar. The principal currencies creating foreign exchange risk are the British Pound sterling, Australian dollar and the European Union euro. At December 31, 2017, approximately 38% of the Company's in-force guaranteed net par outstanding exposure of $14.8 billion was denominated in such currencies. The Company translates foreign currencies into U.S. dollars at the current market exchange rates. Changes in the exchange rates between foreign currencies and U.S. dollars may have an adverse effect on the settlement of potential claims or the value of salvage/recoveries and therefore could have a material adverse effect on the Company's liquidity and surplus position. In addition, the Company is materially exposed to risks associated with its financial guarantees covering foreign denominated inflation indexed-linked bonds in connection with the bonds issued by UK and European utility and project finance issuers.

- The Company is involved in legal proceedings. Management cannot predict the outcomes of these legal proceedings with certainty. A favorable outcome could have a material effect on the Company's policyholders' surplus and liquidity position. Prosecuting these legal proceedings involves significant expense and diversion of management's attention and resources from other matters.

- In addition to exposure to general economic factors including stress in the energy sector, the Company is exposed to the specific risks faced by the particular businesses, municipalities or pools of assets covered by its financial guarantee products. In light of the continuing economic and financial stresses in the United States and Europe, various businesses and municipalities are facing financial difficulties. In addition, catastrophic events or terrorist acts could adversely affect the ability of public sector issuers to meet their obligations with respect to securities insured by the Company and the Company may incur material losses due to these exposures if the economic stress caused by these or other events is more severe than the Company currently foresees. Other events, such as interest rate changes or volatility, could, in certain instances, also materially affect the Company or its insured obligations.

- Obligations supported by specified revenue streams, such as revenue bonds issued by toll road authorities, municipal utilities or airport authorities, may be adversely affected by revenue declines resulting from reduced demand, changing demographics or other factors associated with an economy in which unemployment remains high, housing markets have not yet stabilized and growth is slow. These obligations, which may not necessarily benefit from financial support from other tax revenues or governmental authorities, may also experience increased losses if the revenue streams are insufficient to pay scheduled interest and principal payments.

- Many municipalities that issue some of the obligations the Company insures have experienced significant budget deficits and revenue collection shortfalls that require them to significantly raise taxes and/or cut spending in order to satisfy their obligations. If the issuers of the obligations in the Company's public finance portfolio do not have sufficient funds to cover their expenses, are unable to access the capital markets and are unable or unwilling to raise taxes, decrease spending or receive state, federal and other assistance, the Company may experience increased levels of losses or impairments on its public finance obligations, which could materially and adversely affect its business, financial condition and results of operations.

- Changes in laws and regulations or the adoption of new laws such as the Puerto Rico Recovery Act affecting insurance companies, the municipal and structured securities markets, the frequency with which municipalities file for protection under Chapter 9 of the bankruptcy code or similar insolvency laws and the loss severities associated therewith, the financial guarantee insurance and reinsurance markets and the credit derivatives markets, as well as other governmental regulations, or acts may subject the Company, its affiliates and subsidiaries to additional legal liability and regulatory requirements, affect the credit performance of the securities that the Company insures and otherwise affect the Company's financial condition.

- The Company continues to be materially exposed (directly and indirectly) to risks associated with deterioration in the residential mortgage market through its guarantees of RMBS, as well as other bond sectors to which the Company has material exposure, including the structured single risk, public finance (including Puerto Rico), commercial mortgage, and corporate loan bond sectors. The extent and duration of any deterioration of the credit markets is unknown, as is the effect, if any, on: (i) potential claim payments and the ultimate amount of losses the Company may incur on obligations it has guaranteed and (ii) potential losses the Company may incur on its invested assets.

- The Company's ability to pay dividends on its preferred and common shares is subject to risks and uncertainties, including, without limitation, prior regulatory approval by the NYDFS and compliance with certain contractual restrictions. See Note 14 for further discussion. No assurance can be given as to whether or when the Company may be able to pay any dividends on its preferred and/or common shares. As discussed in Note 14 the Company's ability to pay dividends is subject to regulatory constraints.

- Establishment of case basis reserves for unpaid losses and loss adjustment expenses on the Company's in-force business requires the use and exercise of significant judgment and is based on certain assumptions by management, including estimates regarding the likelihood of occurrence, timing and amount of a loss on a guaranteed obligation. Changes in such assumptions could materially adversely affect such reserve estimates, including the amount and timing of any claims. Under certain conditions, many of which are event-driven and outside the control of the Company, these exposures may result in significant increases in claims beyond those assumed in the Company's reserve estimate (that may or may not result in an increase in such loss reserves) in the near to medium term. A material portion of the Company's case basis reserves reflects certain assumptions that affect reimbursements in the remainder of its insured and reinsured portfolio. Actual experience may, and likely will, differ from those estimates and such difference may be material due to the fact that the ultimate dispositions of claims are subject to the outcome of events that have not yet occurred and, in certain cases, will occur over many years in the future. Examples of these events include changes in the level of interest rates, credit deterioration of guaranteed obligations, recoveries in bankruptcy proceedings, changes in the value of specific assets supporting guaranteed obligations and changes in the level of investment yield. Both qualitative and quantitative factors are used in making such estimates. From time to time the Company reevaluates all such estimates. Changes in these estimates may be material and may result in material changes in the Company's policyholders' surplus. Any estimate of future costs is subject to the inherent limitation on management's ability to predict the aggregate course of future events. It should, therefore, be expected that the actual emergence of losses and claims will vary, perhaps materially, from any estimate. The risk of loss under the Company's guarantees extends to the full amount of unpaid principal and interest on all debt obligations it has guaranteed.

- The Company has sought, and may in the future seek, the NYDFS's approval of permitted accounting practices and other regulatory relief which have, and if granted may have, a material effect on the Company's policyholders' surplus. Once granted, these permitted accounting practices have been subject to an annual approval or confirmation. No assurance can be given that the NYDFS will continue to grant approval of the Company's past or any future permitted accounting practices or requested regulatory relief. Failure to obtain continuing approval of the past or future permitted accounting practices or requested regulatory relief could have a material adverse effect on the Company's policyholders' surplus. See Note 4 for discussion of permitted accounting practices.

- Should the Company experience an "ownership change" for purposes of Section 382 of the Internal Revenue Code, the Company's ability to utilize its net operating loss carryforwards could be subject to an annual limitation in the future, which would be expected to result in a material increase in the Company's U.S. federal income tax liability, reduce reimbursements from profitable affiliates under its tax sharing agreement and therefore materially adversely affect the Company's surplus and liquidity position. While the Syncora Holdings Ltd. bye-laws contain restrictions intended to reduce the likelihood of such an "ownership change," it remains possible that an "ownership change" could nonetheless occur. These limitations may prevent Syncora Holdings Ltd. from taking certain strategic actions or may make it more difficult for Syncora Holdings Ltd. to attract additional capital. See Note 12 for more information. In addition, although the Company has not taken any uncertain tax positions, the IRS may nonetheless disagree with the Company's interpretation of this and other tax related matters.

- Notwithstanding the amendments to the 2009 MTA obtained by the Company on August 24, 2015, as discussed in Note 2., and the Restructuring Transactions completed on August 12, 2016, the Company remains subject to certain contractual and regulatory restrictions that limit its financial and operating flexibility and may materially and adversely impair its ability to execute on its strategic plan. See below Description of the Company's On-Going Strategic Plan and associated risks.

- The Company relies upon information technology and systems, including those of third parties, to support a variety of its business processes and activities. In addition, the Company has collected and stored confidential information. The Company's data systems and those of third parties on which it relies may be vulnerable to security breaches from external and internal factors. Problems in, or security breaches of, these systems could result in, among other things, reputational harm, the disclosure or misuse of confidential or proprietary information, inaccurate loss projections, legal costs and regulatory penalties. As the Company's business operations rely on the continuous availability of its computer systems, as well as those of certain third parties, a failure to maintain business continuity in the wake of disruptive events could prevent the timely completion of critical processes across its operations, including, for example, claims processing and investment operations. These failures could result in additional costs, fines and litigation.

- The Company's business could be negatively affected as a result of actions of activist stockholders of its parent, and responding to any such actions could be costly and time-consuming, disrupting operations and diverting the attention of management and employees. Such activities could interfere with the Company's ability to execute on its Strategic Actions.

- Due to the installment nature of a significant percentage of its premium income, the Company has an embedded future revenue stream. The amount of installment premiums actually realized by the Company could be materially reduced in the future due to factors such as early termination of insurance contracts, accelerated prepayments of underlying obligations, commutation of existing financial guarantee insurance policies or non-payment. Such reductions could result in materially lower revenues and liquidity.

- The Company's success substantially depends upon its ability to retain qualified employees and upon the ability of its senior management and other key employees to implement its strategic plan. The Company relies substantially upon the services of its executive team and other key employees. The loss of the services of any of these individuals or other key members of the Company's management team or the inability to hire talented personnel could adversely affect the implementation of its strategic plan or business operations.

- The Company may be unable to execute any or all of the elements of its on-going strategic plan on a timely basis or at all as described below.

*Description of the Company's On-Going Strategic Plan*

Syncora Guarantee, together with its affiliates, has completed a comprehensive strategic plan review and is now pursuing certain key strategic initiatives in order to continue to deliver enhanced value to stakeholders.

These initiatives include (i) closing of the agreement with Assured Guaranty Corp. in respect of a 100% quota share reinsurance transaction of a high percentage of net par outstanding of the Company's insured portfolio (See Note 19 for further discussion), (ii) continuing to make payments on the surplus notes issued by the Company, (iii) continuing to focus on remediating insured exposures (through their purchase on the open market or otherwise, commutation, defeasance or other restructuring) to minimize potential claim payments, maximize recoveries and mitigate potential losses, (iv) seeking to realize the maximum value of its assets, and various legal proceedings described in Note 13 and from any other rights and remedies the Company may have, whether through litigation, settlement, sale or other monetization, (v) completing the sale of American Roads, (vi) further reducing operating expenses and improving operational efficiencies. In addition, management is considering when and how to utilize NOLs that were reallocated to Syncora Holdings US Inc. as part of the restructuring transaction completed on August 12, 2016.

Any or all of these actions may be outside the ordinary course of the Company's operations or its control and may require consents, approvals or cooperation of third parties, including the NYDFS, and there can be no assurance that any such consents, approvals or cooperation will be obtained on a timely basis or at all.

## 4. Summary of Significant Accounting Policies

### Accounting Practices

Syncora Guarantee prepares its statutory basis financial statements in accordance with accounting practices prescribed or permitted by the NYDFS. The NYDFS recognizes only statutory accounting practices prescribed or permitted by the State of New York for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under insurance law. The National Association of Insurance Commissioners ("NAIC") Accounting Practices and Procedures manual ("NAIC SAP"), has been adopted as a component of prescribed or permitted practices by the State of New York. The state has adopted certain prescribed accounting practices that differ with those found in NAIC SAP. The NYDFS has the right to permit other specific practices which deviate from prescribed practices.

Set forth below is a reconciliation of the net income (loss) and capital and surplus (deficit) reported in accordance with NAIC SAP to such amounts reported in the accompanying financial statements prepared in accordance with statutory accounting practices prescribed or permitted by the NYDFS as of and for the years ended December 31, 2017 and 2016. As a result of the merger with Syncora Capital Assurance Inc., all prior year 2016 financial statement information was restated to include Syncora Capital Assurance Inc.'s financial information as if it was merged as of the beginning of the prior year.

*(U.S. Dollars in thousands)*

| | Net Income | | Capital and Surplus | |
|---|---|---|---|---|
| **Description** | **2017** | **2016** | **2017** | **2016** |
| NAIC SAP Basis | $ 169,225 | $ 269,937 | $ 182,000 | $ 2,911 |
| Effect of NY prescribed practices | | | | |
| **(a)** | - | - | - | - |
| Effect of NY permitted practices | | | | |
| **(b)** | - | - | 878,669 | 816,529 |
| **(c)** | (98,688) | (222,448) | 207,791 | 306,479 |
| **(d)** | - | - | - | - |
| **(e)** | - | (2,233) | 49,164 | 62,365 |
| **(f)** | - | - | - | - |
| NY Basis | $ 70,537 | $ 45,256 | $ 1,317,624 | $ 1,188,284 |

*Permitted or Prescribed Practices*

**(a)** Pursuant to certain prescribed accounting practices under Articles 14 and 69 of the NYIL that differ with those found in NAIC SAP, the admissible carrying value of a share of an insurer is limited to a stipulated percentage of policyholders' surplus, and investments in certain securities (including the Uninsured Cash Flow Certificates (see Note 2)) are also subject to limitations. In connection with the 2009 MTA discussed in Note 2, the NYDFS permitted the Company to admit these assets notwithstanding the otherwise applicable limitations, which resulted in no difference between NAIC SAP and NY basis.

**(b)** Pursuant to approval granted by the NYDFS in accordance with section 6903 of the NYIL, as of December 31, 2017 and December 31, 2016, the Company has de-recognized $878.7 million and $816.5 million, respectively, in the aggregate, of contingency reserves on terminated policies, and policies on which the Company has established case reserves, whereas under NAIC SAP the Company would still be required to carry such reserves. The Company applies the permitted practice described above to release contingency reserves on an obligation by obligation basis under policies insuring multiple obligations rather than on a policy by policy basis. In addition to the foregoing, the Company released contingency reserves based on a methodology pursuant to a permitted practice granted by the NYDFS.

**(c)** The NYDFS granted the Company a permitted practice to de-recognize reserves for unpaid losses, unearned premium reserve and contingency reserves relating to, and expense payments (which are reflected in "Net losses and loss adjustment expenses " on the Statements of Operations and Changes in Capital and Surplus ("Statements of Operations")) made to effect, certain transactions executed in connection with its continued remediation efforts described in Note 2 which effectively defeased or, in-substance, commuted, in whole or in part, the policies relating thereto, whereas under NAIC SAP such reserves would continue to be carried until such time the underlying contracts were legally extinguished and the payments made to effect the transactions would have resulted in the recording of an asset, as such payments were made in exchange for the assignment to the Company or an affiliate of the Company of all rights under the aforementioned policies. As of December 31, 2017, such de-recognized reserves for unpaid losses, unearned premium reserve and contingency reserves (as of the date of the effective defeasance or, in-substance commutations) aggregated $6.2 billion, $17.4 million and $4.9 million, respectively. As of December 31, 2016, such de-recognized reserves for unpaid losses, unearned premium reserve and contingency reserves (as of the date of the effective defeasance or, in-substance commutations) aggregated $6.2 billion, $17.4 million and $4.9 million, respectively. As of December 31, 2015, the Company no longer sought approval for the de-recognition of unpaid losses, unearned premium reserves and contingency reserves relating to, and expense payments made which effectively defeased or, in-substance, commuted certain CDS contracts executed in connection with the consummation of the 2009 MTA and that were previously disclosed on an aggregate basis. As such CDS contracts were legally extinguished as of December 31, 2015, the associated reserves were released under NAIC SAP resulting in no difference between NAIC SAP and NY basis, and therefore the permitted practice is no longer required.

**(d)** The NYDFS granted the Company a permitted practice to value the surplus notes issued by the Company in settlement of certain policy obligations in connection with the 2009 MTA (see Note 2) at original face value of $625.0 million in the aggregate, as compared to the estimated fair value thereof, that the Company would otherwise have been required to reflect such surplus notes in accordance with NAIC SAP. Any adjustment to the carrying value of surplus notes would result in an equal and offsetting adjustment to unassigned funds. As both surplus notes and unassigned funds are elements of policyholders' surplus, a change in the value of the surplus notes would not affect policyholders' surplus.

**(e)** The NYDFS granted the Company a permitted practice to account for its ownership of the common stock of American Roads entities as salvage recoverable using a discounted cash flow model, which is deducted from the liability for unpaid claims or losses, whereas under NAIC SAP, the Company would be required to record its 100% equity ownership of the American Roads entities using GAAP equity value.

**(f)** In connection with the Restructuring Transactions (as defined in Note 2) completed on August 12, 2016, the NYDFS granted the Company permission to increase its earned surplus to the greatest extent possible given its current gross paid in and contributed surplus by allocating the entire balance of that account to earned surplus. As both earned surplus and gross paid in and contributed surplus are elements of policyholders' surplus, this permitted practice has no effect on total policyholders' surplus.

The Company has obtained confirmation of these permitted practices as of December 31, 2017 and 2016 and plans to seek annual confirmation of these permitted practices for the year ended December 31, 2018.

**Use of Estimates**

The preparation of financial statements in conformity with accounting practices prescribed or permitted by the NYDFS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from estimates and those differences may be material.

In addition to the permitted practices described above, Syncora Guarantee utilizes the following accounting policies in the preparation of the accompanying financial statements:

**Investments**

*Bonds*

Bonds (which consist of bonds and loan-backed securities) with an NAIC designation of 1 or 2 (highest-quality and high-quality) are stated at cost, adjusted for amortization of premium and accretion of discount, which is calculated using the constant yield method. Bonds with an NAIC designation of 3 through 6 (medium quality, low quality, lowest quality and in or near default) are stated at the lower of amortized cost, adjusted for amortization of premium and accretion of discount calculated using the constant yield method, or fair value. The prospective method is used to value loan-backed securities.

Syncora Guarantee employs a third party investment accounting service provider. Prepayment assumptions for loan-backed securities are obtained from a third party pricing service or determined using Syncora Guarantee's internal estimates.

The following table presents the carrying value of Syncora Guarantee's securities by NAIC designation (excluding exempt money market instruments of $18.5 million) at December 31, 2017:

*(U.S. Dollars in thousands)*

| | Bonds | Short-term investments | Cash equivalents | Total |
|---|---|---|---|---|
| NAIC designation 1 | $ 500,084 | $ 725 | $ 264,394 | $ 765,203 |
| NAIC designation 2 | 258,620 | 400 | - | 259,020 |
| NAIC designation 3 | 31,789 | - | - | 31,789 |
| NAIC designation 4 | 6,454 | - | - | 6,454 |
| NAIC designation 5 | 717 | - | - | 717 |
| NAIC designation 6 | 75,870 | - | - | 75,870 |
| | $ 873,534 | $ 1,125 | $ 264,394 | $1,139,053 |

*Cash, Cash Equivalents and Short-Term Investments*

Cash, cash equivalents and short-term investments include cash on hand, amounts due from banks, money market instruments and commercial paper. Cash equivalents include investments owned whose maturities at the time of acquisition were three months or less. Short-term investments are stated at amortized cost and consist primarily of investments having maturities greater than three months from the date of purchase, but less than one year to maturity. Fair values for such investments approximate carrying value.

*Investment in Subsidiaries*

Syncora Guarantee's investment in the common stocks of its wholly owned subsidiaries are accounted and reported under the equity method as described in SSAP No. 97, "Investments in Subsidiary, Controlled and Affiliated Entities", and valued in accordance with section 3(ii)(D) of the NAIC Valuations Securities manual. Changes in the carrying value of such investments are reflected as unrealized gains or losses in capital and surplus.

*Preferred Stocks and Common Stocks*

Perpetual preferred stocks with an NAIC designation of P1 and P2 (highest-quality and high-quality) are carried at fair value while perpetual preferred stocks with an NAIC designation of P3 through P6 (medium quality, low quality, lowest quality and in or near default) are carried at the lower of cost or fair value. Redeemable preferred stocks with an NAIC designation of RP1 and RP2 (highest-quality and high quality) are carried at amortized cost while redeemable preferred stocks with an NAIC designation of RP3 through RP6 (medium quality, low quality, lowest quality and in or near default) are carried at the lower of amortized cost or fair value. All common stocks are carried at fair value.

*Limited Partnerships and Limited Liability Companies*

The Company accounts for its investments in limited partnerships and limited liability companies based on the underlying GAAP equity value.

