SYNCORA HOLDINGS LTD.

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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Independent Auditor's Report

To the Board of Directors and Shareholders of Syncora Holdings Ltd.:

We have audited the accompanying consolidated financial statements of Syncora Holdings Ltd. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2013 and December 31, 2012, and the related consolidated statements of operations and shareholders' equity (deficit) and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Syncora Holdings Ltd. and its subsidiaries at December 31, 2013 and December 31, 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 2 to the consolidated financial statements, the risk of adverse loss development on the Company's remaining in-force business and its related effect on the Company's ability to maintain adequate liquidity and its subsidiaries' compliance with their regulatory

PricewaterhouseCoopers LLP, 300 Madison Avenue, New York, NY 10017
T: (646) 471 3000, F: (646) 471 8320, www.pwc.com/us

capital requirements continue to represent significant risks and uncertainties faced by the Company. Management's ongoing strategic plan to mitigate these risks and uncertainties is also described in Note 2 to the financial statements.

PricewaterhouseCoopers LLP

June 3, 2014

SYNCORA HOLDINGS LTD.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2013 and 2012
(U.S. dollars in thousands, except share and per share amounts)

	2013	2012
ASSETS		
Debt securities available for sale, at fair value (amortized cost: $1,254,232 and $1,300,931)	$ 1,277,650	$ 1,362,797
Other invested assets, at fair value	19,403	10,273
Cash and cash equivalents	237,415	115,418
Total cash and invested assets	1,534,468	1,488,488
Restricted cash and cash equivalents	3,491	709
Accrued investment income	6,580	9,236
Deferred acquisition costs, net	76,184	95,270
Premiums receivable	202,947	227,493
Salvage and subrogation recoverable	468,003	139,226
Credit default and other swap contracts, at fair value	173,840	212,116
Receivables on insurance cash flow certificates, net	455,754	278,315
Replacement bank warrants, at fair value (face value: $197,332)	—	138,132
Interest rate derivative instrument, at fair value	7,033	—
Toll rights and other indefinite-lived intangible assets	99,549	—
Leasehold rights and other definite-lived intangible assets, net	14,685	—
Property and equipment, net	55,244	—
Other assets	30,225	39,483
Assets of consolidated variable interest entities, at fair value	346,487	473,912
Total assets	$ 3,474,490	$ 3,102,380
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Liabilities		
Unpaid losses and loss adjustment expenses	$ 1,359,547	$ 1,232,045
Unearned premium revenue	534,588	662,014
Credit default and other swap contracts, at fair value	528,041	590,382
Notes payable (par value: $719,287 and $702,553)	321,981	292,401
Reinsurance premiums payable	1,410	1,568
Accounts payable, accrued expenses and other liabilities	85,327	53,854
Pension and other postretirement liabilities	12,359	—
Liabilities of consolidated variable interest entities, at fair value	206,593	333,486
Total liabilities	3,049,846	3,165,750
Shareholders' equity (deficit)		
Non-controlling interest in subsidiary- Series B non-cumulative preferred shares of Syncora Guarantee Inc. ($200,000 liquidation preference); 655 preferred shares held by subsidiary	13,453	13,453
Series A perpetual non-cumulative preferred shares (250,000 shares authorized, issued and outstanding, $0.01 par value) and additional paid-in capital ($250,000 liquidation preference)	246,593	246,593
Common shares (500,000,000 shares authorized; 59,336,686 shares issued; $0.01 par value) and additional paid-in capital	2,678,374	2,681,713
Accumulated deficit	(2,541,015)	(3,122,287)
Accumulated other comprehensive income	27,239	117,158
Total Syncora Holdings Ltd. common shareholders' equity (deficit)	164,598	(323,416)
Total Syncora Holdings Ltd. shareholders' equity (deficit)	411,191	(76,823)
Total shareholders' equity (deficit)	424,644	(63,370)
Total liabilities and shareholders' equity (deficit)	$ 3,474,490	$ 3,102,380

See accompanying Notes to Consolidated Financial Statements.

SYNCORA HOLDINGS LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND SHAREHOLDERS' EQUITY (DEFICIT)
YEARS ENDED DECEMBER 31, 2013 and 2012
(U.S. dollars in thousands)

	2013	2012
Revenues		
Net premiums earned	$ 132,714	$ 90,243
Net investment income	36,402	37,357
Net realized (losses) gains on investments, net of other-than-temporary impairment losses of $(20,213) and $(3,271)	(7,355)	11,352
Net earnings on insurance cash flow certificates	232,604	458,598
Fee income and other	14,423	27,515
Gain on extinguishment of debt	—	18,097
Change in fair value of credit default and other swap contracts:		
Realized gains and other settlements	(2,981)	21,695
Net unrealized gains	24,531	432,021
Net change in fair value of credit default and other swap contracts	21,550	453,716
Net change in fair value of consolidated variable interest entities	(108,620)	(31,644)
Toll revenue	6,658	—
Total revenues	328,376	1,065,234
Expenses		
Net (recoveries) losses and loss adjustment expenses	(396,129)	292,174
Amortization of deferred acquisition costs, net	18,409	11,091
Realized (gain) loss on interest rate derivative instrument	(1,470)	192
Operating expenses	124,380	100,831
Total expenses	(254,810)	404,288
Income before income tax expense	583,186	660,946
Income tax expense	1,914	2,613
Net income	581,272	658,333
Other comprehensive income:		
Change in pension and other postretirement benefits	1,431	—
Net unrealized (losses) gains on investments	(91,350)	42,255
Comprehensive income	491,353	700,588
Receipt of non-controlling interest in subsidiary- Series B non-cumulative preferred shares of Syncora Guarantee Inc.	—	(6,547)
Change in additional paid-in capital	(3,339)	6,547
Change in shareholders' equity (deficit)	488,014	700,588
Total shareholders' deficit—beginning of period	(63,370)	(763,958)
Total shareholders' equity (deficit)—end of period	$ 424,644	$ (63,370)

See accompanying Notes to Consolidated Financial Statements.

SYNCORA HOLDINGS LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 and 2012
(U.S. dollars in thousands)

	2013	2012
Cash flows from operating activities:		
Premiums collected	$ 27,767	$ 36,876
Investment income collected	47,091	37,308
Fees received on credit default swaps	18,128	22,519
Losses paid on credit default swaps	(11,962)	(1,000)
Fees paid for other derivative swaps	(5,563)	(60,000)
Interest collected on Replacement Bank Warrants	13,901	13,135
Cash received from litigation settlements	216,378	375,000
Claims paid to policyholders	(117,831)	(374,142)
Operating expenses paid	(118,323)	(104,421)
Income taxes paid	(3,297)	(682)
Cash paid for Insurance Cash Flow Certificates	(58,408)	(29,149)
Cash received on Insurance Cash Flow Certificates	43,936	309,547
Transfers (to) from restricted cash	(2,782)	4,808
Tolls collected	7,355	—
Other cash receipts	8,556	2,608
Investment income collected by variable interest entities	19,643	20,022
Interest and other expenses paid by variable interest entities	(14,268)	(15,422)
Net cash provided by operating activities	70,321	237,007
Cash flows from investing activities:		
Net proceeds from sales of investments	555,639	421,508
Net proceeds from maturity of investments	161,757	154,344
Purchases of investments	(731,503)	(864,263)
Purchases of property and equipment	(594)	—
Net cash received from acquisition	54,959	—
Net proceeds (purchases) from consolidated variable interest entities' assets	241,608	(42,690)
Net cash provided by (used in) investing activities	281,866	(331,101)
Cash flows from financing activities:		
Net (paydowns) borrowings of consolidated variable interest entities' liabilities	(230,190)	52,905
Net cash (used in) provided by financing activities	(230,190)	52,905
Increase (decrease) in cash and cash equivalents	121,997	(41,189)
Cash and cash equivalents—beginning of period	115,418	156,607
Cash and cash equivalents—end of period	$ 237,415	$ 115,418
Supplemental non-cash flow information:		
Acquisition of net assets upon American Roads' re-emergence from bankruptcy	205,319	—
Transfer of short-term and long-term notes	—	28,409
Transfer of non-controlling interest in subsidiary- Series B non-cumulative preferred shares of Syncora Guarantee Inc	—	6,547

See accompanying Notes to Consolidated Financial Statements.

1. Organization and Business

Syncora Holdings Ltd. ("Syncora Holdings") is a Bermuda holding company, which was formed on March 17, 2006 that provides, through its wholly-owned subsidiaries, financial guarantee insurance and reinsurance. Syncora Holdings collectively with its consolidated subsidiaries is hereafter referred to as the ("Company").

Syncora Holdings principal business operating subsidiaries consist of Syncora Guarantee Inc. ("SGI") and SGI's wholly-owned subsidiaries, Syncora Capital Assurance Inc. ("SCAI") and Syncora Guarantee (U.K.) Ltd. ("SGI-UK").

SGI is an insurance company domiciled in the State of New York, which is regulated by the New York State Department of Financial Services ("NYDFS") and at one time was licensed to conduct financial guarantee insurance business throughout all 50 of the United States and other jurisdictions. However, because of the events discussed herein, SGI no longer writes insurance business nor is SGI licensed to do so in certain states and other jurisdictions. SGI ceased writing substantially all new business in January 2008. SGI, however, collects and expects to continue to collect premiums on existing business in such states and jurisdictions. See Note 18 for further discussion.

SCAI is a New York domiciled financial guarantee insurance company also regulated by the NYDFS, which was formed and commenced operations on July 15, 2009, in connection with the restructuring of SGI as discussed in Note 3. SCAI is prohibited from writing new business and, therefore, does not intend to seek to obtain licenses to transact new insurance business in any other state or jurisdiction.