*Derivative Instruments*

Derivative instruments are recorded at an estimated fair value with changes in fair value recorded as unrealized gains and losses which are included in "Capital and surplus" on the Statements of Admitted Assets, Liabilities and Capital and Surplus.

*Net Investment Income*

Net investment income includes interest and dividends received or accrued on investments, as well as interest expense on the Company's surplus notes. It also includes amortization or accretion of any purchase premium or accretion of discount using the constant yield method, adjusted prospectively for any change in estimated yield to maturity. Investment income is recognized when earned. Investment income due and accrued that is deemed uncollectible is charged against net investment income in the period such determination is made. Net investment income is reduced by investment expenses. In addition, investment income due and accrued that is greater than 90 days past due is non-admitted and charged directly to capital and surplus.

*Realized Investment Gains and Losses and Impairments*

Realized investment gains and losses on the sale of investments are determined on the basis of the first-in, first-out method and are included in net income.

The Company conducts a review to identify and evaluate investments that have indications of possible other-than- temporary impairment. An impairment of an investment shall be considered to have occurred if it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the security. If the fair value of the investment is less than the carrying value and the Company determines that the decline in the value of the investment is other-than-temporary, the investment is written down to its fair value and a realized loss is recorded in the Statements of Operations. In addition, for securities that the Company has the intent to sell or the inability or the lack of intent to retain the securities for a period of time sufficient to recover the amortized cost, the securities are written down to fair value and the other-than-temporary impairment charge is recorded as a realized loss in the Statements of Operations.

**Premium Revenue Recognition**

Premiums are received either upfront or in installments and are recognized as written when due. Accordingly, future installment premiums are not recognized as receivable until they are due. Once due, installment premiums written are earned ratably over the installment period, generally one to six months, which is consistent with the expiration of the underlying risk or amortization of the underlying insured principal. Upfront premiums written are earned based on the proportion of principal and interest paid during the period, as compared to the total amount of principal and interest to be paid over the contractual life of the insured debt obligation.

In addition, when an insured issue is retired early, is called by the issuer or is in substance paid in advance through a refunding accomplished by placing U.S. Government securities in escrow, any remaining unearned premium revenue is earned at that time, since there is no longer risk to the Company. Also, premiums earned may be accelerated as a result of the Company's remediation transactions, which result in the Company no longer being at risk. Premiums earned by Syncora Guarantee for the years ended December 31, 2017 and 2016 include $25.9 million ($25.0 million net of reinsurance) and $38.0 million ($38.0 million net of reinsurance), respectively, related to accelerations. As premium revenue is recognized there is a corresponding decrease in the unearned premium reserve.

**Fees and Other Income**

In connection with certain of its insured transactions, Syncora Guarantee may collect waiver, consent, termination and other fees. Depending upon the type of fee received, the fee is either earned when services are rendered and the fee is due, or deferred and earned over a stipulated period or the life of the related transaction.

**Underwriting Expenses**

Underwriting expenses primarily include compensation and employee benefits, professional and legal fees, computer related costs, rent and occupancy costs, depreciation and amortization expense, and other general and administrative expenses.

**Mandatory Contingency Reserve**

In accordance with NAIC SAP, a statutorily mandated contingency reserve is established net of reinsurance by an appropriation of unassigned surplus and is reflected in the Statements of Admitted Assets, Liabilities and Capital and Surplus. This reserve is calculated as the greater of a prescribed percentage applied to insured original principal or 50% of premiums written, net of ceded reinsurance. The prescribed percentage varies by the type of business. Once the reserve is calculated, as described above, it is incrementally recognized in the financial statement over a prescribed time period based on type of business. Reductions in the contingency reserve may be recognized under certain stipulated conditions, subject to the approval of the NYDFS. See above for discussion of permitted and prescribed accounting practices.

**Losses and Loss Adjustment Expenses**

Reserves for losses and loss adjustment expenses on insured business are established by Syncora Guarantee with respect to a specific policy or contract upon, (i) receipt of a claim notice or when management determines that a claim is probable in the future based on specific credit events that have occurred, and (ii) the amount of the ultimate loss that Syncora Guarantee will incur can be reasonably estimated. The amount of such case basis reserve is based on the net present value of the expected future net cash outflows for loss and loss adjustment expense payments that Syncora Guarantee expects to make, net of expected recoveries under salvage and subrogation rights and the net present value of installment premiums due from the counterparties to such guarantees subsequent to the balance sheet date. The future expected cash outflows are determined using cash flow models to estimate the net present value of the anticipated shortfall between (i) scheduled payments on the insured obligation plus anticipated loss adjustment expenses, and (ii) anticipated cash flow from the collateral supporting the obligation and other anticipated recoveries or cash flows.

A number of quantitative and qualitative factors are considered when determining or assessing the need for a case basis reserve. These factors may include the creditworthiness of the underlying issuer of the insured obligation, whether the obligation is secured or unsecured, the projected cash flow or market value of any assets that collateralize or secure the insured obligation, and the historical and projected loss rates on such assets. Other factors that may affect the actual ultimate loss include the state of the economy, changes in interest rates, rates of inflation and the salvage values of specific collateral, as well as the Company's rights, remedies and defenses. Such factors and management's assessment thereof will be subject to the specific facts and circumstances associated with the specific insured transaction being considered for case reserve establishment. Case basis reserves are generally discounted at a rate reflecting the weighted average return on Syncora Guarantee's invested assets at year end. Establishment of such reserves requires the use and exercise of significant judgment by management, including estimates regarding the occurrence, amount, and timing of a loss on an insured obligation. Actual experience may differ from estimates and such difference may be material, due to the fact that the ultimate dispositions of claims are subject to the outcome of events that have not yet occurred. Examples of these events include changes in the level of interest rates, credit deterioration of insured obligations, and changes in the value of specific assets supporting insured obligations. Any estimate of future costs is subject to the inherent limitation on Syncora Guarantee's ability to predict the aggregate course of future events. It should therefore be expected that the actual emergence of losses and loss adjustment expenses will vary, perhaps materially, from any estimate.

Reserves for unpaid losses and loss adjustment expenses in the accompanying Statements of Admitted Assets, Liabilities and Capital and Surplus are reflected net of reinsurance.

See also the discussion of the permitted or prescribed practices in Note 4.(c) to the table above.

**Credit Default Swap Contracts**

The Company accounts for its insurance of CDS contracts issued by trusts as insurance.

**Reinsurance**

Reinsurance premiums ceded are earned on a basis consistent with premiums written on a direct basis as discussed above, respectively. Syncora Guarantee is allowed a ceding commission on ceded premiums written under the terms of its reinsurance agreements. To the extent such ceding commission exceeds acquisition costs, amounts are deferred and amortized to income over the life of the policy.

**Liability for Unauthorized Reinsurance**

The Company must recognize as a liability in its financial statements for any credit recorded therein for ceded reinsurance liabilities to authorized and unauthorized reinsurance companies, unless such reinsurance companies have secured such obligations through funds on deposit with the ceding company, a letter of credit or by some other means generally recognized under NAIC SAP or by the NYDFS irrespective of whether the Company believes such amounts are ultimately collectible from the reinsurer.

### Income Taxes

Syncora Guarantee files a consolidated tax return with its parent company, Syncora Holdings US Inc., and certain other affiliates. The entities included in the consolidated tax return maintain a tax sharing agreement, whereby the consolidated tax liability is allocated among such entities based on the ratio of their separate return liability to the sum of the separate return liabilities of all such entities. In addition, a complementary method is used which results in reimbursement by profitable entities to loss entities for tax benefits generated by loss entities. Accordingly, the provision for federal income taxes represents Syncora Guarantee's allocated share of tax expense based on income from operations currently taxable and estimated to be payable to the Internal Revenue Service by Syncora Holdings US Inc. Increases or decreases in certain federal income tax liabilities established in prior years are reflected as adjustments to surplus. Federal tax amounts payable and/or receivable in the accompanying financial statements represent amounts due to and/or from Syncora Holdings US Inc.

Syncora Guarantee records deferred federal income taxes for temporary differences between the statutory basis and tax basis of assets and liabilities. A net deferred tax asset is recorded only to the extent it is expected to be realized in accordance with the applicable statutory accounting for income taxes. Amounts in excess of such limit are recorded as non-admitted assets. Changes in the admitted deferred tax asset or liability are recorded directly to unassigned surplus. In addition, a valuation allowance is recorded when it is more likely than not that all, or some portion, of the benefits related to deferred tax assets will not be realized. As of December 31, 2017 and 2016, Syncora Guarantee's net deferred tax assets were subject to a full valuation allowance (see Note 12).

### Admitted Assets

The assets included in the accompanying Statements of Admitted Assets, Liabilities and Capital and Surplus are stated at values that are prescribed or permitted by the NYDFS. Assets designated as non-admitted are charged directly to unassigned surplus. There were $6.5 million and $14.1 million of non-admitted assets charged to unassigned surplus at December 31, 2017 and 2016, respectively. Non-admitted assets as of December 31, 2017 and 2016, were primarily comprised of receivables from parent, subsidiaries and affiliates of $5.8 million and 13.7 million, respectively.

### Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation. There were no effects on net income (loss) or capital and surplus as a result of these reclassifications.

## 5. Investments

In accordance with the NYIL, financial guarantee insurance companies are restricted as to the types of investments they may purchase for their minimum capital and surplus and as to concentration of risk they may accept in one issuer or group of issuers.

Bonds with an amortized cost of $6.3 million and a fair value of $6.5 million at December 31, 2017 were on deposit with twelve states and the Commonwealth of Puerto Rico as required by the respective insurance regulatory departments.

The amortized cost and fair value for bonds as of December 31, 2017 and 2016 are as follows:

*(U.S. Dollars in thousands)*

| | Cost or Amortized Cost | | Gross Unrealized Gains | | Gross Unrealized Losses | | Fair Value | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| U.S. Government and government agencies and authorities | $ 122,776 | $ 137,651 | $ 691 | $ 1,010 | $ - | $ - | $ 123,467 | $ 138,661 |
| Non-U.S. Government obligations | 1,297 | 1,291 | - | - | - | - | 1,297 | 1,291 |
| Obligations of states, territories and possessions | 10,113 | 23,856 | 11 | 12 | - | - | 10,124 | 23,868 |
| Obligations of political subdivisions | 261 | 261 | 47 | 48 | - | - | 308 | 309 |
| Special revenue and assessment obligations of agencies and authorities of government and political subdivisions | 113,407 | 239,865 | 3,110 | 2,390 | - | - | 116,517 | 242,255 |
| Industrial and miscellaneous obligations | 625,680 | 785,628 | 32,701 | 7,852 | - | - | 658,381 | 793,480 |
| Total | $ 873,534 | $ 1,188,552 | $ 36,560 | $ 11,312 | $ - | $ - | $ 910,094 | $ 1,199,864 |

The amortized cost and fair value of bonds at December 31, 2017, by contractual maturity, are shown below. Actual maturity may differ from contractual maturity because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities are generally more likely to be prepaid than other bonds. As the stated maturities of such securities may not be indicative of actual maturities, the totals for mortgage-backed securities are shown separately.

| | 2017 | |
|---|---|---|
| *(U.S. Dollars in thousands)* | Amortized Cost | Fair Value |
| Within one year | $ 4,952 | $ 4,952 |
| Due after one year through five years | 475,727 | 478,121 |
| Due after five years through ten years | 161,981 | 164,563 |
| Due after ten years | 79,245 | 109,532 |
| Subtotal | 721,905 | 757,168 |
| Mortgage-backed securities | 151,629 | 152,926 |
| Total | $ 873,534 | $ 910,094 |

Proceeds from sales, maturities and redemptions of bonds for the years ended December 31, 2017 and 2016 were $590.9 million and $1,023.8 million, respectively.

Net investment (expense) income for the years ended December 31, 2017 and 2016 consisted of the following:

| *(U.S. Dollars in thousands)* | 2017 | 2016 |
|---|---|---|
| **Bonds** | | |
| U.S. Government and government agencies and authorities | $ 2,775 | $ 2,584 |
| Non-U.S. Government obligations | 39 | 6 |
| Obligations of states, territories and possessions | 930 | 2,272 |
| Obligations of political subdivisions | 14 | 14 |
| Special revenue and assessment obligations of agencies and authorities of government and political subdivisions | 3,394 | 9,920 |
| Industrial and miscellaneous obligations | 32,804 | 34,118 |
| Cash, cash equivalents and short-term investments | 1,241 | 396 |
| Other | - | 278 |
| Subtotals | 41,197 | 49,588 |
| **Stocks** | | |
| Preferred stocks | 130 | 177 |
| Common stocks | 4,178 | 2,021 |
| Subtotals | 4,308 | 2,198 |
| **Other invested assets** | 167 | 143 |
| Less: | | |
| Surplus notes interest expense | (47,348) | (46,775) |
| Investment expenses | (1,403) | (1,493) |
| Net investment (expense) income | $ (3,079) | $ 3,661 |

The gross realized gains and gross realized losses for the years ended December 31, 2017 and 2016 are as follows:

| *(U.S. Dollars in thousands)* | Gains | | Losses | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Bonds | $ 22,834 | $ 15,523 | $ (47,252) | $ (31,365) |
| Short-term investments | - | 6 | (3) | - |
| Preferred stocks | 21 | - | - | (148) |
| Common stocks | 5,732 | 2,793 | (2,849) | (745) |
| Other Invested Assets | 143 | 361 | (170) | (167) |
| Total gross realized gains (losses), before tax | $ 28,730 | $ 18,683 | $ (50,274) | $ (32,425) |
| Income tax expense | | | - | - |
| Net realized capital losses | | | $ (21,544) | $ (13,742) |

For the years ended December 31, 2017 and 2016, Syncora Guarantee recorded other-than-temporary impairment charges on bonds and common stocks of $49.2 million and $31.1 million, respectively, which are included in net realized capital gains/losses on the Statements of Operations.

For the years ended December 31, 2017 and 2016, Syncora Guarantee recorded other-than-temporary impairment charges on loan-backed securities of $1.3 million and $4.8 million, respectively, which were still held at December 31, 2017 and 2016.

The following table summarizes other-than-temporary impairments for loan-backed and structured securities held at December 31, 2017, recorded based on the fact that the present value of projected cash flows expected to be collected was less than the amortized cost of these securities:

| CUSIP | Amortized Cost Before Other-Than-Temporary Impairment | Present Value of Projected Cash Flows | Other-Than-Temporary Impairment | Amortized Cost After Other-Than-Temporary Impairment | Fair Value at Time of Other-Than-Temporary Impairment | Date of Financial Statement Where Reported |
|---|---|---|---|---|---|---|
| 02582JHJ2 | $ 2,049,706 | $ 2,040,119 | $ 9,587 | $ 2,040,119 | $ 2,040,119 | 12/31/2017 |
| 03065VAD9 | 814,384 | 814,130 | 254 | 814,130 | 814,130 | 12/31/2017 |
| 059513AE1 | 65,939 | 65,748 | 191 | 65,748 | 65,748 | 3/31/2017 |
| 12514AAE1 | 1,602,635 | 1,588,281 | 14,354 | 1,588,281 | 1,588,281 | 3/31/2017 |
| 12514MBD6 | 594,275 | 590,442 | 3,833 | 590,442 | 590,442 | 12/31/2017 |
| 12515GAJ6 | 1,181,975 | 1,179,026 | 2,949 | 1,179,026 | 1,179,026 | 12/31/2017 |
| 12622DAC8 | 146,142 | 145,455 | 687 | 145,455 | 145,455 | 3/31/2017 |
| 12622DAC8 | 145,289 | 145,284 | 5 | 145,284 | 145,284 | 6/30/2017 |
| 12622DAC8 | 145,122 | 144,185 | 937 | 144,185 | 144,185 | 9/30/2017 |
| 12622DAC8 | 135,256 | 133,764 | 1,492 | 133,764 | 133,764 | 12/31/2017 |
| 12624QAS2 | 413,119 | 412,803 | 316 | 412,803 | 412,803 | 3/31/2017 |
| 12625FAF3 | 995,532 | 991,044 | 4,488 | 991,044 | 991,044 | 3/31/2017 |
| 12625FAF3 | 935,119 | 918,422 | 16,697 | 918,422 | 918,422 | 6/30/2017 |
| 12625FAF3 | 894,227 | 876,960 | 17,267 | 876,960 | 876,960 | 9/30/2017 |
| 12625FAF3 | 840,203 | 793,424 | 46,779 | 793,424 | 793,424 | 12/31/2017 |
| 12634NAT5 | 1,662,861 | 1,655,810 | 7,051 | 1,655,810 | 1,655,810 | 3/31/2017 |
| 12635FAT1 | 1,406,608 | 1,394,780 | 11,828 | 1,394,780 | 1,394,780 | 3/31/2017 |
| 12635YAF0 | 387,395 | 387,005 | 390 | 387,005 | 387,005 | 3/31/2017 |
| 12669FKS1 | 92,105 | 91,116 | 989 | 91,116 | 91,116 | 3/31/2017 |
| 12669FKS1 | 65,184 | 65,008 | 176 | 65,008 | 65,008 | 9/30/2017 |
| 12669FKS1 | 49,390 | 48,036 | 1,354 | 48,036 | 48,036 | 12/31/2017 |
| 13975WAD5 | 249,954 | 248,705 | 1,249 | 248,705 | 248,705 | 12/31/2017 |
| 165183AR5 | 1,969,668 | 1,967,695 | 1,973 | 1,967,695 | 1,967,695 | 9/30/2017 |
| 165183AR5 | 1,967,809 | 1,960,012 | 7,797 | 1,960,012 | 1,960,012 | 12/31/2017 |
| 165183AT1 | 304,959 | 304,158 | 801 | 304,158 | 304,158 | 9/30/2017 |
| 165183BB9 | 3,039,795 | 3,031,640 | 8,155 | 3,031,640 | 3,031,640 | 12/31/2017 |
| 17305EFW0 | 3,739,064 | 3,724,688 | 14,376 | 3,724,688 | 3,724,688 | 12/31/2017 |
| 17309RAA0 | 167,712 | 166,733 | 979 | 166,733 | 166,733 | 3/31/2017 |
| 17322VAY2 | 695,557 | 690,214 | 5,343 | 690,214 | 690,214 | 3/31/2017 |

| CUSIP | Amortized Cost Before Other-Than-Temporary Impairment | Present Value of Projected Cash Flows | Other-Than-Temporary Impairment | Amortized Cost After Other-Than-Temporary Impairment | Fair Value at Time of Other-Than-Temporary Impairment | Date of Financial Statement Where Reported |
|---|---|---|---|---|---|---|
| 17325GAD8 | 301,267 | 301,072 | 195 | 301,072 | 301,072 | 3/31/2017 |
| 17326DAJ1 | 741,135 | 736,195 | 4,940 | 736,195 | 736,195 | 12/31/2017 |
| 20173VAE0 | 2,203,903 | 2,201,977 | 1,926 | 2,201,977 | 2,201,977 | 3/31/2017 |
| 20173VAE0 | 228,560 | 228,312 | 248 | 228,312 | 228,312 | 6/30/2017 |
| 23291FAC0 | 1,319,903 | 1,313,466 | 6,437 | 1,313,466 | 1,313,466 | 12/31/2017 |
| 30261YAL0 | 258,269 | 257,988 | 281 | 257,988 | 257,988 | 3/31/2017 |
| 30261YAL0 | 257,668 | 257,660 | 8 | 257,660 | 257,660 | 6/30/2017 |
| 30261YAL0 | 257,035 | 252,759 | 4,276 | 252,759 | 252,759 | 12/31/2017 |
| 30262BAL9 | 313,327 | 312,993 | 334 | 312,993 | 312,993 | 3/31/2017 |
| 30262BAL9 | 312,248 | 311,454 | 794 | 311,454 | 311,454 | 9/30/2017 |
| 30262BAL9 | 311,111 | 307,979 | 3,132 | 307,979 | 307,979 | 12/31/2017 |
| 30262LAF0 | 1,272,179 | 1,267,248 | 4,931 | 1,267,248 | 1,267,248 | 3/31/2017 |
| 30263BAL8 | 1,641,913 | 1,632,748 | 9,165 | 1,632,748 | 1,632,748 | 9/30/2017 |
| 30290KAN1 | 1,027,316 | 1,025,060 | 2,256 | 1,025,060 | 1,025,060 | 6/30/2017 |
| 30290KAN1 | 1,024,438 | 1,020,180 | 4,258 | 1,020,180 | 1,020,180 | 9/30/2017 |
| 30291EAE4 | 721,688 | 716,319 | 5,369 | 716,319 | 716,319 | 12/31/2017 |
| 3128MDBX0 | 2,104,792 | 2,094,976 | 9,816 | 2,094,976 | 2,094,976 | 12/31/2017 |
| 3128MJ2M1 | 2,025,505 | 2,012,768 | 12,737 | 2,012,768 | 2,012,768 | 9/30/2017 |
| 3128MJ2M1 | 1,978,344 | 1,975,622 | 2,722 | 1,975,622 | 1,975,622 | 12/31/2017 |
| 3128MJ2S8 | 2,025,510 | 2,012,771 | 12,739 | 2,012,771 | 2,012,771 | 9/30/2017 |
| 3128MJ2S8 | 1,984,977 | 1,980,898 | 4,079 | 1,980,898 | 1,980,898 | 12/31/2017 |
| 3128MJ3A6 | 1,718,434 | 1,717,035 | 1,399 | 1,717,035 | 1,717,035 | 12/31/2017 |
| 3128MJYT1 | 8,510,726 | 8,488,628 | 22,098 | 8,488,628 | 8,488,628 | 3/31/2017 |
| 3128MJYY0 | 6,780,774 | 6,763,212 | 17,562 | 6,763,212 | 6,763,212 | 3/31/2017 |
| 31292MDY6 | 1,139,394 | 1,136,514 | 2,880 | 1,136,514 | 1,136,514 | 3/31/2017 |
| 31292SA42 | 666,043 | 664,359 | 1,684 | 664,359 | 664,359 | 3/31/2017 |
| 31292SAN0 | 1,113,897 | 1,111,083 | 2,814 | 1,111,083 | 1,111,083 | 3/31/2017 |
| 31292SAN0 | 5,934,357 | 5,920,515 | 13,842 | 5,920,515 | 5,920,515 | 3/31/2017 |
| 3132HRNG1 | 2,656,683 | 2,650,607 | 6,076 | 2,650,607 | 2,650,607 | 3/31/2017 |
| 3132J6HR8 | 3,157,332 | 3,150,231 | 7,101 | 3,150,231 | 3,150,231 | 3/31/2017 |
| 31335AZ68 | 3,925,436 | 3,919,261 | 6,175 | 3,919,261 | 3,919,261 | 3/31/2017 |
| 3136AB3Q4 | 3,321,253 | 3,316,608 | 4,645 | 3,316,608 | 3,316,608 | 9/30/2017 |
| 3136AW3K1 | 2,079,824 | 2,033,527 | 46,297 | 2,033,527 | 2,033,527 | 9/30/2017 |
| 3136AXC45 | 2,072,077 | 2,032,874 | 39,203 | 2,032,874 | 2,032,874 | 9/30/2017 |
| 3136AXCV5 | 5,027,599 | 4,994,611 | 32,988 | 4,994,611 | 4,994,611 | 9/30/2017 |
| 3136AXQN8 | 7,614,594 | 7,567,179 | 47,415 | 7,567,179 | 7,567,179 | 9/30/2017 |
| 3137A7JV3 | 3,256 | 1,399 | 1,857 | 1,399 | 1,399 | 3/31/2017 |
| 3137A7JV3 | 25,049 | 17,069 | 7,980 | 17,069 | 17,069 | 3/31/2017 |
| 3137A7JV3 | 11,742 | 647 | 11,095 | 647 | 647 | 6/30/2017 |
| 3137A7JV3 | 8,478 | 9 | 8,469 | 9 | 9 | 9/30/2017 |
| 3137BXGR7 | 2,490,195 | 2,480,466 | 9,729 | 2,480,466 | 2,480,466 | 9/30/2017 |
| 3137F1XN3 | 6,050,734 | 6,010,176 | 40,558 | 6,010,176 | 6,010,176 | 9/30/2017 |
| 3137F1XN3 | 968,774 | 961,628 | 7,146 | 961,628 | 961,628 | 9/30/2017 |
| 3138EL5X7 | 4,629,787 | 4,602,230 | 27,557 | 4,602,230 | 4,602,230 | 12/31/2017 |

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|---|---|---|---|---|---|---|
| 3138LHGU2 | 1,044,072 | 1,041,773 | 2,299 | 1,041,773 | 1,041,773 | 3/31/2017 |
| 3138M7PV1 | 2,387,371 | 2,385,877 | 1,494 | 2,385,877 | 2,385,877 | 12/31/2017 |
| 3138WEAN9 | 2,950,909 | 2,950,894 | 15 | 2,950,894 | 2,950,894 | 12/31/2017 |
| 31410LFR8 | 113,654 | 113,653 | 1 | 113,653 | 113,653 | 12/31/2017 |
| 31418CBF0 | 8,493,130 | 8,471,155 | 21,975 | 8,471,155 | 8,471,155 | 3/31/2017 |
| 31418CCH5 | 4,862,828 | 4,849,995 | 12,833 | 4,849,995 | 4,849,995 | 3/31/2017 |
| 31418CPE8 | 2,025,049 | 2,011,715 | 13,334 | 2,011,715 | 2,011,715 | 9/30/2017 |
| 31418CPE8 | 1,979,078 | 1,975,160 | 3,918 | 1,975,160 | 1,975,160 | 12/31/2017 |
| 31418CQA5 | 2,025,207 | 2,011,718 | 13,489 | 2,011,718 | 2,011,718 | 9/30/2017 |
| 31418CQA5 | 1,981,022 | 1,976,023 | 4,999 | 1,976,023 | 1,976,023 | 12/31/2017 |
| 34528QFP4 | 2,374,682 | 2,365,904 | 8,778 | 2,365,904 | 2,365,904 | 12/31/2017 |
| 34530MAA7 | 2,514,360 | 2,505,075 | 9,285 | 2,505,075 | 2,505,075 | 12/31/2017 |
| 35562TAG7 | 121,255 | 46,093 | 75,162 | 46,093 | 46,093 | 6/30/2017 |
| 35562TAG7 | 22,911 | 549 | 22,362 | 549 | 549 | 9/30/2017 |
| 35562TAG7 | 51,305 | 6,709 | 44,596 | 6,709 | 6,709 | 9/30/2017 |
| 36178EDL0 | 1,992,236 | 1,990,189 | 2,047 | 1,990,189 | 1,990,189 | 3/31/2017 |
| 362334GR9 | 6,701 | 6,406 | 295 | 6,406 | 6,406 | 3/31/2017 |
| 362334GR9 | 6,464 | 6,121 | 343 | 6,121 | 6,121 | 9/30/2017 |
| 362334GR9 | 6,179 | 5,713 | 466 | 5,713 | 5,713 | 12/31/2017 |
| 36251XAR8 | 442,599 | 441,956 | 643 | 441,956 | 441,956 | 3/31/2017 |
| 36252AAC0 | 1,669,836 | 1,661,552 | 8,284 | 1,661,552 | 1,661,552 | 3/31/2017 |
| 38379RJK0 | 9,927,991 | 9,843,969 | 84,022 | 9,843,969 | 9,843,969 | 3/31/2017 |
| 38379RJK0 | 9,744,115 | 9,720,630 | 23,485 | 9,720,630 | 9,720,630 | 9/30/2017 |
| 416515AW4 | 63,441 | 62,400 | 1,041 | 62,400 | 62,400 | 9/30/2017 |
| 44891EAF6 | 2,122,915 | 2,106,135 | 16,780 | 2,106,135 | 2,106,135 | 12/31/2017 |
| 46590RAG4 | 789,666 | 788,058 | 1,608 | 788,058 | 788,058 | 3/31/2017 |
| 46590RAG4 | 722,810 | 717,877 | 4,933 | 717,877 | 717,877 | 12/31/2017 |
| 46635GAE0 | 940,934 | 939,820 | 1,114 | 939,820 | 939,820 | 9/30/2017 |
| 46635GAE0 | 938,800 | 929,286 | 9,514 | 929,286 | 929,286 | 12/31/2017 |
| 46636DAJ5 | 4,269,180 | 4,244,920 | 24,260 | 4,244,920 | 4,244,920 | 9/30/2017 |
| 46641WAV9 | 1,670,413 | 1,664,271 | 6,142 | 1,664,271 | 1,664,271 | 3/31/2017 |
| 46643TBC5 | 956,029 | 948,505 | 7,524 | 948,505 | 948,505 | 3/31/2017 |
| 46643TBC5 | 836,514 | 836,386 | 128 | 836,386 | 836,386 | 12/31/2017 |
| 50180LAC4 | 3,968,201 | 3,938,391 | 29,810 | 3,938,391 | 3,938,391 | 3/31/2017 |
| 50180LAC4 | 3,742,215 | 3,713,431 | 28,784 | 3,713,431 | 3,713,431 | 6/30/2017 |
| 50180LAC4 | 3,471,453 | 3,443,138 | 28,315 | 3,443,138 | 3,443,138 | 9/30/2017 |
| 52109PAE5 | 1,331,233 | 1,325,447 | 5,786 | 1,325,447 | 1,325,447 | 3/31/2017 |
| 61690YBU5 | 389,958 | 387,799 | 2,159 | 387,799 | 387,799 | 3/31/2017 |
| 67089NAS1 | 947,882 | 945,118 | 2,764 | 945,118 | 945,118 | 12/31/2017 |
| 67741YAA6 | 147,528 | 147,483 | 45 | 147,483 | 147,483 | 3/31/2017 |
| 78469QAK8 | 3,754,431 | 3,729,203 | 25,228 | 3,729,203 | 3,729,203 | 3/31/2017 |
| 78469QAK8 | 874,867 | 868,989 | 5,878 | 868,989 | 868,989 | 3/31/2017 |
| 81376NAD7 | 565,000 | 561,836 | 3,164 | 561,836 | 561,836 | 12/31/2017 |
| 83609RAA9 | 438,612 | 437,275 | 1,337 | 437,275 | 437,275 | 9/30/2017 |

| CUSIP | Amortized Cost Before Other-Than-Temporary Impairment | Present Value of Projected Cash Flows | Other-Than-Temporary Impairment | Amortized Cost After Other-Than-Temporary Impairment | Fair Value at Time of Other-Than-Temporary Impairment | Date of Financial Statement Where Reported |
|---|---|---|---|---|---|---|
| 863579XK9 | 276,263 | 273,347 | 2,916 | 273,347 | 273,347 | 12/31/2017 |
| 87165LAX9 | 3,084,733 | 3,083,982 | 751 | 3,083,982 | 3,083,982 | 12/31/2017 |
| 90290AAE7 | 399,915 | 398,480 | 1,435 | 398,480 | 398,480 | 9/30/2017 |
| 90290AAE7 | 398,614 | 395,724 | 2,890 | 395,724 | 395,724 | 12/31/2017 |
| 90327CAE0 | 638,044 | 636,415 | 1,629 | 636,415 | 636,415 | 3/31/2017 |
| 92347XAA4 | 3,975,661 | 3,975,480 | 181 | 3,975,480 | 3,975,480 | 3/31/2017 |
| 92347XAA4 | 3,985,666 | 3,973,720 | 11,946 | 3,973,720 | 3,973,720 | 12/31/2017 |
| 92348RAA6 | 1,614,714 | 1,606,715 | 7,999 | 1,606,715 | 1,606,715 | 12/31/2017 |
| 92935JAE5 | 23,053 | 22,175 | 878 | 22,175 | 22,175 | 3/31/2017 |
| 92935JAE5 | 275,732 | 270,728 | 5,004 | 270,728 | 270,728 | 3/31/2017 |
| 92935JAE5 | 21,166 | 20,424 | 742 | 20,424 | 20,424 | 6/30/2017 |
| 92935JAE5 | 22,357 | 17,566 | 4,791 | 17,566 | 17,566 | 9/30/2017 |
| 92935JAE5 | 20,347 | 16,093 | 4,254 | 16,093 | 16,093 | 12/31/2017 |
| 92936CAJ8 | 3,217,094 | 3,206,460 | 10,634 | 3,206,460 | 3,206,460 | 12/31/2017 |
| 92936QAC2 | 310,316 | 310,149 | 167 | 310,149 | 310,149 | 3/31/2017 |
| 92936YAK7 | 84,999 | 82,958 | 2,041 | 82,958 | 82,958 | 3/31/2017 |
| 92936YAK7 | 829,905 | 819,034 | 10,871 | 819,034 | 819,034 | 3/31/2017 |
| 92936YAK7 | 83,398 | 81,786 | 1,612 | 81,786 | 81,786 | 6/30/2017 |
| 92936YAK7 | 78,945 | 76,975 | 1,970 | 76,975 | 76,975 | 9/30/2017 |
| 92936YAK7 | 73,935 | 71,170 | 2,765 | 71,170 | 71,170 | 12/31/2017 |
| 92937FAD3 | 381,186 | 378,535 | 2,651 | 378,535 | 378,535 | 12/31/2017 |
| 94989TAZ7 | 230,069 | 228,897 | 1,172 | 228,897 | 228,897 | 3/31/2017 |
| 94989XBC8 | 2,070,315 | 2,060,060 | 10,255 | 2,060,060 | 2,060,060 | 3/31/2017 |
| 95000HBF8 | 1,406,788 | 1,402,571 | 4,217 | 1,402,571 | 1,402,571 | 3/31/2017 |
| 96328DBA1 | 2,149,734 | 2,146,001 | 3,733 | 2,146,001 | 2,146,001 | 9/30/2017 |
| 96328DBA1 | 2,146,295 | 2,136,993 | 9,302 | 2,136,993 | 2,136,993 | 12/31/2017 |
| 999999AA3 | 2,533,734 | 2,509,975 | 23,759 | 2,509,975 | 2,509,975 | 3/31/2017 |
| | | | $ 1,330,514 | | | |

There were no gross unrealized losses at December 31, 2017 or December 31, 2016 since Syncora Guarantee was not able to assert that it had the ability to hold securities in unrealized loss positions due to its near term anticipated cash needs resulting in other-than-temporary impairment charges.

Syncora Guarantee has exposure to the U.S. subprime mortgage market through investments in RMBS as a result of its remediation activities. As of December 31, 2017, Syncora Guarantee has investments in residential mortgage-backed securities with a carrying value and fair value of 15.4 million and $42.3 million, respectively.

*Investment in Subsidiary, Controlled and Affiliated*

Syncora Guarantee owns 100% Pike Pointe and Syncora Investment Holdings. Syncora Guarantee was granted a permitted practice by the NYDFS to account for its ownership in Pike Pointe as salvage recoverable rather than using GAAP equity value. If Pike Pointe were to be accounted based on GAAP equity value, the investment would exceed 10% of admitted assets (See Note 4 for further discussion). Summarized financial information for Pike Pointe and Syncora Investment Holdings as of and for the years ended December 31, 2017 and 2016 are as follows:

| *(U.S. Dollars in thousands)* | Pike Pointe | | Syncora Investment Holdings | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Assets | $ 223,250 | $ 207,090 | $ 19,169 | $ 53,368 |
| Liabilities | 23,785 | 20,911 | 4,653 | 6,730 |
| Capital and surplus/Equity | 199,465 | 186,179 | 14,516 | 46,638 |
| Net income | 9,621 | 7,483 | 9,833 | 5,267 |

On August 12, 2016, Pike Pointe made a distribution of $50.0 million to the Company. See Note 6 below for further discussion.

## 6. Information Concerning Parent, Subsidiaries and Affiliates

*Ownership of the Company*

All outstanding shares of the Company are owned by Syncora Holdings US Inc., a Delaware corporation and all of the outstanding shares of Syncora Holdings US Inc. are owned by Syncora Holdings.

On December 29, 2017, the Company and its wholly owned subsidiary, Syncora Capital Assurance Inc. entered into a Merger Agreement and other related agreements, which resulted in Syncora Capital Assurance Inc. merging into the Company, with the Company as the surviving entity. The merger was effective December 31, 2017. As such, the existing reinsurance arrangements and all other intercompany agreements between the Company and Syncora Capital Assurance Inc. were terminated by operation of law.

The transaction was accounted for as a statutory merger and there were no shares of stock issued to effect the merger.

The table below presents certain details of the results of operations of the previously separate companies for the periods indicated prior to the consummation of the merger:

| *(U.S. Dollars in thousands)* | Syncora Guarantee Inc. | | Syncora Capital Assurance Inc. | | Total | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Revenue | $ 10,794 | $ 22,137 | $ 40,970 | $ 51,828 | $ 51,764 | $ 73,965 |
| Net income (loss) | 191,697 | 60,802 | (109,375) | (15,546) | 82,322 | 45,256 |
| Other changes surplus | (82,953) | 40,526 | (13,719) | 49,196 | (96,672) | 89,722 |

*Capital Transactions*

Syncora Guarantee has 2,000 Series B Preferred shares authorized, all of which are issued and outstanding. These shares have a par value of $120 per share and a liquidation preference of $100,000 per share. Holders of these preferred shares are entitled to receive, in preference to the holders of common shares, non-cumulative cash dividends at a variable rate equal to one-month LIBOR plus 1.00% per annum for periods prior to December 9, 2009 and at LIBOR plus 2.00% per annum thereafter, in each case calculated on an actual/360 day basis, when and if declared by the Board of Directors of Syncora Guarantee.

The holders of the preferred shares are not entitled to any voting rights and their consent is not required for taking any corporate action. Subject to certain requirements, the preferred shares may be redeemed, in whole or in part, at the option of Syncora Guarantee at any time or from time to time for cash at a redemption price equal to the liquidation preference per share plus any accrued and unpaid dividends thereon to the date of redemption without interest on such unpaid dividends.

*General Services Agreements*

The Company and its affiliates are parties to a Second Amended and Restated General Services Agreement, whereby Syncora Guarantee Services Inc. (“Syncora Guarantee Services”) provides the Company and its affiliates with general services, including substantially all personnel support, certain office overhead and expenses, rent, information technology services and other items. Under the terms of such agreement, the costs of the aforementioned services are charged to the Company and its affiliates in accordance with the requirements of Regulation 30 of the NYDFS. For the years ended December 31, 2017 and 2016, the Company incurred costs under this agreement in the amount of $33.0 million and $43.5 million, respectively. As of December 31, 2017 and December 31, 2016, the Company had a receivable of approximately $5.8 million and $5.8 million, respectively from Syncora Guarantee Services that was recorded in “Receivables from parent, subsidiaries, and affiliates” on the Statements of Admitted Assets, Liabilities and Capital and Surplus; and was non-admitted as of December 31, 2017 and December 31, 2016.

*Related Party Transactions*

Net amounts due from/to related parties as of December 31, 2017 and 2016 were:

| *(U.S. Dollars in thousands)* | Due from | | Due to | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Syncora Holdings US Inc. | $ - | $ 7,938 | $ - | $ 2,748 |
| Syncora Guarantee Services | - | - | 10,154 | 12,885 |
| Syncora Holdings | - | - | 189 | 565 |
| | $ - | $ 7,938 | $ 10,343 | $ 16,198 |

Excluded in the above are $5.8 million and $13.7 million of amounts due from related parties, which were non-admitted as of December 31, 2017 and 2016, respectively.