SGI-UK is a domiciled and licensed financial guarantee insurance company formed in the United Kingdom and is regulated by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") in the United Kingdom. On April 24, 2009, SGI-UK filed an application for a Variation of Permission with the Financial Services Authority ("FSA") to remove its authority "to effect new contracts of insurance." This application was approved by the FSA.

Prior to January 2008, the Company 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"). These trusts are consolidated by the Company.

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.

Pike Pointe

Pike Pointe Holdings, LLC ("Pike Pointe") is a wholly owned subsidiary of SGI, which was formed as a Delaware limited liability company to hold 100% of the equity ownership of a number of its subsidiaries that ultimately own and operate certain toll road facilities located in the United States and Canada (collectively, "American Roads"). The financial statements of Pike Pointe as of September 4, 2013 and for the period from September 4th to December 31, 2013 have been included in the accompanying consolidated financial statements.

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. SGI 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 SGI as an indirect owner of the American Roads, LLC interest rate swaps and issuer of related insurance policies received 100% of the equity ownership of the reorganized American Roads. The holders of the bonds originally issued by American Roads, which have been discharged in bankruptcy, continue to benefit from SGI's insurance policies, as SGI is obligated to pay 100% of all future principal and interest payments.

2. Description of Continuing Significant Risks and Uncertainties, Assessment of the Company's Ability to Continue as a Going Concern, and Description of the Company's On-Going Strategic Plan

Significant Risks and Uncertainties

Given the significant risks and uncertainties discussed below and that the Company's shareholders' equity and its capitalization includes debt, in the form of surplus notes, with a par value of $719 million, as well as preferred stock with an aggregate liquidation value of $450 million, the Company believes that there will likely be very little, if any, residual value available to the common shareholders of Syncora Holdings and cautions investors that an investment in Syncora Holdings common shares is extremely speculative and is likely to result in a loss of substantially all of their investment. Additionally, given the risks outlined below, including those with respect to Syncora Holdings' liquidity position and SGI's liquidity and financial position, the Company cautions investors that investment in the preferred shares of Syncora Holdings or SGI or an investment in SGI's surplus notes should also be considered speculative.

Syncora Holdings is a holding company with no operations or significant assets other than $13.1 million of debt securities and cash and cash equivalents and its common equity ownership of its subsidiaries. Syncora Holdings only potential sources of funds are dividends and/or reimbursements for certain expenses related to the general services agreement with its subsidiaries to provide funds for its working capital needs and to pay operating expenses. The remainder of its capital is held at SGI and SCAI, and any dividends and/or distributions from these entities are subject to contractual and regulatory prohibitions and limitations and to the prior claims of SGI's surplus noteholders and preferred shareholders. There can be no assurance that Syncora Holdings will be able maintain adequate capital or have sufficient liquidity in the future to pay its operating expenses. See Note 22 for condensed financial information of Syncora Holdings.

Despite the Company's litigation settlements and all of its remediation transactions, the Company remains exposed to significant risks and uncertainties that may materially affect its financial and liquidity position. These relate to, among other things, (i) a potential liquidity mismatch resulting from the timing of anticipated future claims payments and subsequent cash recoveries related to these claim payments, (ii) the potential for future adverse loss and claims development on its insured obligations, (iii) the failure to receive payments on its Insurance Cash Flow Certificates ("ICFs"), (iv) the resolution of various litigation matters, including recoveries from the Company's insurance policy litigation claims, and (v) the failure to receive interest payments from SCAI on its long-term surplus note. 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

- The Company continues to face a potential "liquidity mismatch" between expected future medium to long-term claim payments and recoveries relating to such claims. This potential liquidity mismatch results primarily from substantial projected claim payments related to structured single risk deals, public finance deals and other select exposures with refinancing risk. The Company anticipates it will be obligated to make substantial claim payments in the period 2017 to 2029, followed in later years (in some cases significantly later years) by anticipated recoveries of these claims payments. These claims are subject to variability and uncertainty and may, under certain scenarios, exceed the Company's claims paying resources at that time. In addition, the Company has other potential transactions with exposure to refinancing risk. As of December 31, 2013, the Company had a total par outstanding of $4.1 billion related to the aforementioned exposures. Pursuant to the Company's accounting policy and guidance under Generally Accepted Accounting Principles ("GAAP"), 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). As a result, the reserve for losses recorded in the Company's balance sheet are modest as compared to the estimated future claim payments. The amount and timing of the recoveries related to the anticipated future claim payments are subject to greater uncertainty than the amount and timing of such future claim payments themselves. If realized, this liquidity mismatch is projected to have a material adverse effect on the Company, including its expected future liquidity position, and could have a material adverse effect on the Company's ability to satisfy its future medium to long-term obligations, including policyholder claims, interest and principal payments on its surplus notes, and other obligations. Because of the inherent uncertainty in estimating future claim payments and recoveries, no assurance can be given that the actual severity or timing of claim payments, related recoveries, or ultimate losses will not be different than the Company's estimates, and such differences could materially and adversely affect the Company's results of operations, financial condition and liquidity. Further, no assurance can be given that the Company will be successful in further enhancing liquidity or mitigating adverse developments associated with its future claim payments, recoveries, reserves for losses or the aforementioned potential liquidity mismatch. See Note 10 "*Schedule of Insured Financial Obligations with Credit Deterioration*" caption for further discussion. The Company may experience significant adverse development on its insured obligations that may place further demands on the Company's liquidity and financial position. The Company cannot provide any assurance that, were it to experience further adverse loss and claims development, the NYDFS would not take regulatory action, which may include commencement of rehabilitation or liquidation proceedings.

- The Company is exposed to significant refinancing risks in its insured and reinsured portfolio. The Company had assumed at origination that certain of the debt issuances insured could be refinanced in the market. The Company is exposed to this risk and, accordingly, may be required to make claim payments and then seek to recover its payments from revenues produced by the transaction. The Company believes it has reserved appropriately to reflect this risk but a more difficult refinancing market at the time of refinancing could lead to the Company facing additional, material claims and losses (see the discussion of the potential "liquidity mismatch" described above). Through its guarantees of certain CDOs, the Company is also indirectly exposed to refinancing risk associated with debt obligations held or referenced in these portfolios. The underlying asset types for which refinancing risk is a factor primarily include US CLOs and European CLOs.

- The Company has direct insurance and reinsurance (including reinsurance ceded by its subsidiary SGI-UK) 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, 2013, the Company's in-force guaranteed principal exposure to the European Union was approximately $9.8 billion of which $513.9 million was specifically related to certain credits in higher risk countries, such as Portugal, Italy and Spain. See Note 11 for further discussion.

- 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 losses (including the timing and amount of claims and subsequent recoveries) incurred on transactions it guarantees, the value of its investment portfolio, and otherwise materially and adversely affect the Company. 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 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 current exchange rates, approximately $11.1 billion of the Company's in-force guaranteed net par outstanding exposure of $51.3 billion at December 31, 2013 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 financial 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.

- SGI continues to be materially exposed (directly and indirectly) to risks associated with any continuing deterioration in the residential mortgage market through its guarantees of RMBS, as well as other bond sectors to which SGI 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 continued deterioration of the credit markets is unknown, as is the effect, if any, on: (i) potential claim payments and the ultimate amount of losses SGI may incur on obligations it has guaranteed and (ii) potential losses SGI may incur on its invested assets.

- The Company's public finance exposures include the City of Detroit, which filed for bankruptcy protection under Chapter 9 of the United States Bankruptcy Code on July 18, 2013. As of December 31, 2013, the Company has potential Detroit-related exposure of $246.8 million, which represent bond insurance policies relating to general obligation bonds. As described more fully in Note 18, the City of Detroit's recently filed plan of adjustment provides for minimal recoveries to the holders of the Company's insured bonds and further challenges the validity of the Company's insured obligations. Adverse outcomes or rulings in the bankruptcy proceedings could have a material adverse effect on the Company's liquidity and financial position.

- As of December 31, 2013, the Company has $615.0 million of exposure to the Commonwealth of Puerto Rico predominantly in General Obligation bonds and other obligations of its instrumentalities. As a result of Puerto Rico's high debt levels, weak economy and recent rating downgrades, there is significant risk and uncertainty related to its ability to pay its debt as they become due, and to access capital in the credit markets. If Puerto Rico or any of its instrumentalities were to default on their debt obligations, the Company may experience losses on these insured obligations 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 with material risk of adverse development, including to 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 liquidity and financial position.

- SGI also holds 100% of the common shares issued by SCAI. SCAI's ability to pay dividends on such common shares is subject to risks and uncertainties, including, without limitation, prior regulatory approval by the NYDFS and compliance with certain contractual restrictions. No assurance can be given as to whether or when SGI or SCAI may be able to pay any dividends on its preferred and/or common shares.

- The Company's subsidiary, SCAI has significant exposure to public finance transactions (including the City of Detroit and Puerto Rico), structured single risk and collateralized debt obligations all of which pose a risk of material adverse development. Reductions in the carrying value of the Company's investment in SCAI could, directly or indirectly, have a material adverse effect on the Company's liquidity and financial position.

- Any payment of principal or interest on the long-term surplus note issued by SCAI, which is held by SGI, is subject to the satisfaction of conditions precedent, including, without limitation, prior regulatory approval by the NYDFS and compliance with contractual restrictions in the 2009 MTA. On December 24, 2013, the NYDFS approved the interest payment due on December 28, 2013 by SCAI to SGI on its long-term surplus note. No assurance can be given as to whether and when the NYDFS will approve future payments on SCAI's long-term surplus note. The failure of SGI to receive all future payments due from SCAI could have a material adverse effect on SGI's anticipated liquidity position.