*Employee Benefit Plans*

Employees of Syncora Guarantee Services, who provide services to Syncora Guarantee, may participate in a qualified defined contribution pension plan for the benefit of all eligible employees and a non-qualified deferred compensation plan for the benefit of certain employees. These plans are maintained by Syncora Holdings US Inc., which owns 100% of both Syncora Guarantee Services and Syncora Guarantee. Employer contributions to both plans are based on a fixed percentage of employee contributions and compensation as defined by the plans. Such contributions are ultimately funded by charges to Syncora

Guarantee and its affiliates for services rendered by Syncora Guarantee Services. For the years ended December 31, 2017 and 2016, Syncora Guarantee incurred expense of $0.8 million and $1.3 million, respectively, relating to employer contributions made to the aforementioned plans.

*Subsidiaries*

Pike Pointe

Pike Pointe is a wholly owned subsidiary of the Company, a Delaware limited liability company, which holds 100% of the equity ownership of a number of subsidiaries that ultimately own and operate certain toll road facilities located in the United States and Canada (collectively, "American Roads").

On July 25, 2013, American Roads LLC and certain of its affiliates filed "pre-packaged" bankruptcy cases under Chapter 11 of the United Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. The Company insured approximately $830 million of bonds and interest rate swap liabilities issued by American Roads LLC. On September 3, 2013, the approved bankruptcy plan went effective and the Company as an indirect owner of the American Roads LLC interest rate swaps and issuer of related insurance policies received 100% equity ownership of the reorganized American Roads.

In connection with the Restructuring Transactions, the Board of Managers of Pike Pointe approved a distribution of $50.0 million to the Company conditioned upon the successful closing of the Restructuring Transactions which took place on August 12, 2016. As Pike Pointe is a wholly-owned subsidiary of the Company, this distribution did not have an effect on policyholders' surplus, but increased the Company's liquidity position by such amount. This distribution was completed on August 12, 2016.

On August 8, 2017, management, with Board of Directors approval, committed to a formal plan to sell American Roads LLC.

Syncora Investment Holdings

Syncora Investment Holdings, a Delaware limited liability company and wholly owned subsidiary of the Company, was established to enhance asset and liability management for longer dated liabilities and create long-term value for the Company. The Company has commenced investing in 2015, and has invested an aggregate amount of $43 million in debt and equity investments in positions in small-to mid-market private companies within the financial services and related sectors. The Company is no longer making these investments and has dissolved a subsidiary of Syncora Investment Holdings, which held these investments. These investments became investments of the Company. As of December 31, 2017, Syncora Investment Holdings holds an 80% equity interest in Swap Financial Group LLC.

Syncora Securities

Syncora Securities a Delaware limited liability company was established as a jointly owned (with Syncora Capital Assurance Inc.) non-insurance subsidiary of the Company in 2015 to hold certain securities received by the Company in connection with its previously reported 2012 settlement with Countrywide, Bank of America Corp. and affiliates. As of December 31, 2017 Syncora Securities holds 3,044,588 common shares of Syncora Holdings Ltd.

See Note 12 for information regarding a tax sharing agreement, which Syncora Guarantee is a party to along with certain of its affiliates.

### 7. Net Premiums Earned

Premiums earned comprise:

| *(U.S. Dollars in thousands)* | **Premiums Written** | | **Change in Unearned Premium Revenue** | | **Premiums Earned** | |
|---|---|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| Direct | $ 13,172 | $ 16,343 | $ 36,989 | $ 52,406 | $ 50,161 | $ 68,749 |
| Assumed non-affiliate | 2,145 | 2,897 | 1,556 | 3,736 | 3,701 | 6,633 |
| Ceded non-affiliate | (1,127) | (1,168) | (971) | (249) | (2,098) | (1,417) |
| Net | $ 14,190 | $ 18,072 | $ 37,574 | $ 55,893 | $ 51,764 | $ 73,965 |

### 8. Reinsurance

In connection with the 2009 MTA, Syncora Guarantee entered into the Public Finance Reinsurance Agreement as discussed in Note 2. Syncora Guarantee's current use for reinsurance is principally for risk management purposes. Prior to Syncora Guarantee's suspension of new business production in January 2008, it also used reinsurance to increase its capacity to write business. Syncora Guarantee's reinsurance arrangements included facultative quota share reinsurance treaties with affiliates and former affiliates, as well as other facultative reinsurance with non-affiliated reinsurers. Reinsurance does not relieve Syncora Guarantee of its obligations under its policies of insurance. Accordingly, Syncora Guarantee is still liable under such policies even if any or all of the reinsuring companies are unable to meet their obligations to Syncora Guarantee or contest such obligations. Syncora Guarantee regularly monitors the financial condition of its reinsurers and believes that all reinsurance receivables and recoverables are fully collectible at December 31, 2017 and 2016.

The following tables set forth certain amounts ceded to reinsurers as of and for the years ended December 31, 2017 and 2016.

| *(U.S. Dollars in thousands)* | | 2017 | | 2016 |
|---|---|---|---|---|
| Year ended December 31, | | | | |
| Ceded premiums written | $ | 1,127 | $ | 1,168 |
| Ceded premiums earned | | 2,098 | | 1,417 |
| Ceding commission earned | | 54 | | 57 |
| At December 31, | | | | |
| Par exposure ceded (millions) | | 592 | | 658 |
| Contingency reserve ceded | | 9,064 | | 8,717 |

The maximum amount of return commission which would be due to (from) reinsurers if all reinsurance were cancelled with the return of the unearned premium revenue as of December 31, 2017 and 2016 is as follows:

| | Affiliate | | | | Non-affiliate | | | | Total | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *(U.S. Dollars in thousands)* | 2017 | | 2016 | | 2017 | | 2016 | | 2017 | | 2016 | |
| Assumed unearned premium revenue | $ | - | $ | - | $ | 21,898 | $ | 23,456 | $ | 21,898 | $ | 23,456 |
| Ceded unearned premium revenue | | - | | - | | (2,368) | | (3,340) | | (2,368) | | (3,340) |
| Net unearned premium revenue | $ | - | $ | - | $ | 19,530 | $ | 20,116 | $ | 19,530 | $ | 20,116 |
| Assumed commission equity | $ | - | $ | - | $ | (6,569) | $ | (7,037) | $ | (6,569) | $ | (7,037) |
| Ceded commission equity | | - | | - | | 297 | | 536 | | 297 | | 536 |
| Net commission equity | $ | - | $ | - | $ | (6,272) | $ | (6,501) | $ | (6,272) | $ | (6,501) |

The following table sets forth unsecured reinsurance recoverables by individual reinsurer as of December 31, 2017 and 2016:

| *(U.S. Dollars in thousands)* | | 2017 | | 2016 |
|---|---|---|---|---|
| Assured Guaranty Muni Corp. | $ | 1,199 | $ | 1,227 |
| Assured Guaranty Corp. | | 708 | | 707 |
| Total | $ | 1,907 | $ | 1,934 |

### 9. Outstanding Exposure and Collateral

While the Company establishes reserves for losses and loss adjustment expenses on obligations it has guaranteed or reinsured based on its best estimate of its liabilities, the risk of loss under the Company's guarantees extends to the full amount of unpaid principal and interest on all debt obligations it has guaranteed. At December 31, 2017 and 2016, the Company's in force net principal and interest exposure was $24.6 billion and $32.9 billion, respectively. The tables below reflect certain information regarding the Company's in-force principal and interest exposure at December 31, 2017. References in the tables below to "Gross" mean that the amounts are before the effect of ceded reinsurance and references to "Net" mean that the amounts are after the effect of ceded reinsurance.

The following table sets forth Syncora Guarantee's in-force guaranteed principal exposure by bond sector as of December 31, 2017 and 2016:

**Bond Exposure**
*(U.S. Dollars in millions)*

| | GPO[1] | | NPO[1] | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Public Finance | | | | |
| Special Revenue | $ 3,357 | $ 4,549 | $ 3,315 | $ 4,406 |
| General Obligation | 1,320 | 2,756 | 1,320 | 2,756 |
| Utility | 938 | 1,713 | 938 | 1,713 |
| Non Ad Valorem | 691 | 1,286 | 691 | 1,286 |
| Appropriation | 335 | 641 | 335 | 641 |
| Other | 4 | 4 | 4 | 4 |
| Total Public Finance | $ 6,645 | $ 10,949 | $ 6,603 | $ 10,806 |
| | | | | |
| Asset-Backed Securities | | | | |
| RMBS | $ 367 | $ 452 | $ 367 | $ 445 |
| Total Asset-Backed Securities | $ 367 | $ 452 | $ 367 | $ 445 |
| | | | | |
| Collateralized Debt Obligations | | | | |
| Cashflow CDO | $ 27 | $ 54 | $ 27 | $ 54 |
| Synthetic CDO | - | 150 | - | 150 |
| Total Collateralized Debt Obligations | $ 27 | $ 204 | $ 27 | $ 204 |
| | | | | |
| Structured Single Risk | | | | |
| Power & Utilities | $ 5,067 | $ 5,051 | $ 5,067 | $ 5,051 |
| Global Infrastructure | 3,062 | 3,927 | 2,512 | 3,419 |
| Specialized Risk | 263 | 441 | 263 | 441 |
| Total Structured Single Risk | $ 8,392 | $ 9,419 | $ 7,842 | $ 8,911 |
| | | | | |
| Total Outstanding | $ 15,431 | $ 21,024 | $ 14,839 | $ 20,366 |

(1) GPO and NPO represent Gross Principal Outstanding and Net Principal Outstanding, respectively.

The following table sets forth the number of years to maturity of Syncora Guarantee's in-force guaranteed principal and interest exposure as of December 31, 2017:

### Years to Maturity - Debt Service Amortization

*(U.S. dollars in millions)*

| | | Scheduled Net Debt Service | NPIO[1] |
|---|---|---|---|
| 2017 Q4 | | $ - | $ 24,629 |
| 2018 Q1 | | 310 | 24,319 |
| 2018 Q2 | | 168 | 24,151 |
| 2018 Q3 | | 286 | 23,865 |
| 2018 Q4 | | 247 | 23,618 |
| | Total 2018 | $ 1,011 | |
| 2019 | | $ 924 | $ 22,694 |
| 2020 | | 1,056 | 21,638 |
| 2021 | | 1,303 | 20,335 |
| 2022 | | 1,039 | 19,296 |
| | Total 2019-2022 | $ 4,322 | |
| 2023-2027 | | $ 4,571 | $ 14,725 |
| 2018-2032 | | 3,153 | 11,572 |
| 2033-2037 | | 2,698 | 8,874 |
| 2038 and thereafter | | 8,874 | - |
| | Total 2023-thereafter | $ 19,296 | |
| | Total | $ 24,629 | |

[1] NPIO represents Net Principal and Interest Outstanding.

The following tables set forth Syncora Guarantee's in-force guaranteed principal exposure by geographic concentration as of December 31, 2017 and 2016:

**Geographic Distribution - Par Exposure**
*(U.S. Dollars in millions)*

| | GPO | | NPO | | % NPO | |
|---|---|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| United States | | | | | | |
| California | $ 2,239 | $ 2,833 | $ 2,198 | $ 2,790 | 14.9% | 13.8% |
| New York | 1,158 | 1,289 | 1,158 | 1,289 | 7.8% | 6.3% |
| Virginia | 609 | 640 | 609 | 640 | 4.1% | 3.1% |
| District Of Columbia | 432 | 446 | 432 | 446 | 2.9% | 2.2% |
| Texas | 296 | 697 | 296 | 697 | 2.0% | 3.4% |
| Florida | 255 | 659 | 255 | 559 | 1.7% | 2.7% |
| Georgia | 247 | 445 | 247 | 445 | 1.7% | 2.2% |
| Puerto Rico | 220 | 339 | 220 | 339 | 1.5% | 1.7% |
| Washington | 214 | 240 | 214 | 240 | 1.4% | 1.2% |
| New Jersey | 210 | 288 | 210 | 288 | 1.4% | 1.4% |
| Massachusetts | 208 | 231 | 208 | 231 | 1.4% | 1.1% |
| Missouri | 178 | 194 | 178 | 194 | 1.2% | 1.0% |
| Tennessee | 168 | 356 | 168 | 356 | 1.1% | 1.7% |
| Colorado | 150 | 200 | 150 | 200 | 1.0% | 1.0% |
| Ohio | 146 | 251 | 146 | 251 | 1.0% | 1.2% |
| Illinois | 142 | 292 | 142 | 292 | 1.0% | 1.4% |
| Pennsylvania | 111 | 262 | 111 | 262 | 0.7% | 1.3% |
| Alabama | 111 | 317 | 111 | 317 | 0.7% | 1.6% |
| Maryland | 4 | 239 | 4 | 239 | 0.0% | 1.2% |
| South Carolina | 3 | 252 | 3 | 252 | 0.0% | 1.2% |
| Other [(1)] | 744 | 1,747 | 744 | 1,748 | 5.1% | 8.6% |
| Non-PF Multi [(2),(3)] | 375 | 634 | 375 | 626 | 2.5% | 3.1% |
| Total United States | $ 8,220 | $ 12,851 | $ 8,179 | $ 12,701 | 55.1% | 62.4% |
| International | | | | | | |
| United Kingdom | $ 5,585 | $ 5,393 | $ 5,034 | $ 4,886 | 34.0% | 23.9% |
| Chile | 370 | 501 | 370 | 501 | 2.5% | 2.5% |
| New Zealand | 323 | 492 | 323 | 492 | 2.2% | 2.4% |
| Australia | 258 | 1,037 | 258 | 1,037 | 1.7% | 5.1% |
| France | 152 | 149 | 152 | 149 | 1.0% | 0.7% |
| Other[(1)] | 523 | 508 | 523 | 507 | 3.5% | 2.5% |
| Non-PF Multi [(2),(4)] | - | 93 | - | 93 | 0.0% | 0.5% |
| Total International | $ 7,211 | $ 8,173 | $ 6,660 | $ 7,665 | 44.9% | 37.6% |
| Total Par Outstanding | $ 15,431 | $ 21,024 | $ 14,839 | $ 20,366 | 100.0% | 100.0% |

(1) Single state/country with NPO < 1% of the total exposure plus any multi-state/country Public Finance exposures.

(2) Non-Public Finance deals with underlying securities in multiple states/countries.

(3) Consists of $348 million and $422 million in 2017 and 2016, respectively, in Asset-backed securities ("ABS"), $27 million and $204 million in 2017 and 2016, respectively, in Collateralized Debt Obligations ("CDO").

(4) Consists of zero and $93 million in 2017 and 2016, respectively in Structured Single Risk.

Syncora Guarantee is exposed to residential mortgages directly, through its insurance guarantees of RMBS. As of December 31, 2017, Syncora Guarantee's total net direct exposure to RMBS aggregated approximately $0.4 billion, representing approximately 2.5% of its total in-force guaranteed net principal outstanding at such date. The RMBS exposure consisted of various collateral types as set forth in the table below. The tables below also set forth Syncora Guarantee's internal ratings, as well as the ratings of certain rating agencies, of the insured transactions as of December 31, 2017.

*Exposure to RMBS*

The following table presents the net principal outstanding for Syncora Guarantee's insured RMBS portfolio by type[(1)] of collateral as of December 31, 2017 and 2016:

**RMBS Exposure**
*(U.S. Dollars in millions)*

| | NPO | | % NPO | |
|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** |
| Prime (1st lien) | $ 18 | $ 23 | 5.0% | 5.2% |
| Prime (2nd lien) | 7 | 12 | 2.0% | 2.7% |
| Prime (HELOC) | 74 | 99 | 20.3% | 22.3% |
| Alt-A (1st lien) | 22 | 26 | 6.1% | 5.8% |
| Alt-A (2nd lien) | 2 | 4 | 0.7% | 0.8% |
| Subprime (1st lien) | 219 | 245 | 59.1% | 55.0% |
| Subprime (2nd lien) | 7 | 14 | 1.8% | 3.2% |
| Subprime (1st lien) International | 18 | 22 | 5.0% | 5.0% |
| Total RMBS Outstanding | $ 367 | $ 445 | 100.0% | 100.0% |

(1) Collateral type is defined as follows: Prime (1st lien) mortgage loans are secured by first liens on one-to-four family residential properties. The underwriting standards used to underwrite prime mortgage loans are the standards applied to the most creditworthy borrowers and are generally acceptable to Fannie Mae and Freddie Mac. Prime (2nd lien) mortgage loans are secured by 2nd liens on one-to-four family residential properties. The underwriting standards used to underwrite prime mortgage loans are the standards applied to the most creditworthy borrowers and are generally acceptable to Fannie Mae and Freddie Mac. This category also includes Alt-A (2nd lien) loans. HELOC is an adjustable rate line of credit secured by a second lien on residential properties. An Alt-A loan means a mortgage loan secured by first liens on residential properties, which is ineligible for purchase by Fannie Mae or Freddie Mac. Subprime (1st lien) mortgage loans are secured by first liens on residential properties to non-prime borrowers. The underwriting standards used to underwrite subprime mortgage loans are less stringent than the standards applied to the most creditworthy borrowers and less stringent than the standards generally acceptable to Fannie Mae and Freddie Mac with regard to the borrower's credit standing and repayment ability. Subprime (2nd lien) mortgage loans are secured by second liens on residential properties to non-prime borrowers. See Subprime (1st lien) for a description of the underwriting standards. Subprime (1st lien) – International mortgage loans are secured by first liens on residential properties to non-prime borrowers located outside the United States.

The following table presents the net principal outstanding and net case basis reserves for unpaid losses for Syncora Guarantee's insured RMBS portfolio by year of origination (year the guarantee was underwritten and issued) as of December 31, 2017:

**RMBS Exposure**
*(U.S. Dollars in millions)*

| | 2004 | 2005 | 2006 | 2007 | Total |
|---|---|---|---|---|---|
| Prime/Alt-A | $ 57 | $ 31 | $ 31 | $ 4 | $ 123 |
| Subprime | 9 (1) | 93 | - | 142 | 244 |
| Total RMBS Outstanding | $ 66 | $ 124 | $ 31 | $ 146 | $ 367 |
| Net case reserves for unpaid losses | $ 8 | $ 67 | $ (283) | $ 63 | $ (145) |

(1) Includes $0.3 million relating to business underwritten and issued in 1999.

The following tables show Syncora Guarantee's current internal and rating agency ratings on all of its direct RMBS exposure by deal, grouped by collateral type as of December 31, 2017. Syncora Guarantee's internal ratings are based on its internal credit assessment of each transaction taking into account the overall credit strengths and weaknesses, transaction structure and the trends in the asset sector. Syncora Guarantee bases its analysis on information received from the trustees or from the issuers, as well as on-site visits to issuers, servicers, collateral managers and project sites. Modeling results are also considered. Syncora Guarantee also takes into consideration the rating agencies' rationale for their ratings; however, variations may exist between Syncora Guarantee's internal ratings and the ratings of the rating agencies. While Syncora Guarantee endeavors to provide the most recently published rating agencies' ratings, Syncora Guarantee can provide no assurance that such ratings represent the most current ratings published by the agencies.