- Any payment of principal or interest on the short-term and long-term surplus notes issued by SGI is subject to the satisfaction of conditions precedent, including, without limitation, prior regulatory approval by the NYDFS. SGI was obligated by the terms of its short-term surplus notes to pay the outstanding principal balance of $150 million, together with paid-in-kind interest and accrued and unpaid interest, totaling approximately $169.6 million, that matured on December 28, 2011, however, the NYDFS did not approve the payment, and accordingly, the payment was not made. Further, in November 2012 and December 2013, SGI again sought approval for payment on its short-term surplus notes, and on November 8, 2012 and December 24, 2013, respectively; the NYDFS did not approve such payment. In addition, SGI was obligated by the terms of its long-term surplus notes to pay interest of approximately $18.5 million on the outstanding principal balance of $475 million together with paid-in-kind interest. In December 2013, SGI sought approval for payment of interest on its long-term surplus notes, and on December 24, 2013, the NYDFS did not approve such payment. Notwithstanding the Company's litigation settlements and its remediation transactions, SGI 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 NYDFS will approve any future payments on the short-term or long-term surplus notes. Any payment by SGI of principal or interest on its short-term or long-term surplus notes could have a potential material adverse effect on SGI's prospective financial and liquidity position. See Note 19 for further discussion.

- As discussed in more detail in Note 10, the Company has exercised rights available to it in connection with certain RMBS it insures and has issued put-back notices to a sponsor of such securities to require the repurchase of mortgage loans which back the securities and has recorded a reduction in its reserves for losses at December 31, 2013, which reflects its estimate of its ultimate recovery from such repurchases. A sponsor has disputed the Company's right to require them to repurchase the aforementioned mortgages and the Company is involved in litigation with the sponsor to enforce its rights. If the Company is unsuccessful in enforcing its rights and does not realize the benefit it recorded through the aforementioned reduction in its reserves as and when expected, it may have a material effect on the Company's anticipated liquidity position and material adverse effect on the Company's statutory surplus, which the Company would have to report to the NYDFS. Likewise, if the Company is successful in enforcing its rights in an amount greater than the benefit it recorded through the aforementioned reduction in reserves, it may have a materially positive effect on the Company's liquidity position and statutory policyholder surplus. The Company periodically engages in discussions with the sponsor aimed at attempting to resolve these claims before trial. While a negotiated resolution with the sponsor could result in an amount below that recorded in the aforementioned reserve reductions, it could also result in an amount greater than such reductions.

- As a result of the RMBS Offer (as defined in Note 3), alternative transactions effectively replicating the RMBS Offer and direct purchases of insured securities the Company has effectively defeased or, in substance, commuted its exposure to certain insured transactions. The effectiveness of these structures is dependent upon the ability of the Company to receive payments on its ICFs. Failure of the Company to receive these payments would have a material adverse effect on the Company.

- The Company's estimate of reserves for losses on its exposures is based on certain assumptions. 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 that assumed in the Company's reserve estimate (that may or may not result in an increase in such loss reserves) against the Company in the near to medium term.

- 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 by management, including estimates regarding the likelihood of occurrence, timing and amount of a loss on a guaranteed obligation. A material portion of the Company's case basis reserves reflect certain assumptions with respect to recoveries on rights available to the Company in connection with certain RMBS it insures that require the sponsors of such securities to repurchase mortgage loans that breached certain representations and warranties (see Note 10). Similarly, 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, changes in the level of investment yield and changes in the timing, level of success and collectability of the aforementioned mortgage loan repurchases. 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. 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.

- Failure to make claim payments by SGI in the future (see discussion of regulatory and legal matters below) could have a number of material adverse consequences, including, but not limited to litigation, potential loss of control rights, the potential assertion of mark-to-market termination payments by counterparties to swap contracts guaranteed by SGI on which SGI fails to pay a claim, and policyholders potentially withholding premium payments. There can be no assurance that there would not be other material adverse consequences of SGI's failure to make claim payments.

- The Company is involved in a number of legal proceedings, both as plaintiff and defendant. Management cannot predict the outcomes of these legal proceedings and other contingencies with certainty. The outcome of some of these legal proceedings and other contingencies could require the Company to take or refrain from taking actions which could adversely affect its business or could require the Company to pay (or fail to receive) substantial amounts of money. Similarly, a favorable outcome of the suits where the Company is the plaintiff, could entitle the Company to receive (directly or indirectly) substantial recoveries. A favorable or unfavorable outcome could have a material effect on the Company's financial and liquidity position. Prosecuting and defending these lawsuits and proceedings involves significant expense and diversion of management's attention and resources from other matters.

- The Company continues to be materially exposed (directly and indirectly) to risks associated with the financial condition of other financial guarantors, including the placement of a financial guarantor into rehabilitation or liquidation. Such exposure may arise as a result of (i) direct contractual dealings with a financial guarantor such as reinsurance (whether as ceding company or reinsurer), or (ii) indirectly by means of (a) "wrapping over" another financial guarantor (which exposes SGI to the credit risks of the insured transaction directly) or (b) participating in an insured transaction with such other financial guarantor (where such rehabilitation or liquidation could have an effect on the insured transaction or the rights and remedies available to the Company). The ultimate effects of the financial condition of other financial guarantors or any such rehabilitation or liquidation are unknown, as is the effect, if any, on potential claim payments and the ultimate amount of losses the Company may incur on obligations it has guaranteed and such effects may be materially adverse to the Company's financial position.

- In addition to exposure to general economic factors, 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.

- Changes in laws and regulations affecting insurance companies, the municipal and structured securities markets, 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.

- SCAI believes conditions exist, under which a limited number of beneficiaries of insured interest rate swaps could potentially attempt to declare termination events under the applicable insured interest rate swaps, and should the financially-weak obligors thereunder fail to pay, to submit claims for such termination events to SCAI under its policies for an aggregate amount up to $27 million. It is uncertain whether such termination events will be declared (and therefore whether claims will be made on the Company), and if made, whether they would be legally valid and ultimately result in any losses to SCAI.

- The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") may result in requirements for the Company to maintain a certain mandated amount of capital on its existing insured derivatives portfolio. The Securities and Exchange Commission (the "SEC") and the Commodity Futures Trading Commission (the "CFTC") jointly released final rules regarding the definitions of "swap," "security-based swap," "mixed swap," "swap dealers," "security-based swap dealers," "major swap participants," and "major security-based swap participants" ("MSSPs") under the Dodd-Frank Act. Under those rules, the swap and security-based swap positions in the Company's existing insured derivatives portfolio are expected to count towards the positions required to be included in calculations for purposes of determining whether the Company or any of its affiliates will meet any of those definitions, even if such portfolio is in run-off. The Company continues to assess its status under these and other rules, both proposed and final, and estimates that it is currently below the calculation thresholds that would require it to so register and accordingly it believes that the Company would not be required to register as an MSSP. Should the Company be required to so register, MSSP designation and registration may expose the Company to increased compliance costs. The magnitude of related GAAP-based capital requirements resulting from MSSP designation and registration, and the extent to which such requirements would apply to the Company's legacy insured derivatives portfolio, will depend in part on the release of final capital rules by the SEC, which has not yet occurred. However, the proposed SEC rules regarding capital requirements suggests that if the Company is required to register as an MSSP, it may be subject to GAAP-based capital requirements in excess of its current GAAP-based capital position. With limited or no access to sources of external capital, in the event the Company is subject to the MSSP GAAP-based capital requirements, it is unlikely that the Company would be able to comply with such requirements. The consequences of non-compliance are not known. Current information suggests that the release of final capital rules continues to be delayed. To date, the Company is not aware of further developments in this area. The Company continues to consider its options.

- The Company's UK subsidiary, SGI-UK is regulated by the PRA and the FCA in the United Kingdom. The Solvency II Directive (2009/138/EC) was adopted by the European Union on November 25, 2009 and is currently expected to become effective for UK insurance companies in January 2015 ("Solvency II"). The Solvency II directive reforms the European insurance industry's solvency framework, including minimum capital and solvency capital requirements, governance requirements, risk management and public reporting standards. The currently proposed Solvency II-imposed minimum solvency and capitalization requirements may exceed SGI-UK's own capital resources. It is unknown what actions, if any, the PRA and the FCA may take for companies that fail to meet these requirements. Any such actions may have material and adverse effects on SGI-UK and the Company and its financial and liquidity position.

- As described above, the Company's subsidiary, SGI-UK is exposed to certain risks and uncertainties, whether as a result of the continuing European sovereign debt crisis, foreign currency risk, the application of Solvency II or other regulatory risk or otherwise. Accordingly, as described in the risks and uncertainties noted above, the Company's investment in its subsidiary, SGI-UK, and its interest in the reinsurance premiums from SGI-UK, is subject to certain risks and uncertainties. Any reduction in the carrying value of the Company's investment in its subsidiaries or the cessation or material limitation of reinsurance premiums from SGI-UK would have a material adverse effect on the Company's financial and liquidity position.

- SGI's non insurance subsidiary, Pike Pointe is exposed to certain risks and uncertainties related to its toll road facilities, operations and toll collections. The carrying value of Pike Pointe's assets includes long-lived tangible and intangible assets whose recovery is predicated on toll collections. Any impairment of such assets could have a material adverse effect on SGI's financial position.

- SGI and SCAI have 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 SGI's and SCAI's statutory 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 SGI's and SCAI'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 SGI's and SCAI's statutory policyholders' surplus.

- 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 financial 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. See Note 15 for more information.

Assessment of the Company's Ability to Continue as a Going Concern

As a result of multiple substantial remediation transactions and litigation recoveries, management has concluded that, over the next twelve months, there is not substantial doubt about the ability of the Company to continue as a going concern. The principal factors that led management to previously conclude that there was substantial doubt about the ability of the Company to continue as a going concern were the Company's near-term risk of significant adverse loss and claims development on its remaining in-force business and its ability to maintain adequate liquidity and financial position. Notwithstanding management's conclusion that there is not substantial doubt about the ability of the Company to continue as a going concern over the next twelve months, the Company remains exposed to significant risks and uncertainties, including the potential "liquidity mismatch", described above. The Company will continue to assess its going concern status on an ongoing basis.