## RMBS Rating

*(U.S. dollars in millions)*

| | Vintage | Internal Rating | S&P Rating(1) | Moody's Rating(1) | NPO |
|---|---|---|---|---|---|
| Prime (1st lien) | | | | | |
| 1. ………………………………………………… | 2004 | bbb+ | NR | Ba1 | $ 10 |
| 2. ………………………………………………… | 2004 | aa | AA+ | NR | 5 |
| 3. ………………………………………………… | 2004 | aa | AA+ | Ba1 | 3 |
| Total | | | | | $ 18 |
| Prime (2nd lien) | | | | | |
| 1. ………………………………………………… | 2006 | d | NR | C | $ 7 |
| Total | | | | | $ 7 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Prime (HELOC) | | | | | | |
| 1. | 2004 | d | CCC | Caa3 | $ | 24 |
| 2. | 2004 | d | CCC | Ca | | 18 |
| 3. | 2005 | d | NR | Ca | | 8 |
| 4. | 2006 | d | NR | C | | 19 |
| 5. | 2006 | d | NR | Ca | | 3 |
| 6. | 2006 | d | NR | Ca | | 1 |
| 7. | 2006 | d | NR | Ca | | - |
| 8. | 2007 | d | NR | Ca | | 1 |
| Total | | | | | $ | 74 |
| Alt-A (1st lien) | | | | | | |
| 1. | 2005 | bb | AA+ | Baa3 | $ | 17 |
| 2. | 2005 | d | NR | Caa2 | | 5 |
| 3. | 2007 | d | NR | WD | | - |
| Total | | | | | $ | 22 |
| Alt-A (2nd lien) | | | | | | |
| 1. | 2007 | d | NR | Caa1 | $ | 2 |
| 2. | 2007 | d | D | B1 | | - |
| Total | | | | | $ | 2 |
| Subprime (1st lien) | | | | | | |
| 1. | 1999 | b | NR | Caa1 | $ | - |
| 2. | 2004 | aa | AA+ | A1 | | 6 |
| 3. | 2004 | a+ | AAA | Aaa | | 2 |
| 4. | 2005 | d | CCC | - | | 93 |
| 5. | 2007 | c | CCC | C | | 118 |
| Total | | | | | $ | 219 |
| Subprime (2nd lien) | | | | | | |
| 1. | 2007 | d | CC | C | $ | 3 |
| 2. | 2007 | bbb- | BBB+ | Baa1 | | 2 |
| 3. | 2007 | c | CC | Ca | | 2 |
| Total | | | | | $ | 7 |
| Subprime (1st lien) - International | | | | | | |
| 1. | 2007 | bbb | BBB | Baa2 | $ | 18 |
| Total | | | | | $ | 18 |
| Total RMBS Outstanding | | | | | $ | 367 |

(1) A '-' rating indicates the deal is not rated by the rating agency.

### 10. Insurance Premiums

Premiums charged in connection with the issuance of Syncora Guarantee's guarantees are received either upfront at the inception of an insurance contract or in installments (usually monthly or quarterly) over the life of the underlying insured obligation. Such premiums are only recognized as written when due. In accordance with prescribed statutory accounting practice, future installment premiums on in-force policies not yet due are not recorded on Syncora Guarantee's Statements of Admitted Assets, Liabilities and Capital and Surplus as premiums receivable.

As of December 31, 2017, the aggregate amount of installment premium to be collected in the future on Syncora Guarantee's in-force policies, determined based on the expected maturity of the underlying insured obligations, was $194.4 million ($177.9 million, net of ceded reinsurance). The aforementioned amount of installment premium to be collected in the future may differ from the ultimate actual amount of installment premiums collected in the future on such in-force obligations for the reasons discussed above, and such differences, may be material.

The following table presents, as of December 31, 2017, Syncora Guarantee's gross installment premiums (on an undiscounted basis) expected to be collected (and the periods in which such collections are expected to occur) and expected future upfront premium earnings for the periods presented on the Company's direct in-force business. In addition to that presented in the tables below, Syncora Guarantee had installment premiums and unearned premium revenue of $31.6 million and $21.9 million, respectively, relating to assumed reinsurance business at December 31, 2017:

| *(U.S. Dollars in thousands)* | **Expected Collection of Installment Premiums** | **Expected Upfront Premium Earnings** |
|---|---|---|
| Three months ended: | | |
| March 31, 2018 | $ 4,037 | $ 2,056 |
| June 30, 2018 | 2,773 | 2,027 |
| September 30, 2018 | 2,502 | 2,101 |
| December 31, 2018 | 2,320 | 1,767 |
| Twelve months ended: | | |
| December 31, 2018 | 11,632 | 7,951 |
| December 31, 2019 | 11,334 | 7,269 |
| December 31, 2020 | 10,959 | 7,506 |
| December 31, 2021 | 10,046 | 7,027 |
| December 31, 2022 | 9,523 | 8,869 |
| Five years ended: | | |
| December 31, 2022 | 53,494 | 38,622 |
| December 31, 2027 | 41,456 | 36,646 |
| December 31, 2032 | 32,380 | 20,029 |
| December 31, 2037 | 25,066 | 19,878 |
| December 31, 2042 | 16,229 | 21,439 |
| December 31, 2047 | 13,536 | 6,285 |
| December 31, 2052 | 11,220 | 1,250 |
| December 31, 2057 | 1,012 | 15,421 |
| December 31, 2062 | - | 275 |
| Total | $ 194,393 | $ 159,845 |

The following table presents a roll forward of the aggregate amount of gross installment premium (on an undiscounted basis) to be collected in the future on Syncora Guarantee's in-force policies for the periods ended December 31, 2017 and December 31, 2016:

*(U.S. Dollars in thousands)*

| | 2017 | 2016 |
|---|---|---|
| Future installment premiums | | |
| on in-force contracts, beginning of period | $ 224,911 | $ 265,061 |
| Premium payments received | (15,491) | (20,432) |
| Future installment premiums from new business | - | - |
| Adjustments: | | |
| Changes in expected term of policies | (15,027) | (19,718) |
| Other | - | - |
| Future installment premiums | | |
| on in-force contracts, ending of period | $ 194,393 | $ 224,911 |

**11. Liability for Losses and Loss Adjustment Expenses**

Syncora Guarantee's case basis reserves for unpaid losses and loss adjustment expenses are based on the net present value of the expected ultimate loss and loss adjustment expense payments that Syncora Guarantee expects to make, net of expected recoveries from salvage and subrogation rights. Case basis reserves are determined using cash flow models to estimate the net present value of the anticipated shortfall between (i) scheduled payments on the insured obligation plus anticipated loss adjustment expenses, and (ii) anticipated cash flow from the proceeds to be received on sales of any collateral supporting the obligation or other anticipated recoveries and the present value of future installment premiums. Cash flows were discounted at the rate of 3.23% and 4.12% as of December 31, 2017 and 2016, respectively. At December 31, 2017, the discount rate is based on the weighted average return on the Company's invested assets. Syncora Guarantee's liability for unpaid losses and loss adjustment expenses, after giving effect to reinsurance, was $(263.7) million and $(65.5) million on a net present value basis, $(200.3) million and $(54.2) million on a nominal basis or before giving effect to present value, as of December 31, 2017 and 2016, respectively. The amount of discount at such dates was $63.4 million and $11.3 million, respectively.

Set forth below is a discussion of case basis reserves carried by the Company at December 31, 2017 and 2016. The Company's reserves for unpaid losses and loss adjustment expenses represent its best estimate of: (i) the net present value of claims to be paid subsequent to the balance sheet date, less (ii) the net present value of recoveries subsequent to the balance sheet date and the net present value of installment premiums due from the counterparties to such guarantees subsequent to the balance sheet date. The Company's best estimate of claims and recoveries was based on assumptions and estimates extending over many years into the future. Such assumptions and estimates are subject to the inherent limitation on the Company's ability to predict the aggregate course of future events and, as a result, differences between estimated and actual results may be material. Reference should be made to Note 2 for information regarding the effect on the Company's reserves for unpaid losses resulting from transactions which effectively defeased or, in-substance, commuted (in whole or in part) substantially all its guarantees on which it previously carried case reserves. Amounts disclosed below relating to the provision for losses for the year ended December 31, 2017 reflect the effect, as previously disclosed, of certain elements of the 2009 MTA.

The Company recorded a benefit for losses and loss adjustment expenses of $(88.3) million and $(29.5) million for the years ended December 31, 2017 and 2016, respectively. The current year benefit primarily reflects the settlement of GreenPoint putback litigation, partially offset by adverse development in the Company's guarantees of certain public finance transactions, which included the Commonwealth of Puerto

Rico and PREPA exposure. Reserves for unpaid losses and loss adjustment expenses on such guarantees, after giving effect to reinsurance, were $(263.7) million as of December 31, 2017 ($(263.7) million before giving effect to reinsurance). The change from the December 31, 2016 balances is primarily attributable to the settlement of GreenPoint putback litigation, partially offset by adverse development in the Company's guarantees of certain public finance transactions.

A summary of case basis reserves for losses and loss adjustment expenses as of December 31, 2017 and December 31, 2016 are as follows:

| *(U.S. Dollars in millions)* | Gross | | Net | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| HELOC, CES and Alt-A mortgage loan collateral | $ (142.8) | $ 96.2 | $ (142.8) | $ 96.2 |
| Public finance | 122.0 | 80.1 | 122.0 | 80.1 |
| Structured single risk | (244.1) | (242.7) | (244.1) | (242.7) |
| CDO's | 1.2 | 0.9 | 1.2 | 0.9 |
| Total | $ (263.7) | $ (65.5) | $ (263.7) | $ (65.5) |

*Asset-Backed Securities*

The Company's estimates of reserves are determined based on an analysis of results of cash flow models. The models project expected cash flows from the underlying mortgage notes. The model output is dependent on, and sensitive to, key assumptions regarding default rates, draw rates, draw periods, recoveries and prepayment rates, among others. The cash flow from the mortgages is then run through the payment "waterfall" as set forth in the indenture for each transaction. Claims in respect of principal generally result when the outstanding principal balance of the mortgages is less than the outstanding principal balance of the insured notes, except when the principal balance is due for payment on the scheduled maturity date. Recoveries result when cash flow from the mortgages is available for repayment, typically after the insured notes are paid off in full.

The Company bases its default assumptions for the second lien transactions (HELOCs and CESs) in large part on recent observed default rates and the current pipeline of delinquent loans. The losses for the second lien transactions (HELOCs and CESs) are estimated based on a model using a constant default rate curve.

The Company generally observed peak defaults for the second lien transactions in 2009 and 2010. Default rates at December 31, 2017 are mostly forecasted with steady state default rates. Exceptions to this may include transactions for which there is an excessive build-up of severely delinquent loans for which defaults are anticipated or transactions whose collateral includes loans whose interest-only periods will end, at which point temporary increases to default rates are expected.

The Company assumes a steady state constant default rate at a rate well above historical norms. Net losses will be greater if default rates exceed the Company's current assumptions. The constant default rate is a function of several factors, one of which is the state of the economy and unemployment.

The Company's default assumptions for the first lien transactions at December 31, 2017 were based on current delinquent loans and analysis of historical defaults for loans with similar characteristics. A loss severity was applied to the first lien defaults ranging from 27.5% to 60.7% based upon actual loss severity observances and collateral characteristics to determine the expected loss on the collateral in those transactions.

The following table reconciles the beginning and ending reserve balances for losses and loss adjustment expenses, net of reinsurance, for the years ended December 31, 2017 and 2016:

| *(U.S. Dollars in thousands)* | **2017** | **2016** |
|---|---|---|
| Reserve for unpaid losses and LAE, net of related reinsurance recoverables, at the beginning of the year | $ (65,500) | $ (5,073) |
| Add: | | |
| Increase in net losses and LAE incurred in respect of losses occurring in the current year, net of reinsurance | - | 533 |
| Decrease in net recoveries on losses and LAE incurred in respect of losses occurring in prior years, net of reinsurance | (88,289) | - (30,020) |
| Total net recoveries on losses and LAE benefit, net of reinsurance | (88,289) | (29,487) |
| Deduct: | | |
| Losses and LAE payments (net of recoverables) in respect of losses occurring in the current year | - | 140 |
| Losses and LAE payments (net of recoverables) in respect of losses occurring in prior years | 109,959 | - 30,800 |
| Total losses and LAE payments (net of recoverables) for losses incurred during the current year | 109,959 | 30,940 |
| Total decrease in net losses and LAE incurred during the current year, net of reinsurance | (198,248) | (60,427) |
| Reserve for unpaid losses and LAE, net of related reinsurance recoverables, at the end of the year | $ (263,748) | $ (65,500) |

The significant components of the change in claim liability for the years ended December 31, 2017 and 2016 are as follows:

*(U.S. Dollars in thousands)*

| **Components** | **2017** | **2016** |
|---|---|---|
| Accretion of the discount | $ 6,384 | $ 4,377 |
| Changes in timing | 3,228 | (26,035) |
| New reserves for defaults of insured contracts | 139 | 178 |
| Change in prior year reserves | (207,999) | (38,947) |
| Total | $ (198,248) | $ (60,427) |

*Schedule of Insured Financial Obligations with Credit Deterioration*

The Company's surveillance department is responsible for monitoring the performance of its in-force portfolio. The surveillance department maintains a list of credits that it has determined need to be closely monitored and, for certain of those credits, the department undertakes remediation activities it determines to be appropriate in order to mitigate the likelihood and/or amount of any loss that could be incurred by the company with respect to such credits.

The surveillance department focuses its review on monitoring lower rated bond sectors and potentially troubled sectors, which have included certain subsectors within the ABS, CDO, Public Finance and Structured Single Risk portfolios. For the ABS and CDO portfolios, it tracks performance monthly to determine whether or not covenants have been breached. If a covenant is breached, the Company may have the right to put the transaction into rapid amortization so that all cash flow generated from that transaction is used to pay down principal and stay current with interest or take other remedial action. Typically, the surveillance department reviews periodic servicing and trustee reports to track coverage levels, enhancement levels, delinquency levels, loss frequency, loss severity and total losses and compares such performance metrics with the metrics that were made available at the time the transaction was closed. If losses are above projections, the surveillance department will analyze the reasons for the deviation. In some cases, it may be an indication of servicing problems, where loans are delinquent and are not put into foreclosure in time to maximize recovery. Typically once per year, the surveillance department will audit servicers of loans and other assets supporting the Company's insured obligations to better understand their servicing practices and to identify potential servicing problems, if any. For the Public Finance portfolio, the surveillance department uses a Frequency of Review Schedule to prioritize reviews to ensure lower rated and larger exposure credits are being looked at more frequently. In addition, the surveillance department uses screening tools to review the entire Public Finance portfolio based upon news feeds, trade data, material event notices and other third party information. For the Structured Single Risk portfolio, the surveillance department will retain technical consultants as needed to track construction and operational risk and reviews this portfolio based upon reports it receives on a monthly, quarterly or annual basis.

The Company estimates claims based on its surveillance department's best estimate of net cash outflows under a contract, on a present value basis. In some cases, the surveillance department will engage an outside consultant with appropriate expertise in the underlying collateral assets and respective industries to assist management in examining the underlying collateral and determining the projected loss frequency and loss severity. In such cases, the surveillance department will use that information to run a cash flow model that includes enhancement levels and debt service to determine whether a claim is probable, possible or not likely.

The activities of the Company's surveillance department are integral to the identification of specific credits that have experienced deterioration in credit quality and the assessment of whether losses on such credits are probable, as well as any estimation of the amount of loss expected to be incurred with respect to such credits. Closely monitored credits are divided into four categories: (i) Loss List—credits where a loss is probable and reasonably estimable; (ii) Red Flag List—credits where a loss is possible but not probable or reasonably estimable, including credits where claims may have been paid or may be paid but full recovery is in doubt; (iii) Yellow Flag List—credits that the Company determines to be non-investment grade but a loss is unlikely, including credits where claims may have been paid or may be paid but reimbursement is likely; and (iv) Special Monitoring List—low investment grade credits where a material covenant or trigger may be breached and closer monitoring is warranted. Credits that are not closely monitored credits are considered to be fundamentally sound, normal risk.

The following tables set forth certain information in regard to Syncora Guarantee's closely monitored credits as of December 31, 2017 and 2016. The number of policies, remaining weighted-average contract period, and insured contractual payments outstanding in the table below excludes exposures that were effectively defeased or, in-substance, commuted through the acquisition of Insurance Cash Flow Certificates and related alternative structures.

*(U.S. Dollars in millions except number of policies)*

| | **Total** | | **Loss List** | | **Red Flag List** | | **Yellow Flag List** | | **Special Monitoring List** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| Insured contractual payments outstanding: | | | | | | | | | | |
| Principal | $1,746 | $3,235 | $ 529 | $ 685 | $ 22 | $ 817 | $ 617 | $1,320 | $578 | $ 413 |
| Interest | 859 | 1,402 | 170 | 196 | 12 | 152 | 390 | 822 | 287 | 232 |
| Total | $2,605 | $4,637 | $ 699 | $ 881 | $ 34 | $ 969 | $1,007 | $2,142 | $865 | $ 645 |
| Number of policies | 115 | 209 | 90 | 168 | 3 | 6 | 14 | 20 | 8 | 15 |
| Remaining weighted-average contract period (in years) | 12.8 | 10.8 | 10.0 | 8.6 | 11.1 | 4.4 | 15.6 | 15.1 | 12.5 | 13.6 |
| Loss and LAE liabilities reported in the balance sheet: | | | | | | | | | | |
| Gross loss and LAE liability (nominal) | $ 580 | $ 564 | $ 573 | $ 550 | $ 7 | $ 9 | $ - | $ 5 | $ - | $ - |
| Gross potential recoveries and | | | | | | - | | - | | - |
| ceded reinsurance | 780 | 617 | 780 | 617 | - | - | - | - | - | - |
| Discount, net | 64 | 12 | 64 | 12 | - | - | - | - | - | - |
| Total | $ (264) | $ (65) | $(271) | $ (79) | $ 7 | $ 9 | $ - | $ 5 | $ - | $ - |
| Unearned premium reserve, net | $ 20 | $ 28 | $ 3 | $ 3 | $ - | $ 2 | $ 16 | $ 19 | $ 1 | $ 4 |
| Reinsurance recoverables on paid losses and LAE | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |

### 12. Income Taxes

The Company recorded a $26.2 thousand current foreign tax provision and a $857.4 thousand foreign tax provision as of December 31, 2017 and 2016, respectively.

The Company's balance sheet tax accounts have been adjusted to reflect the effects of federal tax reform enacted on December 22, 2017 in the form of H.R. 1, commonly known as the Tax Cuts and Jobs Act. The primary effect to the Company was the re-measurement of federal deferred tax assets and liabilities from 35% to 21% statutory rate. The re-measurement of the net deferred tax asset resulted in additional income tax expense of $149.5 million, which was fully offset by a change in valuation allowance.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of H.R. 1 commonly referred to as the Tax Cuts and Jobs Act. To align with the provisions set out in SAB 118, the NAIC published INT 18-01 which similarly provides that the income tax effects of H.R. 1 for which a reasonable estimate cannot be determined shall not be recognized in the year-end 2017 statutory financial statements. Due to a lack of information, specifically as it relates to IRS provided discounting factors as modified for the corporate bond yield, the Company is unable to provide a reasonable estimate for the additional tax basis discounting that may be required as a result of enactment of H.R. 1. Accordingly, the Company has elected to apply the provisions of SAB 118 in their financial statements and forgo estimating any additional effect to current and deferred taxes. The effects of H.R. 1, specifically as it relates to provisional tax basis loss reserve discounting will be adjusted in the first reporting period in which a reasonable estimate can be determined, which will coincide with the IRS's release of the applicable discounting components.

Management has concluded that future income forecasted to be generated is insufficient to support realization of Syncora Guarantee's net deferred tax assets, thus a full valuation allowance has been established against the deferred tax assets of Syncora Guarantee at December 31, 2017 and December 31, 2016 for $225.5 million and $426.0 million, respectively.

| *(U.S. Dollars in thousands)* | **2017** | | | **2016** | | | **Change** | | |
|---|---|---|---|---|---|---|---|---|---|
| | Ordinary | Capital | Total | Ordinary | Capital | Total | Ordinary | Capital | Total |
| Gross Deferred Tax Assets | $ 228,749 | $ 53,194 | $ 281,943 | $ 441,821 | $ 81,439 | $ 523,260 | $ (213,072) | $ (28,245) | $ (241,317) |
| Statutory Valuation Allowance Adjustments | (173,594) | (51,924) | (225,518) | (346,586) | (79,383) | (425,969) | 172,992 | 27,459 | 200,451 |
| Adjusted Gross Deferred Tax Assets | 55,155 | 1,270 | 56,425 | 95,235 | 2,056 | 97,291 | (40,080) | (786) | (40,866) |
| Deferred Tax Assets Nonadmitted | - | - | - | - | - | - | - | - | - |
| Subtotal Net Admitted Deferred Tax Asset | 55,155 | 1,270 | 56,425 | 95,235 | 2,056 | 97,291 | (40,080) | (786) | (40,866) |
| Deferred Tax Liabilities | (55,155) | (1,270) | (56,425) | (93,975) | (2,056) | (96,031) | 38,820 | 786 | 39,606 |
| Net Admitted Deferred Tax Asset/ (Net Deferred Tax Liability) | $ - | $ - | $ - | $ 1,260 | $ - | $ 1,260 | $ (1,260) | $ - | $ (1,260) |

There were no Federal income taxes paid in prior years recoverable through loss carrybacks for the years ended December 31, 2017 and 2016.

The Company did not have any adjusted gross deferred tax assets expected to be realized after application of the threshold limitation, which is the lesser of the adjusted gross deferred tax assets expected to be realized following the balance sheet date and the adjusted gross deferred tax assets allowed per limitation threshold, as of December 31, 2017 and 2016.

Adjusted ordinary gross deferred tax assets offset by ordinary gross deferred tax liabilities for the years ended December 31, 2017 and 2016 was $55.2 million and $95.2 million, respectively. Adjusted capital gross deferred tax assets offset by capital gross deferred tax liabilities for the years ended December 31, 2017 and 2016 was $1.3 million and $2.1 million, respectively.

There were no net deferred tax assets admitted as the result of application of statutory accounting guidance for taxes as of December 31, 2017 and 2016.

For the years ended December 31, 2017 and 2016, current income tax expense consists of the following major components:

| *(U.S. Dollars in thousands)* | 2017 | 2016 | Change |
|---|---|---|---|
| **Current Income Tax:** | | | |
| Federal | $ - | $ 132 | $ (132) |
| Foreign | 26 | 725 | (699) |
| Subtotal | 26 | 857 | (831) |
| Federal income tax on net capital gains | - | - | - |
| Utilization of capital loss carry-forwards | - | - | - |
| Federal and foreign income taxes incurred | $ 26 | $ 857 | $ (831) |

Tax planning strategies did not have an effect on the Company's net deferred tax assets.

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The significant items causing this difference for the years ended December 31, 2017 and 2016 are as follows:

| *(U.S. Dollars in thousands)* | 2017 | | 2016 | |
|---|---|---|---|---|
| | Federal income taxes | Effective tax rate % | Federal income taxes | Effective tax rate % |
| Provision computed at statutory rate | $ 24,697 | 35.00% | $ 16,139 | 35.00% |
| Contingency reserve | 18,831 | 26.69% | 16,090 | 34.89% |
| Change in nonadmitted assets | 2,672 | 3.79% | 3,836 | 8.32% |
| Change in valuation allowance | (196,313) | -278.21% | (661,738) | -1435.08% |
| Dividends received deduction | (898) | -1.27% | (426) | -0.92% |
| Tax exempt interest | (10) | -0.01% | (2,336) | -5.07% |
| Foreign tax | 26 | 0.04% | - | 0.00% |
| Deferred tax validation adjustment | 2,818 | 3.99% | - | 0.00% |
| Enactment of new tax reform | 149,462 | 211.81% | - | 0.00% |
| NOL reallocated to parent | - | 0.00% | 612,500 | 1328.30% |
| Prior year deferred tax reclass | - | 0.00% | (2,016) | -4.37% |
| Cancellation of debt income on surplus notes | - | 0.00% | 16,925 | 36.70% |
| Non-deductible restructuring costs | - | 0.00% | 3,636 | 7.89% |
| Prior year true up | - | 0.00% | (777) | -1.69% |
| Other | - | 0.00% | (107) | -0.23% |
| Totals | $ 1,285 | 1.83% | $ 1,726 | 3.74% |
| | | | | |
| Federal income tax incurred | $ 26 | 0.04% | $ 775 | 1.68% |
| Change in deferred income tax | 1,259 | 1.79% | 869 | 1.88% |
| Foreign income tax incurred | - | 0.00% | 725 | 1.57% |
| Prior year true up | - | 0.00% | (643) | -1.39% |
| Total Statutory income tax (benefit) incurred | $ 1,285 | 1.83% | $ 1,726 | 3.74% |

As of December 31, 2017 and 2016, deferred income tax assets and liabilities consisted of the following major components:

| *(U.S. Dollars in thousands)* | **2017** | **2016** | **Change** |
|---|---|---|---|
| **Deferred Tax Assets:** | | | |
| **Ordinary** | | | |
| Unearned premium reserve | $ 7,566 | $ 15,365 | $ (7,799) |
| Receivables- nonadmitted | 1,358 | 4,936 | (3,578) |
| Net operating loss carry-forward | 176,920 | 294,016 | (117,096) |
| Claim reserve | 29,138 | 80,573 | (51,435) |
| Contingency reserve | 10,001 | 35,500 | (25,499) |
| Loss adjustment expenses reserve discount | 44 | 154 | (110) |
| Unrealized loss on derivative asset | 1,168 | 1,930 | (762) |
| Intangible assets | - | 1,075 | (1,075) |
| Foreign taxes | - | 1,214 | (1,214) |
| Unrealized loss on foreign exchange | 1,428 | 5,577 | (4,149) |
| Investment in partnership | 1,125 | 1,481 | (356) |
| Subtotal | 228,748 | 441,821 | (213,073) |
| Statutory valuation adjustment | (173,594) | (346,586) | 172,992 |
| Admitted ordinary deferred tax assets | $ 55,154 | $ 95,235 | $ (40,081) |
| **Capital:** | | | |
| Investments | $ 16,387 | $ 21,711 | $ (5,324) |
| Net capital loss carry-forward | 36,807 | 59,728 | (22,921) |
| Subtotal | 53,194 | 81,439 | (28,245) |
| Statutory valuation adjustment | (51,924) | (79,383) | 27,459 |
| Admitted capital deferred tax assets | 1,270 | 2,056 | (786) |
| Admitted deferred tax assets | $ 56,424 | $ 97,291 | $ (40,867) |
| **Deferred tax liabilities:** | | | |
| **Ordinary** | | | |
| Surplus notes | $ 55,154 | $ 93,976 | $ (38,822) |
| Subtotal | $ 55,154 | $ 93,976 | $ (38,822) |
| **Capital** | | | |
| Investments | $ - | $ 13 | $ (13) |
| Unrealized capital gains | 1,270 | 2,042 | (772) |
| Subtotal | 1,270 | 2,055 | (785) |
| Deferred tax liabilities | 56,424 | 96,031 | (39,607) |
| Net Deferred tax assets | $ - | $ 1,260 | $ (1,260) |

At December 31, 2017, the Company had net operating loss carryforwards expiring from 2027 through 2037 of $842.5 million.

At December 31, 2017, the Company had capital loss carryforwards expiring from 2018 through 2020 of $175.3 million.

The Company had no income tax expense for 2015, 2016, and 2017 that is available for recoupment in the event of future net losses.

The Company did not have any protective tax deposits under Section 6603 of the Internal Revenue Code.

In connection with the Restructuring Transactions completed on August 12, 2016, pursuant to an amended and restated tax sharing agreement, the Company reallocated $1.75 billion of excess net operating losses to SHI for its sole use and benefit, where these net operating losses may be used more broadly. In addition, SHI provided contractual protections relating to the preservation and utilization of the Company's retained net operating losses. The amendments to the tax sharing agreement did not have any effect on the Company's policyholders' surplus. At December 31, 2017, the Company's cumulative net operating losses ("NOLs"), which may be carried forward to offset future taxable income, are $842.5 million. The Company's ability to utilize its NOLs at December 31, 2017 expires from 2027 through 2037. Approximately $161.3 million of the Company's NOLs as of December 31, 2017 are subject to limitation under Section 382 of the Internal Revenue Code ("Section 382") as a result of an ownership change, as defined under that code section, that occurred on August 5, 2008. An ownership change, as defined under Section 382 generally occurs if the percentage stock ownership of shareholders owning (or deemed under Section 382 to own) 5% or more of Syncora Holdings' common shares increases by more than 50 percentage points over the lowest percentage of Syncora Holdings' common shares owned by such shareholders during a defined period of time. To avoid an ownership change in the future and further limitation on the use of the Company's NOLs, on October 21, 2008, Syncora Holdings' Board of Directors approved changes to Syncora Holdings' Bye-laws which were subsequently approved by the shareholders on February 9, 2009 to limit the transfer of shares prior to the expiration of certain time periods specified in such bye-laws.

The Company's significant NOLs are expected to reduce future tax liability that otherwise would be payable by the Company. The ability to utilize these NOLs would be limited in certain events, including if an "ownership change" under Section 382 were to occur. Section 382 limits the ability of a corporation that experiences an ownership change to utilize its NOLs and certain built-in losses after the ownership change. An ownership change is generally any change in ownership of more than 50 percentage points of a corporation's stock over a rolling 3-year period. These rules generally operate by focusing on ownership changes among shareholders owning directly or indirectly 5% or more of the stock of a corporation (including for this purpose certain groupings of shareholders each of whom owns less than the 5% threshold) or any change in ownership arising from a new issuance or a redemption of stock by the corporation. Generally under Section 382, in the event of an ownership change, the amount of taxable income that a corporation can offset by its "pre-change losses" (which include its NOLs) is restricted to an annual amount equal to the equity value of the corporation immediately prior to the ownership change multiplied by the long-term tax-exempt rate. These limitations generally prohibit transactions that result in the creation of a new 5% shareholder or increases the ownership interest of an existing 5% shareholder. A 5% shareholder for this purpose is defined in Syncora Holdings bye-laws by reference to Section 382 and the Treasury Regulations issued thereunder, and includes "public groups". A prohibited transaction under Syncora Holdings bye-laws is void at inception.

The Company's federal income tax return is consolidated with the following entities:

Syncora Holdings US Inc. (“Parent”)
Syncora Guarantee Inc.
Syncora Guarantee Services Inc.
Syncora Administrative Holdings US Inc.

As of December 31, 2017 and 2016, the Company has a receivable from SHI of zero and $17.2 million, respectively, relating to the utilization of its NOLs to offset taxable income reported.

The Company does not have any tax loss contingencies for which it is reasonably possible that the total liability will significantly increase within twelve months of the reporting date.

Interest and penalties related to uncertain tax provisions were zero for the years ended December 31, 2017 and 2016. Tax years 2014 through 2017 are subject to examination by the IRS and state and local authorities. There is a U.S. federal tax audit underway for tax year 2016.

## 13. Commitments and Contingencies

(a) Contingent Commitments

- There is a risk that the IRS could disagree with a number of tax positions taken by Syncora Guarantee with respect to certain transactions, including but not limited to, certain transactions undertaken in connection with the 2009 MTA. If any of the positions taken by Syncora Guarantee were successfully challenged by the IRS, there could be a material adverse effect on Syncora Guarantee’s financial position or the amount of net operating losses available to Syncora Guarantee.

- As of December 31, 2017 and 2016, Syncora Guarantee had $3.8 million on deposit with a bank that acts as the trustee of trusts established in connection with the effective defeasance or, in-substance, commutation of certain of Syncora Guarantee’s RMBS securities. This deposit serves to secure Syncora Guarantee’s commitment to indemnify such bank in connection with any damages, as defined in the indemnification agreement, that the bank may suffer in conjunction with administering the aforementioned trusts. The deposit is recorded in “Other assets” on the accompanying Statements of Admitted Assets, Liabilities and Capital and Surplus.

(b) In October 2013, Syncora Holdings entered into an amended three year agreement with International Business Machines Corporation for information technology outsourcing services, effective January 1, 2014. In June 2016, Syncora Holdings Ltd. entered into an amended two year agreement with International Business Machines Corporation for information technology outsourcing services, effective January 1, 2017. Fees associated with such agreements were approximately $1.3 million and $1.8 million for the years ended December 31, 2017 and 2016, respectively, which is included in the charges from Syncora Guarantee Services as discussed in Note 6.

(c) All of the CDS contracts insured by the Company have mark-to-market termination payments following a failure by the Company to pay a claim related to the CDS contract or the occurrence of events that are outside the Company’s control, such as the Company being placed into receivership or rehabilitation by the NYDFS or the NYDFS taking control of the Company. Mark-to-market termination payments for which the Company would have to pay a termination payment is generally calculated either based on “market quotation” or “loss” (each as defined in the ISDA Master Agreement). “Market quotation” is calculated as an amount (based on quotations received from dealers in the market) that the counterparty would have to pay another party (other than monoline financial guarantee insurance companies) to have such party takeover the Company's position in the CDS contract. "Loss" is an amount that a counterparty reasonably determines in good faith to be its total losses and costs in connection with the CDS contract, including any loss of bargain, cost of funding or, at the election of such counterparty, but without duplication, loss or cost incurred as a result of its terminating, liquidating, obtaining or reestablishing any hedge or related trading position. If the Company failed to pay claims related to all of its insured CDS contracts or were placed into receivership or rehabilitation by the NYDFS or the NYDFS took control of the Company, the aggregate termination payments that the Company would be required to pay would significantly and adversely affect the Company's financial liquidity and, accordingly, such events would have a material adverse effect on the Company's financial position and results of operations. The Company's reserves for unpaid losses and loss adjustment expenses do not consider the effect of mark-to-market termination payments.

(d) For the years ended December 31, 2017 and 2016, the Company recorded $1.2 million and $1.0 million of rent expense, respectively, which is included in the charges from Syncora Guarantee Services. The Company does not have any material lease commitments.

(e) Litigation

Legal Matters:

In the ordinary course of business, the Company is subject to litigation or other legal proceedings.

Set forth below is a description of certain legal proceedings to which Syncora Guarantee is a party.

*US Bank v. GreenPoint Mortgage*

On February 5, 2009, U.S. Bank National Association, as Indenture Trustee ("US Bank") filed suit in the Supreme Court of the State of New York, New York County, against GreenPoint Mortgage Funding, Inc. ("GreenPoint"), alleging that GreenPoint breached representations and warranties that would require repurchase of the breaching mortgage loans and/or the entire loan pool and/or payment of damages in connection with the GreenPoint Mortgage Funding Trust 2006-HE1 transaction.

On December 29, 2017, the Company, together with US Bank and other parties, settled a dispute with GreenPoint Mortgage Funding, Inc. in relation to the GreenPoint Mortgage Funding Trust 2006-HE1 transaction. As a result of this settlement, the Company received cash payments of $335 million on January 16, 2018 and expects to receive up to an additional approximately $15 million over the remainder of the transaction.

*ARPA Litigation*

The Arkansas River Power Authority ("ARPA") is a six member joint action agency in Colorado formed to provide electricity to its constituent municipalities. ARPA's members are contractually obligated to purchase their electricity requirements from ARPA. ARPA attempted to convert an existing natural gas-fired generator in Lamar, Colorado to a coal-fired facility and to raise funds for this project, ARPA issued several series of bonds guaranteed by the Company. The Lamar plant is not currently operating.

In 2014, Lamar, Colorado (one of the six ARPA member municipalities) and others, filed a series of suits against ARPA and Syncora Guarantee alleging that ARPA mismanaged the project and seeking, among other things, to terminate its membership in ARPA. Syncora Guarantee is no longer named as a party in these litigations.

The parties settled this litigation and it was dismissed in November 2017.

*Macquarie Litigation*

On April 18, 2012, Syncora Guarantee initiated an action in the Supreme Court of the State of New York against Macquarie Capital (USA) Inc. ("Macquarie"), among others. The case remains pending only against Macquarie, with Syncora Guarantee having entered into a stipulation dismissing the other defendants from the lawsuit. Syncora Guarantee alleges that Macquarie made misrepresentations and omissions in obtaining insurance in connection with a bond offering by American Roads LLC. Macquarie's initial motion to dismiss the claims was denied in its entirety and decided in Syncora Guarantee's favor. On September 28, 2015, Syncora Guarantee filed a motion to amend its complaint to include additional allegations against Macquarie. In May 2016, Macquarie filed a motion to dismiss Syncora Guarantee's amended complaint and, in the alternative, to narrow any claims and damages. On February 15, 2017, the court ruled on Macquarie's motion to dismiss. The court sustained Syncora Guarantee's fraud and negligent misrepresentation claims for compensatory damages but dismissed Syncora Guarantee's claims for "rescissory" damages and punitive damages. The court also rejected Macquarie's request to strike the amended complaint's reference to Section 3105. On January 17, 2018, Macquarie appealed the trial court's ruling in respect of Syncora Guarantee's compensatory damages.

Pretrial discovery concluded on February 1, 2018. The court has set July 11, 2018 as the trial date.

*Puerto Rico*

On July 18, 2017, certain creditors of PREPA, including Syncora Guarantee, filed a motion in PREPA's Title III case seeking relief from the automatic stay in order to commence an action to enforce their statutory right to appoint a receiver. On September 14, 2017, the District Court for the District of Puerto Rico entered an order denying the motion. On September 28, 2017, Syncora and the other creditors appealed the decision to the United States Court of Appeals for the First Circuit.

On August 7, 2017, certain creditors of PREPA, including Syncora Guarantee, filed a complaint in PREPA's Title III case in order to enforce their rights as holders of special revenue bonds. On October 13, 2017, in light of the impact of Hurricane Maria on Puerto Rico, the creditors filed a notice of voluntarily dismissal without prejudice.

*Fir Tree Managed Trusts v. Syncora Guarantee*

On April 24, 2017, certain RMBS recovery trusts managed by Fir Tree Partners, Inc. sued Syncora Guarantee in New York State Court seeking a portion of Syncora Guarantee's $400 million 2014 settlement with JPMorgan as well as certain additional amounts that Syncora Guarantee has received and may receive as reimbursements. As of December 31, 2017, Syncora Guarantee has resolved this litigation.

*Reliance Rail Litigation*

In 2006, Reliance Rail was granted the concession from the New South Wales Government to design, construct, deliver, and maintain 78 commuter trains for the public rail service in Sydney, Australia. Reliance Rail raised debt for the project through its finance subsidiary, which was completed on December 7, 2006. Syncora Guarantee provided certain financial guarantee insurance policies in connection with the bonds and swaps issued by Reliance Rail. Reliance Rail is now seeking to refinance its current debt obligations.

On June 21, 2017, Reliance Rail brought suit in the Supreme Court of New South Wales against the trustees for the bondholders seeking a declaration from the court that Reliance Rail is entitled to redeem the bonds prior to their stated maturity dates at the outstanding par amounts without payment of any premium amounts.

On July 27, 2017, the plaintiffs filed an amended summons joining Syncora Guarantee and FGIC UK Limited, among others, as defendants to the proceedings. The amended summons sought further declarations from the court that Syncora Guarantee and FGIC UK Limited are authorized to approve certain changes in the underlying documentation proposed by Reliance Rail related to indemnities given to lenders including the bondholders.

In November 2017, the litigation was resolved and Reliance Rail successfully completed a refinancing of its debt. With the refinancing complete Syncora Guarantee removed this credit from its insured exposure.

## 14. Capital and Surplus and Dividend Restrictions

The ability of the Company to declare and pay a dividend to shareholders is governed by applicable New York law, including the NYIL. Under Section 4105 of the NYIL, the Company is permitted to pay dividends to shareholders in any 12-month period, without the prior approval of the NYDFS in an amount equal to the lesser of 10% of its policyholders' surplus as of the last financial statement filed with the NYDFS (annual or quarterly) or their adjusted net investment income for the 12-month period, as determined in accordance with Statutory Accounting Practices prescribed or permitted by the NYDFS. The NYIL also provides that the Company may distribute dividends to shareholders in excess of the aforementioned amount only upon approval thereof by the NYDFS. Even if these tests are satisfied, New York Insurance Law provides a further test in that the Company may not declare or distribute any dividends to shareholders except out of "earned surplus" (an amount equal to "unassigned funds" as shown on its statutory balance sheet, which as of December 31, 2017 was approximately $554.1 million, less "unrealized appreciation of assets"). The NYDFS may disapprove such dividends to shareholders if it finds that the Company will retain insufficient surplus to support its obligations and writings.