Description of the Company's On-Going Strategic Plan

Management continues to pursue opportunities to mitigate the aforementioned risks and the significant risks and uncertainties described above. In particular, management continues to actively seek to (i) remediate 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, (ii) increase the Company's capital, financial position, liquidity, claims paying resources and reduce its liabilities (including through additional third-party capital), (iii) realize maximum value from its illiquid assets, including but not limited to its net operating losses, and various legal proceedings described in Note 18 and from any other rights and remedies the Company may have, whether through litigation, settlement or other monetization, (iv) take other actions to enhance its current and future financial position including seeking to rationalize and optimize its capital structure and (v) discuss and explore ways of increasing its financial and operating flexibility with existing security holders and other interested parties (hereafter collectively referred to as "Strategic Actions").

In regard to the Strategic Actions, the Company, working with its external advisors and counsel, is actively pursuing or exploring a number of options available to it which, individually, or in the aggregate, may materially affect (favorably or adversely) the Company's shareholders' equity, liquidity position or address other challenges that the Company faces. No assurances can be given that the Company will be successful in completing any of the aforementioned actions. Furthermore, certain of the Strategic Actions contemplated by the Company may be outside the ordinary course of the Company's operations or its control and may require consents, approvals or cooperation of parties outside of the Company, including the NYDFS and there can be no assurance that any such consents, approvals or cooperation will be obtained.

3. Description of the Transactions Comprising the 2009 MTA and Related Transactions

On July 15, 2009, the Company consummated a master transaction agreement with certain financial institutions that were counterparties to CDS contracts (the "Counterparties") insured by its financial guarantee insurance policies, as well as certain related transactions (hereafter referred to collectively as the "2009 MTA") which, along with approval of the NYDFS to apply certain accounting practices in connection with the preparation of SGI's statutory financial statements to certain of the transactions comprising the 2009 MTA, resulted in SGI's return to compliance with its regulatory minimum surplus to policyholders. The approval by the NYDFS allowed SGI to among other things: (i) immediately recognize the effect of transactions which economically defeased or, in-substance, commuted certain of SGI's obligations, whereas such recognition would otherwise have been made over the life of the underlying guarantees, and (ii) de-recognize statutory mandated contingency reserves on guarantees which were terminated or where such reserves were redundant with case basis reserves carried by SGI.

The 2009 MTA consisted of the following primary components:

(1) the restructuring, effective defeasance or, in-substance, commutation (in whole or in part) of substantially all of SGI's exposure to CDS contracts, in exchange for which SGI paid the Counterparties consideration comprised of approximately $1.2 billion

in cash, the issuance of $625.0 million surplus notes by SGI and the transfer of approximately 40% of the total outstanding common shares of Syncora Holdings Ltd.;

(2) the reinsurance or novation of certain of SGI's business to SCAI, a newly formed, wholly-owned insurance subsidiary of SGI, in which SGI also issued back-up guarantees on such novated guarantees;

(3) the effective defeasance or, in-substance, commutation of certain of SGI's exposure to insured RMBS securities (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 terminated its office lease agreement.

Effective Defeasance or In-Substance Commutation of SGI's Exposure to Insured RMBS and Other Securities

In connection with the 2009 MTA, SGI invested in a fund (the "RMBS Fund") that executed certain transactions designed to effectively defease or, in-substance, commute its 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" or "UCFs") plus a cash payment. In general, the RMBS Fund contributed any such Purchased RMBS (and certain of SGI'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 ICFs. In return for such investments, the ICFs were distributed to SGI. The ICFs represent the right to receive the payments on SGI's financial guarantee insurance policies covering such RMBS. SGI will, should the cash flows from the underlying RMBS transaction be sufficient, receive certain reimbursement payments in respect of insurance payments previously made by SGI on such RMBS. SGI also entered into several alternative transactions effectively replicating the economics of the RMBS Fund.

As part of its on-going strategic plan, the Company directly purchased certain RMBS and other securities that it had insured. Such directly purchased RMBS and other securities were generally exchanged by the Company for ICFs and UCFs using the mechanics described above. The UCFs may either be held or resold by the Company. The Company continues to purchase certain of its insured RMBS and other securities.

During the year ended December 31, 2013, the Company purchased additional RMBS and other securities with an aggregate principal exposure of approximately $163.3 million for consideration of approximately $126.7 million (excluding VIE activity). During the year ended December 31, 2012, the Company purchased additional RMBS and other securities with an aggregate principal exposure of approximately $75.2 million for consideration of approximately $13.3 million (excluding VIE activity).

In addition, while the insurance policies to which the ICFs relate have been effectively defeased or, in-substance, commuted by virtue of the Company's ownership of the certificates, such policies have not actually been extinguished. Accordingly, reserves for unpaid losses related to such policies may not be de-recognized and the remaining unearned premium revenue relating thereto may not be earned immediately. Instead, the Company will continue to recognize reserve development and earn premiums on these policies as it would any other in-force policy.

As the ICFs do not legally extinguish the RMBS or other insured securities, the Company regards the effective purchase of the ICFs as providing protection on the underlying securities upon the occurrence of an event of default and consequently follows reinsurance accounting principles. Upon the indirect or direct purchase of insured securities a deferred gain is recorded that represents the excess of the estimated ultimate claim payments relating to the insured securities at the time of the transaction over the cost the Company paid for those ICFs. The deferred gain is recognized in the consolidated statements of operations in "Net earnings on Insurance Cash Flow Certificates" based on the anticipated claim payments at the time of the transaction. The assumptions used in estimating the receivables on the ICFs for any given period are recognized in a manner consistent with the measurement and recognition of the loss reserves associated with the insured securities.

The following table illustrates the components of the Net Receivable on Insurance Cash Flow Certificates on the accompanying consolidated balance sheets at December 31, 2013 and 2012:

(U.S. dollars in thousands)

	2013	2012
Receivables on Insurance Cash Flow Certificates	$ 556,410	$ 419,667
Deferred gain	(100,656)	(141,352)
Receivables on Insurance Cash Flow Certificates, net	$ 455,754	$ 278,315

The following table illustrates the components of the Net earnings on Insurance Cash Flow Certificates in the accompanying consolidated statements of operations for the years ended December 31, 2013 and 2012:

(U.S. dollars in thousands)

	2013	2012
Amortization of deferred gain, net	$ 47,449	$ 109,500
Change in loss reserves, net of reimbursements	185,155	349,098
Net earnings on Insurance Cash Flow Certificates	$ 232,604	$ 458,598

4. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements have been prepared in conformity with GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may, and likely will, differ from those estimates and such differences may be material. Accounting policies requiring significant estimates consist of those relating to the Company's CDS contracts, variable interest entities' ("VIEs") assets and liabilities, deferred acquisition costs, investments, and reserves for losses and loss adjustment expenses, as discussed in this note.

Consolidation

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and all other entities in which the Company has a controlling financial interest, including VIEs for which the Company is deemed to be the primary beneficiary. All intercompany accounts and transactions have been eliminated. The Company now consolidates Pike Pointe; its operations are presented for the period September 4 through December 31, 2013. See Note 16 for further discussion.

Reclassifications

Certain reclassifications have been made to prior period consolidated financial statement amounts to conform to the current period presentation. There were no effects on net income or shareholders' equity (deficit) as a result of these reclassifications.

Investments

All of the Company's investments in debt (including UCFs) and equity securities are considered available-for-sale and accordingly are carried at fair value. The fair value of investments is based on quoted market prices received from nationally recognized pricing services or, in the absence of quoted market prices, dealer quotes or determined using the Company's own internal model estimates. The net unrealized gains or losses on investments, net of deferred income taxes, is included in accumulated other comprehensive income. Any unrealized loss in value considered by management to be other-than-temporary is charged to income in the period that such determination is made. See Note 5 for the criteria used by management in assessing whether an other-than-temporary impairment has occurred.

With respect to securities where the decline in value is determined to be temporary and the security's value is not written down, a subsequent decision may be made to sell that security and realize a loss. Subsequent decisions on security sales are made within the context of overall risk monitoring, changing information, general market conditions and assessing value relative to other comparable securities.

Bond discounts and premiums are amortized on a level-yield basis over the remaining terms of securities acquired. For pre-refunded bonds, the remaining term is determined based on the contractual refunding date. For mortgage-backed securities, and any other holdings for which prepayment risk may be significant, assumptions regarding prepayments are evaluated periodically and revised as necessary. Any adjustments required due to the resulting change in effective yields are recognized in income.

All investment transactions are recorded on a trade date basis. Realized gains and losses on sales of debt securities are determined on the basis of the first-in first-out method. Investment income is recognized when earned.

Cash and Cash Equivalents

The Company's cash and cash equivalents include cash on hand, interest bearing bank deposits and money market funds. The Company defines cash equivalents as short-term, highly liquid securities and interest earning deposits with maturities at time of purchase of 90 days or less.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents are restricted as to withdrawal and use by the Company. Restricted cash and cash equivalents primarily include deposits held in escrow accounts and cash deposits or allowable funds held to satisfy regulatory requirements.

Unearned Premium Revenue and Receivable for Future Premiums

The Company recognizes a liability for unearned premium revenue at the inception of financial guarantee insurance and reinsurance contracts on a contract-by-contract basis. Unearned premium revenue recognized at inception of a contract is measured at the present value of the premium due or expected to be collected. For certain financial guarantee insurance contracts, the Company receives the entire premium due at the inception of the contract, and recognizes unearned premium revenue liability at that time. For other financial guarantee contracts, the Company receives premiums in installments over the term of the contract at stipulated due dates. Unearned premium revenue and a receivable for future premiums are recognized at the inception of an installment contract, and measured at the present value of premiums expected to be collected over the contract period or expected period using a risk-free discount rate. The expected period is used in the present value determination of unearned premium revenue and receivable for future premiums for contracts where (a) the insured obligation is contractually prepayable, (b) prepayments are probable, (c) the amount and timing of prepayments are reasonably estimable, and (d) a homogenous pool of assets is the underlying collateral for the insured obligation. The Company has determined that substantially all of its installment contracts are required to be measured based on contract period. The receivable for future premiums is reduced as installment premiums are collected. The Company reports the accretion of the discount on installment premiums receivable as premium revenue. The Company assesses the receivable for future premiums for collectability each reporting period, adjusts the receivable for uncollectible amounts and recognizes any write-off as an operating expense.