As discussed in Note 2, the NYDFS granted the Company permission to increase its earned surplus to the greatest extent possible given its current gross paid in and contributed surplus by allocating the entire balance of that account to earned surplus. As both earned surplus and gross paid in and contributed surplus are elements of policyholders' surplus, this permitted practice has no effect on total policyholders' surplus. As a result of this permitted practice, the Company reclassed its gross paid in and contributed surplus balance of $2.0 billion to earned surplus as of September 30, 2016.

Pursuant to the terms of the 2009 MTA, Syncora Guarantee is not permitted to pay dividends or repurchase, redeem, exchange or convert any equity securities until such time as all surplus notes issued by the Company are paid in full.

The portion of accumulated deficit represented by or reduced by each item below at December 31, 2017 is as follows:

*(U.S. Dollars in thousands)*

| | | |
|---|---|---|
| Unrealized (gains) and losses | $ | (6,242) |
| Non-admitted asset values | $ | 6,469 |

*Surplus Notes*

As part of the consideration paid in connection with the effective defeasance, or in-substance commutation, of certain of the Company's guarantees of CDS contracts pursuant to the 2009 MTA discussed in Note 2, on July 15, 2009, Syncora Guarantee issued $150.0 million face amount of short-term and $475.0 million face amount of long-term surplus notes to the counterparties of such CDS contracts. Subsequent to their issuance, $142.5 million of paid-in-kind interest has been added to the face amount of the surplus notes. As part of the 2012 settlement of RMBS-related claims and other claims with BAC thereof, $48.4 million face amount of surplus notes ($21.2 million short-term and $27.2 million long-term) were received back which included $7.7 million of paid-in-kind interest ($2.0 million short-term and $5.7 million long-term). The total face amount of the surplus notes, including paid-in-kind interest held by third parties as of December 31, 2017 is $677.1 million. The short-term surplus notes have a 5.00% interest rate and matured on December 28, 2011, and the long-term surplus notes have a 6.00% interest rate and mature on June 27, 2024.

See table below for a summary of these surplus notes as of December 31, 2017 and December 31, 2016 and for the years ended December 31, 2017 and 2016 (net of amounts received back from BAC):

*(U.S. dollars in millions)*

| | Total | | Short-Term | | Long-Term | |
|---|---|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| Par Value | $677.1 | $ 685.6 | $121.8 | $130.2 | $555.3 | $555.4 |
| Carrying value | 548.5 | 556.2 | 110.4 | 118.1 | 438.1 | 438.1 |
| Accrued interest | - | - | - | - | - | - |
| Interest expense | 47.3 | 46.8 | 3.9 | 3.4 | 43.4 | 43.4 |
| Unrecognized accrued interest | 255.9 | 255.4 | 58.4 | 53.6 | 197.5 | 201.8 |
| Unrecognized interest expense | 47.8 | 48.9 | 8.7 | 9.0 | 39.1 | 39.9 |

Interest on the short-term and long-term surplus notes was payable semi-annually, on June 27th and December 28th of each year (commencing December 28, 2009). Such interest was payable in cash or in-kind at the election of the Company through June 27, 2011 (June 27, 2013 for the long-term notes). Interest subsequent to June 27, 2011 (June 27, 2013 for the long-term notes) was required to be paid in cash, subject in each case to the prior approval of the NYDFS. Absent satisfaction of the conditions to payment, including the approval of the NYDFS, the Company is not entitled to make payments on its surplus notes. Failure to make any payment as a result of the failure of any such condition (as in the present case) would not constitute a default thereunder.

In connection with the August 12, 2016 Restructuring Transactions, $30.0 million of long-term and short-term surplus notes were transferred from Syncora Holdings to the Company, and cancelled by the Company. $23.6 million and $6.4 million of long-term and short-term notes, respectively (including principal, paid-in-kind interest and accrued interest) of surplus notes were cancelled. In addition, upon closing of the transaction, the Company made a net cash payment of $55.0 million on its long-term and short-term externally held surplus notes after receiving approval from the NYDFS for such payment. The Company will continue to request NYDFS approval for cash payments to holders of surplus notes each calendar year (to be paid in two equal semi-annual installments during such year), beginning in June 2017. The Company can provide no assurance about whether the NYDFS will approve any future payments on the short-term or long-term surplus notes.

On June 14, 2017 the NYDFS approved the Company's request for a net payment of $27.5 million, which consisted of $21.7 million and $5.8 million of long-term and short-term notes, respectively, (including principal, paid-in-kind interest and accrued interest) and such payments were made on July 24, 2017.

On November 21, 2017 the NYDFS approved the Company's request for a net payment of $27.5 million, which consisted of $21.7 million and $5.8 million of long-term and short-term notes, respectively, (including principal, paid-in-kind interest and accrued interest) and such payments were made on December 28, 2017.

Notwithstanding the Company's litigation settlements, Syncora Guarantee remains exposed to significant risks and uncertainties that may materially and adversely affect its financial condition, liquidity position and ability to make payments on its surplus notes. Consequently, there is significant uncertainty and there can be no assurance as to whether and when the conditions to payment of the Company's short-term and long-term notes, including the NYDFS approval of any future payments on these notes, will be satisfied.

Each payment of interest on (other than that paid-in-kind) or principal of the notes is subject to restrictions under the terms of the notes themselves and the NYIL, including that such payments may only be made with the prior approval of the NYDFS, and then only to the extent the Company has sufficient free and divisible surplus to make such payment. Absent the satisfaction of these conditions, the Company may not make any payments on its notes.

Each of the notes noted in the table above ranks *pari passu*. In the event the Company is subject to liquidation or other such proceeding, policyholder claims would be afforded greater priority than that of noteholders, and the noteholders' claims would be afforded greater priority than claims of the Company's stockholders.

## 15. Derivative Instruments

During 2013, the Company entered into a derivative transaction at a fixed cost of $5.6 million to economically hedge certain interest rate risk associated with certain of its insured exposures. Such derivative transaction serves to limit the Company's exposures should three-month LIBOR rates increase above certain set cap rates between March 2013 and June 2018. For the years ended December 31, 2017 and 2016, the Company recorded unrealized losses on derivatives of $50.0 thousand and $471.3 thousand, respectively. As of December 31, 2017 and 2016, the Company recorded derivative assets of $347.9 thousand and $50.0 thousand, respectively, which are included in "Derivatives instruments" on the accompanying Statement of Admitted Assets, Liabilities and Capital and Surplus.

## 16. Fair Value of Financial Instruments

The following estimated fair values have been determined by Syncora Guarantee using available market information and appropriate valuation methodologies. However, considerable judgment is necessary to interpret the data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amount Syncora Guarantee could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

**Bonds:** The fair value of bonds were provided by the Securities Valuation Office of the NAIC, except for uninsured cash flows for which fair value was determined using internal models.

**Common and preferred stocks:** The fair value of common stock and preferred stock is based upon quoted market prices.

**Cash, cash equivalents, restricted cash and short-term investments:** The carrying amounts of these items are a reasonable estimate of their fair value.

**Other invested assets:** Other invested assets consists of investments in limited partnerships and limited liability companies. Limited partnership interests are generally valued based on each partner's proportionate share of net asset value determined by quoted prices. Investments in limited liability companies are generally valued using an equity method based on the proportionate share of ownership.

**Derivative instruments:** The fair value of this asset is the indicative price Syncora Guarantee would receive to sell the derivative in an arms-length transaction between willing market participants.

**Receivables from and payables to parent and affiliates:** The carrying amounts of these items approximate fair value due to the short-term nature of these instruments.

**Financial Guarantee Insurance Contracts:** The Company believes that the best estimate of fair value for its insurance contracts is the discounted expected premiums less the discounted expected losses over the remaining life of each contract. To determine this fair value the Company utilized a discounted cash flow model based on inputs that include assumptions of expected losses net of expected recoveries where loss reserves have been established (reserve contracts), and expected premiums and losses where loss reserves have not been recognized (non-reserve contracts). For non-reserve contracts, estimates of expected loss are driven by assumptions as to default and loss given default rates for each contract. Market-based discount rates that are credit adjusted for the premium payer and the Company's own credit risk are applied to the premium and loss cash flows, respectively, to ultimately determine the contracts fair value. The inputs used in determining fair value were mostly unobservable and as a result the fair value could change materially.

The carrying amounts and estimated fair values of Syncora Guarantee's financial instruments at December 31, 2017 and 2016 were as follows:

| | Carrying Amount | | Estimated Fair Value | |
|---|---|---|---|---|
| *(U.S. Dollars in thousands)* | **2017** | **2016** | **2017** | **2016** |
| **Assets** | | | | |
| Bonds | $ 873,534 | $ 1,188,552 | $ 910,094 | $ 1,199,864 |
| Preferred stocks | 17,768 | 2,582 | 31,895 | 2,582 |
| Common stock | 59,218 | 45,361 | 59,218 | 45,361 |
| Cash, cash equivalents, restricted cash and short-term investments | 309,935 | 148,284 | 309,935 | 148,284 |
| Derivative instruments | 348 | 50 | 348 | 50 |
| Other invested assets | 14,409 | 5,489 | 14,409 | 5,489 |

The Company categorizes its assets measured at fair value into the three-level fair value hierarchy as reflected in the table below. The three-level fair value hierarchy is based on the degree of subjectivity inherent in the valuation method by which fair value was determined. The three levels are defined as follows.

*Fair Value Measurements*

Level 1- Quoted prices for identical instruments in active markets.

Level 2- Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs and valuation drivers are observable in active markets.

Level 3- Model-derived valuations in which one or more significant inputs or significant value drivers are unobservable.

The following fair value hierarchy table presents the Company's assets measured at fair value at December 31, 2017 and 2016. There were no liabilities measured at fair value at December 31, 2017 or 2016.

| *(U.S. Dollars in thousands)* | **Level 1** | | **Level 2** | | **Level 3** | | **Total** | |
|---|---|---|---|---|---|---|---|---|
| | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** | **2017** | **2016** |
| Assets at fair value - recurring | | | | | | | | |
| Common Stocks: | | | | | | | | |
| Common Stocks | $50,089 | $39,187 | $ - | $ - | $ - | $ - | $50,089 | $39,187 |
| Mutual Funds | 9,129 | 6,174 | - | - | - | - | 9,129 | 6,174 |
| Investments in Limited Partnerships | - | - | 5,207 | 557 | 1,395 | - | 6,602 | 557 |
| Investments in limited liability companies | - | - | - | - | 7,806 | 4,932 | 7,806 | 4,932 |
| Derivative instruments | - | - | - | 50 | 348 | - | 348 | 50 |
| Total assets at fair value - recurring | 59,218 | 45,361 | 5,207 | 607 | 9,549 | 4,932 | 73,974 | 50,900 |
| Assets at fair value - non-recurring | | | | | | | | |
| Bonds: | | | | | | | | |
| Special revenue | - | - | - | - | - | 30,833 | - | 30,833 |
| Industrial & Miscellaneous | - | - | 10,555 | 10,444 | - | - | 10,555 | 10,444 |
| Preferred Stocks | - | 2,582 | - | - | - | - | - | 2,582 |
| Total assets at fair value - non-recurring | - | 2,582 | 10,555 | 10,444 | - | 30,833 | 10,555 | 43,859 |
| Total assets at fair value | $59,218 | $47,943 | $15,762 | $11,051 | $9,549 | $35,765 | $84,529 | $94,759 |

The fair value of the Company's financial guarantee insurance contracts was $123.1 million and $125.6 million at December 31, 2017 and 2016, respectively. The fair value of the Company's financial guarantee insurance contracts would be categorized into the Level 3 hierarchy since the significant inputs used were unobservable.

The following table presents information about changes in assets measured at fair value using significant unobservable inputs (Level 3) as of December 31, 2017.

| *(U.S. Dollars in thousands)* | **Balance at December 31, 2016** | **Transfers Out of Level 3** | **Total Gains and (Losses) Included in Net Income** | **Total Gains and (Losses) Included in Surplus** | **Purchases** | **Sales** | **Balance at December 31, 2017** |
|---|---|---|---|---|---|---|---|
| Assets: | | | | | | | |
| Fixed Maturity Investments | $ 30,833 | $ (2,967) | $ (18,372) | $ - | $ - | $ (9,494) | $ - |
| Derivatives | - | - | - | 263 | 85 | - | 348 |
| Other invested assets | 4,932 | - | (22) | (101) | 4,950 | (558) | 9,201 |
| Total Assets | $ 35,765 | $ (2,967) | $ (18,394) | $ 162 | $ 5,035 | $ (10,052) | $ 9,549 |

The company transferred $3.0 million of Fixed Maturity Investments out of Level 3 due to the fact they are not carried at Fair Value at December 31, 2017. The Company had no transfers into Level 3, Issuances, or Settlements. There were no transfers between Level 1 and Level 2 of the fair value hierarchy for the years ended December 31, 2017 and 2016.

The following tables reflect the fair values and admitted values of all admitted assets and liabilities that are financial instruments excluding those accounted for under the equity method as of December 31, 2017 and 2016. The fair values are also categorized into the three-level fair value hierarchy as described above.

*(U.S. Dollars in thousands)*

| Type of Financial Instrument | Aggregate Fair Value | | Admitted Assets | | Level 1 | | Level 2 | | Level 3 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Financial Instruments - assets | | | | | | | | | | |
| Bonds | $ 910,094 | $ 1,199,864 | $ 873,534 | $ 1,188,552 | $ 113,089 | $ 125,482 | $ 793,969 | $ 1,043,549 | $ 3,036 | $ 30,833 |
| Cash, cash equivalents and Short-term investments | 309,935 | 148,284 | 309,935 | 148,284 | 309,536 | 139,291 | 399 | 8,993 | - | - |
| Preferred Stocks | 31,895 | 2,582 | 17,768 | 2,582 | 1,100 | 2,582 | - | - | 30,795 | - |
| Common stocks | 59,218 | 45,361 | 59,218 | 45,361 | 59,218 | 45,361 | - | - | - | - |
| Derivative instruments | 348 | 50 | 348 | 50 | - | - | - | 50 | 348 | - |
| Other Invested Assets | 14,409 | 5,489 | 14,409 | 5,489 | - | - | 5,207 | 557 | 9,202 | 4,932 |
| Total assets | $ 1,325,899 | $ 1,401,630 | $ 1,275,212 | $ 1,390,318 | $ 482,943 | $ 312,716 | $ 799,575 | $ 1,053,149 | $ 43,381 | $ 35,765 |

## 17. Other Matters

As of December 31, 2017, the Company had, in the aggregate, approximately $30.3 million on deposit to collateralize its contractual obligations under certain agreements, including reinsurance. Of such deposits, $25.7 million, $3.8 million, and $0.8 million are recorded on the accompanying Statements of Admitted Assets, Liabilities, Capital and Surplus in “Bonds”, “Other assets”, and “Restricted cash and short-term investments”, respectively.

As of December 31, 2016, the Company had, in the aggregate, approximately $48.3 million on deposit to collateralize its contractual obligations under certain agreements, including reinsurance. Of such deposits, $43.1 million, $3.8 million, and $1.4 million are recorded on the accompanying Statements of Admitted Assets, Liabilities, Capital and Surplus in “Bonds”, “Other assets”, and “Restricted cash and short-term investments”, respectively.

## 18. Variances between Statutory Basis Accounting and GAAP Basis Accounting

The accompanying statutory basis financial statements have been prepared in conformity with NAIC SAP adjusted for NYDFS permitted practices (as discussed in Note 4), which differs in some respects from accounting principles generally accepted in the United States of America (“GAAP”). The more significant of these differences are as follows:

- Bonds (which consist of bonds and loan-backed securities) assigned an NAIC designation of 1 or 2 are stated at cost, adjusted for amortization of premium and accretion of discount which is calculated using the constant yield method. Bonds assigned an NAIC designation of 3 through 6 are stated at the lower of amortized cost, adjusted for amortization of premium and accretion of discount calculated using the constant yield method or, fair value. The prospective method is used to value loan-backed securities. Under GAAP, Syncora Guarantee’s bonds are categorized as “available for sale” and are recorded at their fair value, and unrealized appreciation or depreciation of these securities, net of applicable deferred income taxes, is credited or charged as a separate component of shareholders’ equity.

- Syncora Guarantee’s investment in the common stocks of its wholly owned insurance and non-insurance subsidiaries are accounted and reported under the equity method as described in SSAP No. 97, “Investments in Subsidiary, Controlled and Affiliated Entities”, and valued in accordance with section 3(ii)(D) of the NAIC Valuations Securities manual. Changes in the carrying value of such investments are reflected as unrealized gains or losses in capital and surplus. In addition, the NYDFS granted Syncora Guarantee a permitted practice to account for its 100% ownership of

Pike Pointe as salvage recoverable, which is deducted from the liability for unpaid claims or losses. Under GAAP, Syncora Guarantee consolidates its wholly owned insurance and non-insurance subsidiaries.

- In accordance with SSAP No. 86 – "Accounting for Derivative Instruments and Hedging Activities", derivative instruments are recorded at an estimated fair value with changes in fair value recorded as unrealized gains and losses on the Statements of Admitted Assets, Liabilities and Capital and Surplus. Under GAAP, changes in fair value are recorded as unrealized gains and losses on the Statements of Operations.

- Under NAIC SAP investment income due and accrued that is greater than 90 days past due is non-admitted and charged directly to capital and surplus, whereas non-admitted assets are not recognized under GAAP (see discussion regarding admitted assets below).

- Under NAIC SAP decreases in the fair value of bond and stock investments below their carrying value which are determined to be "other than temporary" are reflected as realized losses and are recorded in the Statements of Operations. In accordance with periodic investment reviews by management, an impairment of a bond shall be considered to have occurred if it is probable that Syncora Guarantee will be unable to collect all amounts due according to the contractual terms of the security. In accordance with GAAP, any credit-related impairment on bonds Syncora Guarantee does not plan to sell and more likely than not will not be required to sell would be recognized in the Statements of Operations, with the non-credit-related impairment recognized in other comprehensive income. For other impaired bonds, where Syncora Guarantee has the intent to sell the security or where Syncora Guarantee will more likely than not be required to sell or where the entire impairment is deemed by Syncora Guarantee to be credit-related, the entire impairment is recognized in accordance with GAAP in the Statements of Operations.

- Premiums charged in connection with the issuance of Syncora Guarantee's policies are received either upfront or in installments. Such premiums are recognized as written when due. Accordingly, under NAIC SAP, future installment premiums are not recognized as receivable until they are due. Once due, installment premiums written are earned ratably over the installment period, generally one to six months, which is consistent with the expiration of the underlying risk or amortization of the underlying insured principal. Upfront premiums written are earned based on the proportion of principal and interest paid during the period, as compared to the total amount of principal and interest to be paid over the contractual life of the insured debt obligation. Under GAAP, upfront premiums are recognized as written when due and installment premiums are recognized as written at the inception of the contract along with a corresponding receivable regardless of when due. Under GAAP, financial guarantee insurance premiums (both upfront and installment premiums) are earned at a constant rate calculated based on the relationship between the insured principal outstanding in a given reporting period compared with the sum of each of the insured principal amounts outstanding for all periods.

- In accordance with NAIC SAP, a statutorily mandated contingency reserve is established net of reinsurance by an appropriation of unassigned surplus and is reflected in the Statements of Admitted Assets, Liabilities and Capital and Surplus. Under GAAP, contingency reserves are not recognized.