Premium Revenue Recognition

Financial guarantee insurance and reinsurance enterprises recognize the premium from a financial guarantee insurance contract as revenue over the period of the contract in proportion to the amount of insurance protection provided. As premium revenue is recognized, a corresponding decrease in the unearned premium revenue occurs. The amount of insurance protection provided is a function of the insured exposure outstanding. Therefore, the proportionate share of premium revenue to be recognized in a given reporting period is a constant rate calculated based on the relationship between the insured exposure outstanding in a given reporting period compared with the sum of each of the insured exposure amounts outstanding for all periods.

The Company's accounting policies for the recognition of ceded premiums, ceding commissions and ceded losses and loss adjustment expenses under its ceded reinsurance contracts mirror the policies described herein for premium revenue recognition, deferred ceding commissions, and reserves for losses and loss adjustment expenses.

An issuer of an insured financial obligation may retire the obligation prior to its scheduled maturity through an outright extinguishment, which terminates the Company's obligation under its insurance policy. Accordingly, any retirement which results in the extinguishment of the Company's obligation under the financial guarantee contract will cause the Company to recognize any remaining unearned premium revenue on the insured obligation as premium revenue in the period the contract is extinguished to the extent the unearned premium revenue has been collected (such retirements are hereafter referred to as "Refundings").

Toll Revenue

Toll revenue is recognized at the time a vehicle travels on or through one of the American Roads tunnel or bridges. Revenue recognition is deferred for automated tolls collected in advance and recognized at the time of travel.

Fee Income and Other

In connection with certain of its insured transactions, the Company 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.

Loss and Loss Adjustment Expenses

A claim liability (loss reserve) is 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 claim liability so determined exceeds the unearned premium revenue attributable to such contract at the measurement date (see Note 10).

Establishment of reserves for unpaid losses and loss adjustment expenses requires the use and exercise of significant judgment by management, including estimates regarding the occurrence and amount 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. Both qualitative and quantitative factors are used in establishing such reserves. In determining the reserves, management considers all factors in the aggregate, and does not attribute the reserve provisions or any portion thereof to any specific factor. Any estimate of future costs is subject to the inherent limitation on the Company'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.

The present value of net cash outflows is determined based on a risk free rate of interest commensurate with the expected duration of the related contract. For this purpose, the Company uses the rate on U.S. Treasury obligations with a duration consistent with the duration of the underlying insured obligation for U.S. dollar denominated insured obligations or the comparable risk free rate on foreign government obligations relating to insured obligations denominated in foreign currencies. The weighted average risk free rate at December 31, 2013 was 1.6%. A claim liability is subsequently remeasured each reporting period for increases or decreases due to changes in the magnitude and likelihood of default and potential recoveries, as well as changes in the risk free rate of interest. Subsequent changes to the measurement of claim liability are recognized as loss expense in the period of change. Measurement and recognition of loss liability is reported gross of any reinsurance. The Company estimates the likelihood of possible claims payments and possible recoveries using probability-weighted expected cash flows based on available information, including market information. Accretion of the discount on a claim liability, as well as any changes in the risk free rate of interest, are included in loss expense.

Loss reserves represent the Company's: (i) probability-weighted average estimate of the net present value of claims to be paid subsequent to the balance sheet date, less (ii) its probability-weighted average estimate of the net present value of recoveries subsequent to the balance sheet date and (iii) any unearned premium revenue relating to such guarantees at the end of the reporting period.

Loss reserves are generally 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. 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. Such factors and the Company's assessment thereof will be subject to the specific facts and circumstances associated with the specific insured transaction being considered for loss reserve establishment.

Loss reserves on financial guarantee reinsurance assumed are generally established by the Company upon quarterly current notifications from ceding companies. There historically has been no time lag between the time the Company records an assumed case basis reserve and the time the Company's ceding companies record such reserves. For each notification of a ceded loss reserve from ceding companies, the Company conducts an examination of the basis of the ceding company's reserve estimate to ensure that the Company concurs with the ceding company's evaluation and conclusions. In certain instances, the Company may develop its own estimates of losses on assumed business. In general, when the Company has assumed loss reserves, it has concurred with the ceding companies' evaluation and conclusions with respect to such reserves and, accordingly, there has been no difference between the amount of loss reserves reported to the Company by its ceding companies and the amount it has recorded in its financial statements.

In assessing reserves for unpaid losses, the Company considers all available qualitative and quantitative evidence. Qualitative evidence may take various forms and the nature of such evidence will depend upon the type of insured obligation and the nature and sources of cash flows to fund the insured obligation's debt service. For example, such evidence with respect to an insured special revenue obligation such as an obligation supported by cash flows from a toll road would consider traffic statistics such as highway

volume and related demographic information, whereas an insured mortgage-backed securitization would consider the quality of the mortgage loans supporting the insured obligation including delinquency, default and foreclosure rates, loan to value statistics, market valuation of the mortgaged properties and other pertinent information. In addition, the Company will make qualitative judgments with respect to the amount by which certain other structural protections built into the transaction are expected to limit the Company's loss exposure. Examples of such structural protections may include: (i) rate covenants, which generally stipulate that issuers (i.e., public finance issuers) set rates for services at certain predetermined levels (i.e., water and sewer rates which support debt obligations supported by such revenues), (ii) springing liens, which generally require the issuer to provide additional collateral upon the breach of a covenant or trigger incorporated into the terms of the transaction, (iii) consultant call-in rights, which provide, under certain circumstances, for a consultant to be engaged to make certain binding recommendations, such as raising rates or reducing expenses, (iv) the ability to transfer servicing of collateral assets to another party, and (v) other legal rights and remedies pursuant to representations and warranties made by the issuer and written into the terms of such transactions. Quantitative information may take the form of cash flow projections of the assets supporting the insured debt obligation (which may include, in addition to collateral assets supporting the obligation, structural protections subordinate to the attachment point of the Company's risk, such as cash reserve accounts and letters of credit), as well as (to the extent applicable) other metrics indicative of the performance of such assets and the trends therein. The Company's ability to make a reasonable estimate of its expected loss depends upon its evaluation of the totality of both the available quantitative and qualitative evidence, and no one quantitative or qualitative factor is dispositive.

Deferred Acquisition Costs and Deferred Ceding Commission

Policy acquisition costs include those expenses that primarily relate to, and vary with, the production of new business. These costs include direct and indirect expenses related to underwriting, marketing and policy issuance, rating agency fees and premium taxes, and are reduced by ceding commission income on premiums ceded to reinsurers. Policy acquisition costs are deferred and amortized over the period in which the related premiums are earned.

The Company will recognize a charge to reduce deferred acquisition costs, and establish a liability if necessary, to the extent the sum of expected losses and loss adjustment expenses, maintenance costs and unamortized policy acquisition costs exceeds the related unearned premiums and anticipated investment income. For policies reinsured with third parties, the Company receives ceding commissions to compensate for acquisition costs incurred. The Company nets ceding commissions received against deferred acquisition costs and earns these ceding commissions over the period in which the related premiums are earned.

In the event of a Refunding, the remaining net amount of deferred acquisition costs with respect to refunded insured issue is recognized at such time.

Salvage and Subrogation Recoverable

The Company recognizes a salvage and subrogation recoverable based on net discounted anticipated recoveries in excess of net discounted anticipated paid claims on its financial guaranty insurance contracts up to the amount of previously paid claims or when the Company becomes entitled to the net cash inflows from the underlying collateral of an insured obligation under salvage and subrogation rights as a result of a claim payment or estimated future claim payments. Such recoverable amounts are included in salvage and subrogation recoverable on the accompanying consolidated balance sheets.

Property and Equipment

Property and equipment primarily relates to Pike Pointe and consists of land, buildings, leasehold improvements, construction-in-progress, furniture, fixtures and software owned by the Company. All property and equipment held for use is recorded at cost and, except for land and construction-in-progress, is depreciated over the appropriate useful life of the asset using the straight-line method. The amortization period for the leasehold improvements in the U.S. tunnel properties of Pike Pointe reflects the useful life of the improvement or the end of the lease in 2020, whichever is shorter. The cost and related accumulated depreciation applicable to assets sold or retired are removed from the Company's consolidated balance sheet and any gain or loss on disposition is recognized in earnings as a component of "Fee income and other". Significant renewals and additions are capitalized at cost. Maintenance, repairs and inspection fees associated with Company's roads and bridges are charged to current earnings as incurred.

Property and equipment are tested for potential impairment whenever events or changes in circumstances suggest that an asset or asset group's carrying value may not be fully recoverable. An impairment loss, calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized if the sum of the expected undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value.

Indefinite and Definite-Lived Intangible Assets

Indefinite-lived intangible assets consist of toll rights and goodwill. Toll rights represent the right to charge tolls for the usage of the tunnel and bridges. Goodwill reflects the excess of consideration given for Pike Pointe over the fair value of its tangible

and identifiable intangible assets, net of liabilities, as of September 3, 2013, the effective date of the bankruptcy plan and acquisition date by SGI. Pike Pointe recorded $27.8 million of goodwill upon acquisition.

The Company uses fair value techniques and market comparables to evaluate indefinite-lived intangible assets for possible impairment on an annual basis and, if certain events or circumstances indicate that an impairment loss may have been incurred, on an interim basis as well. If the carrying amount exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess. Implied fair value of the indefinite-lived intangible is generally established using discounted cash flows. When available and as appropriate, comparative market multiples are used to corroborate results of the discounted cash flow analysis.

Definite-lived intangible assets consist of lease rights and software. These assets are stated at cost less accumulated amortization and are amortized over the estimated economic life of the respective agreements or assets.

Definite-lived intangible assets are also evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows derived from the use of the assets. When a definite-lived asset is impaired, the related assets are written down to fair value.

Retirement and Post-Retirement Benefits

The Company's subsidiary, Pike Pointe, has four non-contributory defined benefit pension and post-retirement plans, which provide certain benefits to its eligible employees. The determination of defined benefit pension and postretirement plan obligations and their associated expenses requires the use of actuarial valuations to estimate participant plan benefits employees earn while working as well as the present value of those benefits. Inherent in these valuations are financial assumptions including discount rates at which liabilities can be settled, rates of increase of health care costs, as well as employee demographic assumptions such as retirement patterns, mortality and turnover. Management reviews these assumptions annually with its actuarial advisors. The actuarial assumptions used may differ materially from actual results due to changing market and economic conditions, higher or lower turnover rates or longer or shorter life spans of participants. Benefits are determined primarily based upon employees' length of service, the employee's average compensation during the last ten years of service, and a contractually established rate for union employees represented by collective bargaining agreements. The Company recognizes the underfunded or overfunded status of a defined benefit pension and postretirement plan as an asset or liability and recognizes changes in the funded status in the year in which the changes occur through accumulated other comprehensive income, which is a component of total shareholders' equity.

Credit Default Swap Contracts

Credit default swap contracts are derivative financial instruments and are recorded at fair value. Changes in fair value are recorded in "net change in fair value of credit default and other swap contracts" on the consolidated statements of operations. Realized gains (losses) and other settlements on credit default swap contracts include credit swap derivative premiums received and receivable for credit protection the Company has sold under its insured CDS contracts, contractual claims paid and payable and received and receivable related to insured credit events under these contracts, ceding commissions expense or income and realized gains or losses related to their early termination. Net unrealized gains (losses) on credit default swaps contracts represent the adjustments for changes in fair value in excess of realized gains and other settlements that are recorded in each reporting period. Fair value of credit default swap contracts is reflected as either net assets or net liabilities determined on a contract by contract basis in the Company's consolidated balance sheets. See Note 8 for a discussion on the fair value methodology for credit default swap contracts.

Reinsurance

Reinsurance premiums ceded are earned over the period the reinsurance coverage is provided. Prepaid reinsurance premiums represent the portion of premiums ceded which is applicable to the unexpired term of reinsured policies in-force. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Provision is made for any estimated uncollectible reinsurance.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income: In February 2013, the Financial Accounting Standards Board ("FASB") issued updated guidance regarding the presentation of comprehensive income. This standard requires an entity to present information about significant items reclassified out of accumulated other comprehensive income by component as well as changes in accumulated other comprehensive income balances either (1) on the face of the statement where net income is presented or (2) as a separate disclosure in the notes to the consolidated financial statements. The standard will only affect the Company's disclosures and will not affect the Company's financial position, results of operations, or cash flows. The Company elected to early adopt this standard prospectively effective January 1, 2013. As a result of the adoption of this standard, the Company has

elected to present amounts reclassified out of accumulated other comprehensive income as a separate disclosure in the notes to the consolidated financial statements. See Note 14.

5. Investments

The amortized cost and fair value of investments as of December 31, 2013 and 2012 are as follows:

	December 31, 2013			
(U.S. dollars in thousands)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
Mortgage-backed securities:				
RMBS [1]	$ 158,670	$ 4,432	$ (3,484)	$ 159,618
CMBS	104,196	2,834	(1,776)	105,254
Asset-backed securities	209,274	411	(160)	209,525
U.S. Government and government agencies	257,467	3,531	(961)	260,037
Corporate and other	424,313	18,772	(1,458)	441,627
U.S. states and political subdivisions of the states	100,312	3,412	(2,135)	101,589
Total debt securities	$ 1,254,232	$ 33,392	$ (9,974)	$ 1,277,650

[1] Residential mortgage-backed securities include $0.7 million related to UCFs which represent both the fair value and carrying value of such securities at December 31, 2013 and reflects an other than temporary impairment charge of $2.8 million.

	December 31, 2012			
(U.S. dollars in thousands)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
Mortgage-backed securities:				
RMBS [1]	$ 250,012	$ 14,188	$ (268)	$ 263,932
CMBS	112,327	6,674	(332)	118,669
Asset-backed securities	118,885	1,073	(4)	119,954
U.S. Government and government agencies	315,732	5,690	(70)	321,352
Corporate and other	458,392	28,121	(180)	486,333
U.S. states and political subdivisions of the states	100	1	—	101
Non-U.S. sovereign government	45,483	6,977	(4)	52,456
Total debt securities	$ 1,300,931	$ 62,724	$ (858)	$ 1,362,797

[1] Residential mortgage-backed securities include $0.9 million related to UCFs which represent both the fair value and carrying value of such securities at December 31, 2012 and reflects an other than temporary impairment charge of $2.4 million.

The change in net unrealized gains consists of changes in the valuation and holdings of debt securities of $(38.4) million and $24.6 million for the years ended December 31, 2013 and 2012, respectively.

Proceeds from sales of debt securities, net of receivables, for the years ended December 31, 2013 and 2012 were $577.6 million and $417.7 million, respectively.

The gross realized gains and gross realized (losses) for the years ended December 31, 2013 and 2012 were $18.2 million and $(25.6) million and $25.5 million and $(14.1) million, respectively. 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 amortized cost and fair value of bonds at December 31, 2013 and 2012 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 fixed-maturity securities. As the stated maturities of such securities may not be indicative of actual maturities, the totals for mortgage-backed securities are shown separately.

	2013		2012	
(U.S. dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	$ 104,546	$ 102,813	$ 108,416	$ 108,460
Due after one through five years	424,886	432,494	445,128	459,798
Due after five through ten years	120,917	122,876	201,238	217,086
Due after ten years	131,743	145,070	64,925	74,898
Subtotal	782,092	803,253	819,707	860,242
Mortgage- and asset-backed securities	472,140	474,397	481,224	502,555
Total	$ 1,254,232	$ 1,277,650	$ 1,300,931	$ 1,362,797

Net investment income is derived from the following sources:

(U.S. dollars in thousands)	2013	2012
Debt securities and cash and cash equivalents	$ 37,024	$ 37,942
Equity securities	783	644
Other invested assets	45	—
Less: Investment expenses	(1,450)	(1,229)
Net investment income	$ 36,402	$ 37,357

The Company has a formal review process for all securities in the Company's investment portfolio, including a review for impairment losses. Factors considered when assessing impairment include:

- a decline in the market value of a security by 20% or more below amortized cost for a continuous period of at least six months;
- a decline in the market value of a security for a continuous period of 12 months;
- recent credit downgrades of the applicable security or the issuer by rating agencies;
- the financial condition of the applicable issuer;
- whether loss of investment principal is anticipated;
- whether scheduled interest payments are past due; and
- whether the Company intends to sell the security prior to its recovery in fair value.

The Company's review process, in certain instances, also includes analyses of the ability to recover the amortized cost by comparing the net present value of projected future cash flows with the amortized cost of the security. If the Company believes a decline in the value of a particular investment is temporary, the Company records the decline as an unrealized loss on the Company's consolidated balance sheets in "accumulated other comprehensive income" in shareholders' equity. The Company recognizes an other-than-temporary impairment loss in the consolidated statements of operations for a debt security in an unrealized loss position when either the Company has the intent to sell the debt security or it is more-likely-than not that the Company will be required to sell the debt security before its anticipated recovery.

Any credit-related impairment on debt securities the Company does not plan to sell and more-likely-than-not will not be required to sell is recognized in the consolidated statement of operations, with the non-credit-related impairment recognized in other comprehensive income. For other impaired debt securities, where the Company has the intent to sell the security or where the Company will more-likely-than not be required to sell or where the entire impairment is deemed by the Company to be credit-related, the entire impairment is recognized in the consolidated statements of operations.

The Company's assessment of a decline in value includes management's current assessment of the factors noted above. If that assessment changes in the future, the Company may ultimately record a loss after having originally concluded that the decline in value was temporary.

For the years ended December 31, 2013 and 2012, the Company recorded other than temporary impairment charges of $20.2 million and $3.3 million, respectively. The other-than-temporary impairment charges recorded by the Company during the years ended December 31, 2013 and December 31, 2012 were primarily due to the Company’s conclusion, resulting from its near term anticipated cash needs, that it was more-likely-than not that the Company would be required to sell certain securities (including its UCFs) before recovering their cost.