- In accordance with a NYDFS permitted practice, the Insurance Cash Flow Certificates are recorded as paid losses. Under GAAP, since the Insurance Cash Flow Certificates do not legally extinguish the RMBS or other insured securities, the Company regards the effective purchase of the Insurance Cash Flow Certificates as providing protection on the underlying securities upon the occurrence of an event of default and consequently follows reinsurance accounting principles.

- Under NAIC SAP reserves for losses and loss adjustment expenses on insured business are reported net of reinsurance loss recoverables established by Syncora Guarantee with respect to a specific policy and are generally discounted at a rate reflecting the weighted average return on the Syncora Guarantee's invested assets at year-end. In accordance with GAAP, reserves for losses are recognized at the measurement date on a contract by contract basis based on the weighted average probability of net cash outflows to be paid under the contract, on a present value basis, to the extent that the reserve, so determined, exceeds the unearned premium revenue attributable to such contract at the measurement date. In addition under GAAP, reserves for losses are discounted based on a risk free rate of interest commensurate with the expected duration of the related insurance contract and are reported net of unearned premium revenue and gross of reinsurance recoverables.

- Under NAIC SAP assets and liabilities relating to reinsurance are reported on a net basis. Under GAAP, these reinsurance balances are required to be reported on a gross basis.

- Syncora Guarantee accounts for its insurance of CDS contracts issued by the affiliated trusts as insurance under NAIC SAP. Under GAAP, insurance of CDS contracts are accounted for as derivative financial instruments and are carried at fair value with changes in fair value included in net income.

- In accordance with NAIC SAP, the Company must recognize as a liability in its financial statements for any credit recorded therein for ceded reinsurance liabilities to unauthorized reinsurance companies, unless such reinsurance companies have secured such obligations through funds on deposit with the ceding company, a letter or credit or by some other means generally recognized under NAIC SAP or by the NYDFS irrespective of whether the Company believes such amounts are ultimately collectible from the reinsurer. Under GAAP, no such liability is recognized.

- Under NAIC SAP a net deferred tax asset is recorded only to the extent it is expected to be realized in accordance with the applicable statutory accounting for income taxes. Amounts in excess of such limit are recorded as non-admitted assets. Changes in the admitted deferred tax asset or liability are recorded directly to unassigned surplus. In addition, a valuation allowance is recorded when it is more likely than not that all, or some portion, of the benefits related to deferred tax assets will not be realized. Under GAAP, deferred taxes are recorded for any temporary differences between the tax basis of assets and liabilities to the extent it is more likely than not that deferred tax assets are realizable, with changes in deferred tax assets and liabilities recorded as a component of net income tax expense, except for changes in unrealized gains and losses on available for sale securities.

- Under NAIC SAP certain assets are non-admitted, (consisting primarily of intercompany receivables that are greater than 90 days past due) and charged directly to unassigned surplus. Under GAAP, these amounts are typically reflected as assets.

- In accordance with NAIC SAP, surplus notes are recorded as a component of capital and surplus, while under GAAP, surplus notes are recorded as notes payable.

- Under NAIC SAP, acquisition costs are charged to operations as incurred rather than GAAP's requirement to defer and amortize the costs as the related premiums are earned.

- Variable interest entities are not consolidated by the primary beneficiary under statutory requirements.

## 19. Subsequent Events

The Company has evaluated all subsequent events through March 29, 2018, the date the financial statements were available to be issued. Except as discussed below, there were no material events occurring subsequent to December 31, 2017 that required recognition or disclosure.

*Reinsurance Transaction*

On February 2, 2018, Syncora Guarantee, entered into an agreement, the closing of which is subject to regulatory and other approvals as further described below, with Assured Guaranty Corp. ("Assured Guaranty") pursuant to which Assured Guaranty agreed to provide reinsurance, generally on a 100% quota share basis, to Syncora Guarantee of approximately $13.5 billion of net par outstanding of Syncora Guarantee-insured financial guaranty insurance policies, representing approximately 91% of Syncora Guarantee's outstanding insured exposure. As consideration for the transaction, which also involves a commutation of a small book of business ceded to Syncora Guarantee by an Assured Guaranty affiliate which is included in the par outstanding numbers above, Syncora Guarantee would pay approximately $360 million (which amount includes ceded reserves) and assign over future installment premium for the reinsured policies. In addition, in connection with the reinsurance, Syncora Guarantee has also entered into an administrative services agreement with Assured Guaranty pursuant to which Assured Guaranty would provide certain administrative services with respect to the reinsured policies. Subsequent to the execution of this reinsurance agreement, Syncora Guarantee's remaining insured portfolio would be approximately $1.29 billion of net par outstanding. In addition, Syncora Guarantee has the option to cede certain debt service reserve fund surety and interest rate swap policies for an immaterial additional premium payment.

Closing of the reinsurance transaction is subject to the receipt of required regulatory approvals, consents from certain third parties and other closing conditions, including New York Department of Financial Services approval of a payment of principal and accrued interest of at least $400 million on Syncora Guarantee's surplus notes. The parties would expect to close the transaction no later than the end of the second quarter of 2018.

There can be no assurance that Syncora Guarantee will receive the required approvals or consents for the reinsurance or that the reinsurance transaction will close on the expected timeline or at all; neither can assurance be given as to the timing or the amount, if any, of payment on Syncora Guarantee's surplus notes that the New York Department of Financial Services may approve.

# Appendix A

20311201728500100 2017 Document Code: 285

# SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

**For the year ended DECEMBER 31, 2017**
**(To Be Filed by April 1)**

Of The SYNCORA GUARANTEE INC.
Address (City, State, Zip Code) New York, NY, 10020
NAIC Group Code 0000 NAIC Company Code 20311 Employer's ID Number 13-3635895

The Investment Risk Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.
Answer the following interrogatories by reporting the applicable U. S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. $ 1,302,093,364

| 1<br>Issuer | 2<br>Description of Exposure | 3<br>Amount | 4<br>Percentage of Total Admitted Assets |
|---|---|---|---|
| 2. Ten largest exposures to a single issuer/borrower/investment. | | | |
| 2.01 DREYFUS TREASURY SECURITIES CASH MANAGEM | EXEMPT MNY MKT MUTUAL FUND | 18,474,944 | 1.419 |
| 2.02 SYNCORA INVESTMENT HOLDINGS, LLC | PARENT, SUBSIDIARIES AND AFFILIATES | 14,516,163 | 1.115 |
| 2.03 FEDERAL NATIONAL MORTGAGE ASSOCIATION | BOND | 13,959,960 | 1.072 |
| 2.04 JPMORGAN CHASE & CO | BOND | 11,865,389 | 0.911 |
| 2.05 FORD MOTOR CREDIT CO LLC | BOND/COMMON STOCK | 11,696,491 | 0.898 |
| 2.06 MORGAN STANLEY | BOND | 11,430,486 | 0.878 |
| 2.07 GOLDMAN SACHS GROUP INC/THE | BOND/COMMON STOCK | 10,008,518 | 0.769 |
| 2.08 SANTANDER HOLDINGS USA INC | BOND | 9,639,621 | 0.740 |
| 2.09 WELLS FARGO & CO | BOND/COMMON STOCK | 9,615,431 | 0.738 |
| 2.10 SYNCHRONY FINANCIAL | BOND | 8,643,450 | 0.664 |

| NAIC Designation | 1<br>Amount | 2<br>Percent |
|---|---|---|
| 3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC designation. | | |
| **Bonds** | | |
| 3.01 NAIC 1 | 765,203,401 | 58.767 |
| 3.02 NAIC 2 | 259,019,739 | 19.893 |
| 3.03 NAIC 3 | 31,788,660 | 2.441 |
| 3.04 NAIC 4 | 6,453,595 | 0.496 |
| 3.05 NAIC 5 | 717,023 | 0.055 |
| 3.06 NAIC 6 | 75,870,410 | 5.827 |
| **Preferred Stocks** | | |
| 3.07 P/RP-1 | | |
| 3.08 P/RP-2 | | |
| 3.09 P/RP-3 | 1,032,800 | 0.079 |
| 3.10 P/RP-4 | | |
| 3.11 P/RP-5 | 16,734,867 | 1.285 |
| 3.12 P/RP-6 | | |

4. Assets held in foreign investments:
   4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? Yes[ ] No[X]
   If response to 4.01 above is yes, responses are not required for interrogatories 5 - 10.

| | 1<br>Amount | 2<br>Percent |
|---|---|---|
| 4.02 TOTAL admitted assets held in foreign investments | 132,331,318 | 10.163 |
| 4.03 Foreign-currency-denominated investments | | |
| 4.04 Insurance liabilities denominated in that same foreign currency | | |

# SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (Continued)

| NAIC Sovereign Designation | 1<br>Amount | 2<br>Percent |
|---|---|---|
| 5. Aggregate foreign investment exposure categorized by NAIC sovereign designation: | | |
| 5.01 Countries designated NAIC 1 | 127,714,764 | 9.808 |
| 5.02 Countries designated NAIC 2 | 4,616,554 | 0.355 |
| 5.03 Countries designated NAIC 3 or below | | |

| NAIC Sovereign Designation | 1<br>Amount | 2<br>Percent |
|---|---|---|
| 6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation: | | |
| Countries designated NAIC 1: | | |
| 6.01 NETHERLANDS | 27,972,871 | 2.148 |
| 6.02 CANADA | 21,373,495 | 1.641 |
| Countries designated NAIC 2: | | |
| 6.03 ITALY | 3,024,698 | 0.232 |
| 6.04 SPAIN | 1,591,856 | 0.122 |
| Countries designated NAIC 3 or below: | | |
| 6.05 | | |
| 6.06 | | |

| Description | 1<br>Amount | 2<br>Percent |
|---|---|---|
| 7. Aggregate unhedged foreign currency exposure | | |

| NAIC Sovereign Designation | 1<br>Amount | 2<br>Percent |
|---|---|---|
| 8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation: | | |
| 8.01 Countries designated NAIC 1 | | |
| 8.02 Countries designated NAIC 2 | | |
| 8.03 Countries designated NAIC 3 or below | | |

| NAIC Sovereign Designation | 1<br>Amount | 2<br>Percent |
|---|---|---|
| 9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation: | | |
| Countries designated NAIC 1: | | |
| 9.01 | | |
| 9.02 | | |
| Countries designated NAIC 2: | | |
| 9.03 | | |
| 9.04 | | |
| Countries designated NAIC 3 or below: | | |
| 9.05 | | |
| 9.06 | | |

| 1<br>Issuer | 2<br>NAIC Designation | 3<br>Amount | 4<br>Percent |
|---|---|---|---|
| 10. Ten largest non-sovereign (i.e. non-governmental) foreign issues: | | | |
| 10.01 SANTANDER UK PLC | 1FE | 5,537,252 | 0.425 |
| 10.02 HSBC HOLDINGS PLC | 1FE | 5,328,459 | 0.409 |
| 10.03 MITSUBISHI UFJ FINANCIAL GROUP INC | 1FE | 5,025,617 | 0.386 |
| 10.04 ROYAL BANK OF CANADA | 1FE | 4,994,232 | 0.384 |
| 10.05 CREDIT SUISSE GROUP | 2FE | 4,969,633 | 0.382 |
| 10.06 ABN AMRO BANK NV | 1FE | 4,966,288 | 0.381 |
| 10.07 TRINITAS CLO | 3Z | 4,855,693 | 0.373 |
| 10.08 SHELL INTERNATIONAL FINANCE BV | 1FE | 4,573,876 | 0.351 |
| 10.09 TORONTO-DOMINION BANK/THE | 1FE | 4,183,126 | 0.321 |
| 10.10 BARCLAYS PLC | 2FE | 4,138,572 | 0.318 |

# SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (Continued)

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:
    11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? Yes[X] No[ ]
    If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.

| Description | 1<br>Amount | 2<br>Percent |
|---|---|---|
| 11.02 TOTAL admitted assets held in Canadian Investments | | |
| 11.03 Canadian-currency-denominated investments | | |
| 11.04 Canadian-denominated insurance liabilities | | |
| 11.05 Unhedged Canadian currency exposure | | |

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.
    12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? Yes[X] No[ ]
    If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.

| 1<br>Contractual Sales Restrictions | 2<br>Amount | 3<br>Percent |
|---|---|---|
| 12.02 Aggregate statement value of investments with contractual sales restrictions | | |
| Largest 3 investments with contractual sales restrictions: | | |
| 12.03 | | |
| 12.04 | | |
| 12.05 | | |

13. Amounts and percentages of admitted assets held in the ten largest equity interests:
    13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? Yes[ ] No[X]
    If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.

| 1<br>Name of Issuer | 2<br>Amount | 3<br>Percent |
|---|---|---|
| Assets held in equity interests: | | |
| 13.02 SYNCORA INVESTMENT HOLDINGS LLC | 14,516,163 | 1.115 |
| 13.03 MARQETA INC. SERIES C PREFERRED SHARES | 4,899,999 | 0.376 |
| 13.04 CROWN GLOBAL INSURANCE GROUP LLC. | 4,741,181 | 0.364 |
| 13.05 CREDIT SESAME SERIES D PREFERRED | 4,514,869 | 0.347 |
| 13.06 LIFTFORWARD SERIES B PREFERRED SHARES | 3,920,000 | 0.301 |
| 13.07 NEW RESIDENTIAL INVESTMENT CORP | 3,638,580 | 0.279 |
| 13.08 MAIN STREET CAPITAL CORP | 3,578,640 | 0.275 |
| 13.09 SNAPSHEET, INC SERIES C PREFERRED SHARES | 3,399,999 | 0.261 |
| 13.10 ROYAL DUTCH SHELL PLC | 3,212,293 | 0.247 |
| 13.11 POWERSHARES FINANCIAL PREFERRED | 3,033,919 | 0.233 |

# SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (Continued)

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:
    14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes[X] No[ ]
    If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

| 1<br>Investment Category | 2<br>Amount | 3<br>Percent |
|---|---|---|
| 14.02 Aggregate statement value of investments held in nonaffiliated, privately placed equities | | |
| Largest 3 investments held in nonaffiliated, privately placed equities: | | |
| 14.03 | | |
| 14.04 | | |
| 14.05 | | |

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:
    15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes[X] No[ ]
    If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

| 1<br>Investments in General Partnerships | 2<br>Amount | 3<br>Percent |
|---|---|---|
| 15.02 Aggregate statement value of investments held in general partnership interests | | |
| Largest 3 investments in general partnership interests: | | |
| 15.03 | | |
| 15.04 | | |
| 15.05 | | |

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:
    16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes[X] No[ ]
    If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

| 1<br>Type (Residential, Commercial, Agricultural) | 2<br>Amount | 3<br>Percent |
|---|---|---|
| TOTAL admitted assets held in Mortgage Loans | | |
| 16.02 | | |
| 16.03 | | |
| 16.04 | | |
| 16.05 | | |
| 16.06 | | |
| 16.07 | | |
| 16.08 | | |
| 16.09 | | |
| 16.10 | | |
| 16.11 | | |

# SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (Continued)

| Description | Loans 2 Amount | 3 Percent |
|---|---|---|
| Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans: | | |
| 16.12 Construction loans | | |
| 16.13 Mortgage loans over 90 days past due | | |
| 16.14 Mortgage loans in the process of foreclosure | | |
| 16.15 Mortgage loans foreclosed | | |
| 16.16 Restructured mortgage loans | | |

| Loan-to-Value | Residential 1 Amount | 2 Percent | Commercial 3 Amount | 4 Percent | Agricultural 5 Amount | 6 Percent |
|---|---|---|---|---|---|---|
| 17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date: | | | | | | |
| 17.01 Above 95% | | | | | | |
| 17.02 91% to 95% | | | | | | |
| 17.03 81% to 90% | | | | | | |
| 17.04 71% to 80% | | | | | | |
| 17.05 Below 70% | | | | | | |

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:
 18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes[X] No[ ]
 If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

| 1 Description | 2 Amount | 3 Percent |
|---|---|---|
| Largest five investments in any one parcel or group of contiguous parcels of real estate: | | |
| 18.02 | | |
| 18.03 | | |
| 18.04 | | |
| 18.05 | | |
| 18.06 | | |

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:
 19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? Yes[X] No[ ]
 If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

| 1 Description | 2 Amount | 3 Percent |
|---|---|---|
| 19.02 Aggregate statement value of investments held in mezzanine real estate loans | | |
| Largest three investments held in mezzanine real estate loans: | | |
| 19.03 | | |
| 19.04 | | |
| 19.05 | | |

# SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (Continued)

| Description | At Year-End 1 Amount | 2 Percent | Amount at End of Each Quarter 3 1st Qtr | 4 2nd Qtr | 5 3rd Qtr |
|---|---|---|---|---|---|
| 20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements: | | | | | |
| 20.01 Securities lending agreements (do not include assets held as collateral for such transactions) | | | | | |
| 20.02 Repurchase agreements | | | | | |
| 20.03 Reverse repurchase agreements | | | | | |
| 20.04 Dollar repurchase agreements | | | | | |
| 20.05 Dollar reverse repurchase agreements | | | | | |

| Description | Owned 1 Amount | 2 Percent | Written 3 Amount | 4 Percent |
|---|---|---|---|---|
| 21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors: | | | | |
| 21.01 Hedging | | | | |
| 21.02 Income generation | | | | |
| 21.03 Other | 347,889 | 0.027 | | |

| Description | At Year-End 1 Amount | 2 Percent | Amount at End of Each Quarter 3 1st Qtr | 4 2nd Qtr | 5 3rd Qtr |
|---|---|---|---|---|---|
| 22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards: | | | | | |
| 22.01 Hedging | | | | | |
| 22.02 Income generation | | | | | |
| 22.03 Replications | | | | | |
| 22.04 Other | | | | | |

| Description | At Year-End 1 Amount | 2 Percent | Amount at End of Each Quarter 3 1st Qtr | 4 2nd Qtr | 5 3rd Qtr |
|---|---|---|---|---|---|
| 23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts: | | | | | |
| 23.01 Hedging | | | | | |
| 23.02 Income generation | | | | | |
| 23.03 Replications | | | | | |
| 23.04 Other | | | | | |

# Appendix B

20311201739930100 2017 Document Code: 399

# REINSURANCE ATTESTATION SUPPLEMENT

The Chief Executive Officer and Chief Financial Officer shall attest, under penalties of perjury, with respect to all reinsurance contracts for which the reporting entity is taking credit on its current financial statement, that to the best of their knowledge and belief after diligent inquiry:

(I) Consistent with SSAP No. 62R, Property and Casualty Reinsurance, there are no separate written or oral agreements between the reporting entity (or its affiliates or companies it controls) and the assuming reinsurer that would under any circumstances, reduce, limit, mitigate or otherwise affect any actual or potential loss to the parties under the reinsurance contract, other than inuring contracts that are explicitly defined in the reinsurance contract except as disclosed herein;

(II) For each such reinsurance contract entered into, renewed, or amended on or after January 1, 1994, for which risk transfer is not reasonably considered to be self-evident, documentation concerning the economic intent of the transaction and the risk transfer analysis evidencing the proper accounting treatment, as required by SSAP No. 62R, Property and Casualty Reinsurance, is available for review;

(III) The reporting entity complies with all the requirements set forth in SSAP No. 62R, Property and Casualty Reinsurance; and

(IV) The reporting entity has appropriate controls in place to monitor the use of reinsurance and adhere to the provisions of SSAP No. 62R, Property and Casualty Reinsurance.

If there are any exception(s), it should be noted in the Reinsurance Attestation Supplement filed electronically with the NAIC and in hard copy with the domestic regulator (excluding the details of the exceptions). The details of the exceptions shall be filed in a separate hard copy supplement (Exceptions to the Reinsurance Attestation Supplement) with the domestic regulator.

For reporting period ended December 31, 2017

Signed:

| [signature] | 2/26/18 | [signature] | 2/26/18 |
|---|---|---|---|
| Chief Executive Officer | Date | Chief Financial Officer | Date |