The following tables present the aggregate gross unrealized losses and fair value by investment category at December 31, 2013 and 2012, respectively:

(U.S. dollars in thousands)	Less than 12 Months					
	December 31, 2013			December 31, 2012		
	Fair Value	Unrealized Loss	Number of Securities	Fair Value	Unrealized Loss	Number of Securities
Mortgage-backed securities:						
RMBS	$ 58,850	$ (2,941)	29	$ 48	$ (2)	2
CMBS	13,867	(537)	18	4,568	(257)	7
Asset-backed securities	15,681	(160)	31	3,841	(3)	18
US Government and government agency	20,671	(961)	12	26,760	(70)	10
Corporate and other	55,152	(1,405)	90	17,739	(100)	41
US states & political subdivisions	37,245	(2,135)	18	2,110	(4)	4
Total debt securities	**$ 201,466**	**$ (8,139)**	**198**	**$ 55,066**	**$ (436)**	**82**

	12 Months or More					
	December 31, 2013			December 31, 2012		
	Fair Value	Unrealized Loss	Number of Securities	Fair Value	Unrealized Loss	Number of Securities
Mortgage-backed securities:						
RMBS	$ 1,735	$ (543)	7	$ 1,165	$ (266)	7
CMBS	5,621	(1,239)	9	373	(75)	2
Asset-backed securities	23	-	1	203	(1)	3
US Government and government agency	-	-	-	-	-	-
Corporate and other	1,264	(53)	4	4,154	(80)	5
US states & political subdivisions	-	-	-	-	-	-
Total debt securities	**$ 8,643**	**$ (1,835)**	**21**	**$ 5,895**	**$ (422)**	**17**

	Total					
	December 31, 2013			December 31, 2012		
	Fair Value	Unrealized Loss	Number of Securities	Fair Value	Unrealized Loss	Number of Securities
Mortgage-backed securities:						
RMBS	$ 60,585	$ (3,484)	36	$ 1,213	$ (268)	9
CMBS	19,488	(1,776)	27	4,941	(332)	9
Asset-backed securities	15,704	(160)	32	4,044	(4)	21
US Government and government agency	20,671	(961)	12	26,760	(70)	10
Corporate and other	56,416	(1,458)	94	21,893	(180)	46
US states & political subdivisions	37,245	(2,135)	18	2,110	(4)	4
Total debt securities	**$ 210,109**	**$ (9,974)**	**219**	**$ 60,961**	**$ (858)**	**99**

Debt securities with an amortized cost and fair value of $6.3 million and $7.0 million at December 31, 2013 and $6.3 million and $7.4 million at December 31, 2012, respectively, were on deposit with various regulatory authorities as required by insurance laws.

6. Credit Default and Other Swap Contracts

Prior to suspending writing substantially all new business, the Company issued CDS contracts and entered into arrangements with other issuers of CDS contracts to assume, all or a portion, of the risks in the CDS contracts they issued (“back-to-back arrangements”) and, in certain cases, the Company purchased back-to-back credit protection on all or a portion of the risk from the CDS contracts it issued or assumed. Such back-to-back arrangements were generally structured on a proportional basis.

CDS contracts are derivative contracts which offer credit protection relating to a particular security or pools of securities, which are specifically referenced in the CDS contract. Under the terms of a CDS contract, the seller of credit protection (the issuer of the CDS contract) makes a specified payment to the buyer of such protection (the CDS contract counterparty) upon the occurrence of one or more credit events specified in the CDS contract with respect to a referenced security or securities. The terms of the CDS

contracts issued by the Company generally only require the Company to make a payment upon the occurrence of one or more specified credit events after exhaustion of various levels of subordination or first-loss protection. In addition, pursuant to the terms of the Company's CDS contracts, the Company is precluded from transferring such contracts to other market participants without the consent of the counterparty.

Securities or assets referenced in the Company's in-force CDS contracts primarily include structured pools of obligations, such as collateralized loan obligations, corporate CDOs and commercial mortgage-backed securities ("CMBS") CDOs. Such pools were rated investment-grade or better at the issuance of the CDS contract.

The Company's policy has been to hold its CDS contracts to maturity and not to manage such contracts to realize gains or losses from periodic market fluctuations. However, in certain circumstances, the Company may enter into an off-setting position or back-to-back arrangement, commute, terminate or restructure a CDS contract prior to maturity for risk management purposes (for example, upon a deterioration in underlying credit quality or for the purposes of managing its capital). In connection with the 2009 MTA discussed in Note 3, the Company commuted (in whole or in part) certain of its CDS contracts representing substantially all of SGI's anticipated claims on CDS contracts.

Typical market CDS contracts are standardized, liquid instruments that reference tradable securities such as corporate bonds. These market standard CDS contracts also involve collateral posting, and upon a default of the referenced obligation, can be settled in cash. In contrast, the Company's CDS contracts do not contain the typical CDS market standard features as described above but have been customized to replicate the Company's financial guarantee insurance. The Company's CDS contracts provide protection on specified obligations, such as those described above and, generally, contain some form of subordination prior to the attachment of the Company's liability. The Company is not required to post collateral and, upon an underlying default, the Company generally makes payments on a "pay-as-you-go" basis after the subordination in a transaction is exhausted.

The Company's payment obligations after a default vary by deal type. There are three primary types of policy payment requirements: timely interest and ultimate principal; ultimate principal only at final maturity; and payments upon settlement of individual collateral losses as they occur upon erosion of subordination.

The Company's CDS contracts are generally governed by a single transaction International Swaps and Dealers Association ("ISDA") Master Agreement relating only to that particular transaction/contract. Under most monoline financial guarantee standard termination provisions, there is no requirement for mark-to-market termination payments upon the early termination of a guaranteed CDS contract. However, substantially all of the Company's CDS contracts provided for mark-to-market termination payments following the occurrence of events that are outside the Company's control, such as SGI being placed into receivership or rehabilitation or a regulator taking control of SGI or, in some instances, SGI's insolvency. Pursuant to the 2009 MTA, substantially all of the Company's guarantees of CDS contracts that were not commuted were novated to SCAI and amended to remove any events triggering mark-to-market termination payments except for SCAI failing to make payment under the applicable contract or being placed into receivership or rehabilitation or a regulator taking control of SCAI. Under current market conditions, if the Company were required to pay such termination payments, it would result in a liability to the Company which would be substantially in excess of that currently recorded by the Company and its ability to pay (see Note 2). An additional difference between the Company's CDS contracts and the typical market standard CDS contracts is that, except in the circumstances noted above, there is no acceleration of the payment to be made under the Company's CDS contracts unless the Company, at its option, elects to accelerate. Furthermore, by law, the Company's guarantees are unconditional and irrevocable, and cannot be transferred to most other capital market participants as they are not licensed to write such business. However, through the purchase of back-to-back credit protection, the risk of loss (but not counterparty risk) on these contracts can be transferred to other financial guarantee insurance and reinsurance companies.

Set forth below is certain information regarding the Company's in-force CDS and other swap contracts as of December 31, 2013 and December 31, 2012, including the aggregate notional amount outstanding, the weighted average life of such contracts, and the ratings of obligations referenced in such contracts.

(U.S. dollars in millions)	2013			2012		
	Syncora Guarantee	Syncora Capital Assurance	Consolidated	Syncora Guarantee	Syncora Capital Assurance	Consolidated
Notional amount outstanding	$ 652	$ 10,528	$ 11,180	$ 694	$ 18,973	$ 19,667
Weighted average life (years)	6.5	11.6	11.3	5.8	10.5	10.4
Percentage of referenced assets by rating [(1)]						
AAA	0.0%	13.4%	12.6%	0.0%	10.4%	10.1%
At or above investment grade but below AAA	0.0%	68.4%	64.4%	0.0%	65.2%	62.9%
Below investment grade	100.0%	18.2%	23.0%	100.0%	24.4%	27.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

[(1)] Based on S&P ratings. If not rated by S&P, the Moody's rating is used. If not rated by S&P or Moody's, the Syncora internal rating is used.

The following table provides the components of the net change in fair value of credit default and other swap contracts for the years ended December 31, 2013 and 2012:

(U.S. dollars in thousands)	2013	2012
Change in fair value of credit default and other swap contracts :		
Realized gains (losses) and other settlements:		
Net CDS contract premiums received and receivable	$ 17,663	$ 22,695
Net CDS contract losses paid and payable	(20,644)	(1,000)
Total realized gains and losses and other settlements	(2,981)	21,695
Unrealized gains (losses):		
Change in fair value of CDS contracts	24,531	432,021
Net change in fair value of credit default and other swap contracts[(1) (2)]	$ 21,550	$ 453,716

(1) The change in realized/unrealized gains relating to the CDS and other swap contracts still held was $42.2 million for the year ended December 31, 2013 and $454.7 million for the year ended December 31, 2012.

(2) Includes unrealized gains of $2.0 million and $109.2 million for interest rate swap contracts for the years ended December 31, 2013 and 2012, respectively.

7. Consolidation of VIEs

The Company has exposure to VIEs through the issuance of financial guaranty insurance contracts that typically ensure the timely payment of principal and interest with respect to debt obligations of the VIEs. As part of the terms of its insurance contracts, at the outset of a contract, the Company obtains certain protective rights with respect to the VIE that are triggered by the occurrence of certain events, such as failure to be in compliance with a covenant due to poor deal performance or a deterioration in a servicer or collateral manager's financial condition. At deal inception, the Company typically is not deemed to control a VIE; however, once a trigger event occurs, the Company's control of the VIE typically increases. In addition, the Company has exposure to VIEs through the ownership of UCFs (see Note 3) and other interests.

The Company is not primarily liable for the debt obligations issued by the VIEs; however, where the Company has issued an insurance contract, the Company would only be required to make payments on the debt obligations in the event that the issuer of such debt obligations defaults on any principal or interest due. The Company or the Company's creditors do not have any rights with regard to the assets of the VIEs.

As of December 31, 2013, the Company's qualitative and quantitative analyses have indicated that it does not have a controlling financial interest in any other VIEs and, as a result, such VIEs are not consolidated in the Company's consolidated financial statements. The Company's exposure provided through its financial guarantee insurance with respect to debt obligations issued by VIEs is included within net par outstanding in Note 11.

The table below shows the fair value of the consolidated VIE assets and liabilities in the Company's consolidated balance sheets, segregated by the types of assets held by VIEs that collateralize their respective debt obligations:

	As of December 31, 2013		As of December 31, 2012	
(U.S. dollars in thousands)	Assets	Liabilities	Assets	Liabilities
Power & Utilities	$ 108,821	$ 116,442	$ 151,331	$ 151,330
Subprime (1st lien)	91,971	87,212	93,276	92,328
Prime (HELOC)	41,532	733	21,784	700
Alt-A (2nd lien)	7,746	2,117	13,012	953
Global Infrastructure	-	-	53,519	-
Alt-A (1st lien)	14,581	89	15,841	97
General Obligation	66,661	-	21,308	-
Subprime (2nd lien)	14,675	-	4,454	-
Structured Single Risk	500	-	99,387	88,078
	$ 346,487	$ 206,593	$ 473,912	$ 333,486

The following table presents the revenues and expenses of consolidated VIEs included in the Company's consolidated statements of operations for the year ended December 31, 2013 and 2012:

(U.S. dollars in thousands)	2013	2012
Interest income	$ 18,535	$ 15,364
Interest expense	(28,535)	(21,883)
Other expenses	(253)	(178)
Net realized and unrealized losses	(98,367)	(24,947)
Net change in variable interest entities	$ (108,620)	$ (31,644)

Set forth below is the cumulative effect of consolidating VIEs on net income and shareholders' deficit as of December 31, 2013 and 2012:

(U.S. dollars in thousands)	2013	2012
Net premiums earned	$ (1,079)	$ (1,310)
Net investment income	(16,074)	(25,315)
Earnings on insurance cash flow certificates	17,315	(34,656)
Net realized losses on investments	100,478	20,444
Net losses and loss adjustment expenses	(1,464)	49,888
Net change in variable interest entities	(108,620)	(31,644)
Total effect on net income	(9,444)	(22,593)
Total effect on other comprehensive income	(24,104)	16,858
Total effect on comprehensive income	(33,548)	(5,735)
Total effect on shareholders' deficit- beginning of year	$ (7,497)	$ (1,762)
Total effect on shareholders' deficit- end of year	$ (41,045)	$ (7,497)

8. Financial Instruments and Fair Value Measurements and Disclosures

A significant number of the Company's financial instruments are carried at fair value with changes in fair value recognized in earnings or loss each period. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). In determining fair value, the Company uses various valuation techniques and considers the fair value hierarchy.

The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical instruments (Level 1) and the lowest priority to valuation techniques using unobservable inputs (Level 3). Observable inputs are inputs that market participants would use in pricing the financial instruments that are based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's estimates of the assumptions market participants would use in pricing the financial instruments based on the best information available in the circumstances. These valuation techniques involve some level of management estimation and judgment. The degree to which management's estimation and judgment is required is generally dependent upon the market price transparency for the instruments, the availability of observable inputs, frequency of trading in the instruments and the instrument's complexity.

In measuring the fair market values of its financial instruments, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs based on the fair value hierarchy. The hierarchy is categorized into three levels based on the reliability of inputs as follows:

Level 1—Unadjusted quoted prices for identical instruments in active markets. The Company generally defines an active market as a market in which trading occurs at significant volumes. Active markets generally are more liquid and have a lower bid-ask spread than an inactive market.

Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and observable inputs other than quoted prices, such as interest rates or yield curves and other inputs derived from or corroborated by observable market inputs.

Level 3—Model derived valuations in which one or more significant inputs or significant value drivers are unobservable. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial

instruments also include those for which the determination of fair value requires significant management judgment or estimation.

A description of the valuation techniques applied to the Company's assets and liabilities measured at fair value follows:

Valuation Techniques — Credit Default Swap Contracts

The principal drivers of the fair value of the Company’s CDS contracts include: (i) general market credit spreads for the type(s) of assets referenced in CDS contracts, (ii) the specific quality and performance of the actual assets referenced in the contracts, (iii) the amount of subordination in the transaction before the Company’s liability attaches, (iv) other customized structural features of such contracts (*e.g.,* terms, conditions, covenants), (v) supply and demand factors, including the volume of new issuance, and (vi) the market perception of the Company’s ability to meet its obligations under its CDS contracts which is factored into the Company’s fair value estimates as discussed below.

The fair value of the Company’s in-force portfolio of CDS contracts represents the net present value of the difference between the remaining uncollected premiums that the Company originally charged for credit protection and management’s best estimate of what a financial guarantor of comparable credit worthiness would hypothetically charge to provide the same protection as of the measurement date. The hypothetical nature of this exit value is representative of the lack of a principal market for the Company’s CDS contracts. In the absence of such a principal market, the Company believes other financial guarantors of comparable credit quality to the Company best represent the hypothetical exit market for the Company’s CDS contracts. Fair value is defined as the price at which an asset or a liability could be bought or transferred in a current transaction between willing parties. Fair value is determined based on quoted market prices, if available. Quoted market prices are available only on a limited portion of the Company’s in-force portfolio of CDS contracts. If quoted market prices are not available, fair value is estimated based on valuation techniques involving management’s judgment. In determining the fair value of its CDS contracts, the Company uses various valuation approaches with priority given to observable market prices when they are available. Market prices are generally available for traded securities and market standard CDS contracts but are less available or unavailable for highly-customized CDS contracts. Most of the Company’s CDS contracts are highly customized structured credit derivative transactions that are not traded and do not have observable market prices.

Key variables used in the Company’s valuation of substantially all of its CDS contracts include the balance of unpaid notional, expected remaining term, fair values of the underlying reference obligations, reference obligation credit ratings, assumptions about current financial guarantee CDS fee levels relative to reference obligation spreads, the Non-Performance Risk (as defined and described below) of its subsidiaries with in-force CDS contract exposure, and other factors. Fair values of the underlying reference obligations are obtained from broker quotes when available, or are derived from other market indications such as new issuance and secondary spreads and quoted values for similar transactions and indices, CDX (which index is comprised of investment grade corporate credits), or CMBX (which is comprised of commercial mortgage-backed securities). The Company’s valuation of such CDS contracts does not generally provide for any adjustment to broker quotes. While such broker quotes are non-binding, the brokers from whom the Company obtains such quotes actively monitor and participate in the markets where such collateral is traded. Accordingly, the Company believes that such brokers rely on observable market information to the greatest extent possible when determining such quotes; however, such brokers may also rely on their internal models and unobservable inputs in making such determinations.

Implicit in the fair values obtained by the Company on the underlying reference obligations are the market’s assumptions about default probabilities, default timing, correlation, recovery rates and collateral values. In general, the Company is using a percentage of the credit spread over proxy index (the “premium percentage”) that management believes is consistent with (i) historical premium pricing for high credit spread transactions and (ii) levels attainable in the market just prior to the collapse of the market for CDS from financial guarantors. This data indicates that this premium percentage decreases as a function of increasing underlying credit spreads. A component of this relationship is the lack of liquidity reflected in the credit spread (the liquidity premium) that has historically flowed directly to the CDS counterparty as the funding institution and to cover the funders’ additional funding costs and risks. Using the historical data available, a regression analysis was completed to determine the approximate rate of change of the premium percentage as underlying credit spreads move up and down. The resulting relationship from these analyses were applied to the current credit spread levels of the underlying reference securities, or their proxy index, to generate the expected current premium for each outstanding CDS.

In addition to that discussed above, the fair value of the Company’s CDS contracts reflects the risk that SGI or SCAI, as applicable, will not be able to honor their obligations under their CDS contracts, or its Non-Performance Risk. Generally, the Company would measure Non-Performance Risk as implied by the market price of buying credit protection on SGI or SCAI, as applicable. Since SGI and SCAI do not have an observable market credit spread, SGI and SCAI estimate their Non-Performance Risk based on market observable credit spreads of a comparable financial guarantee insurance company.

Such Non-Performance Risk was reflected in the fair value of the companies' CDS contracts by incorporating the estimated spreads at which the CDS contracts would trade on the companies, as discussed above, into the discount rate used. The companies estimated a discount rate for each CDS contract based on the swap rate and the companies' estimated credit spread for the duration that is the closest to the remaining weighted average life of the obligation referenced in the CDS contract.

Since the estimate of fair value of the Company's CDS contracts reflects significant unobservable inputs, the Company's CDS contracts are categorized in Level 3 of the fair value hierarchy.

Valuation Techniques — Interest Rate Swap Guarantees

The Company's interest rate swap exposure consists primarily of financial guarantees that cover one party's payment obligations to another party under an interest rate swap contract. These interest rate swap guarantees are considered derivative financial instruments and are recorded at fair value. The fair value of these interest rate swap guarantees is included in the caption "credit default and other swap contracts, at fair value" on the consolidated balance sheets.

The Company's interest rate swap guarantees cannot be legally traded and do not have observable market prices. The Company determines fair value based on valuation techniques involving management's judgment using internal valuation models. The estimated fair value of the interest rate swap guarantees are primarily based upon unobservable inputs, including estimated default probabilities of the obligor, contractual terms, estimated recovery rates and the application of credit value adjustments for the Company's own non-performance risk.

Since the estimate of fair value of the Company's interest rate swap guarantees reflects significant unobservable inputs, the Company's interest rate swap contracts are categorized in Level 3 of the fair value hierarchy.

Valuation Techniques — VIE Assets and Liabilities

The consolidated VIE assets and liabilities consist primarily of RMBS and other debt instruments. The fair value of the Company's consolidated VIE assets and liabilities is determined based on quoted market prices, if available. When observable quoted market prices are not available, fair value is determined based on internal discounted cash flow valuation models. The inputs to the valuation models primarily include estimated prepayment rates, market values of the underlying collateral, estimated default rates, market yields, credit spread indices, discount rates, estimated recovery rates, and for those liabilities insured by the Company, the benefit from the Company's insurance policy guaranteeing timely principal and interest for the VIE assets insured by the Company and the application of credit value adjustments for the Company's own non-performance credit risk. Since the majority of the significant inputs are unobservable, which reflect the Company's estimates of market assumptions, the fair value measurements of the consolidated VIE assets and liabilities are categorized as Level 3 in the fair value hierarchy.

Valuation Techniques — Debt Securities Available for Sale

U.S. Government and government agencies

U.S. Treasury securities are valued using unadjusted quoted market prices. Accordingly, U.S. Treasury securities are generally categorized in Level 1 of the fair value hierarchy. U.S. government agency securities are generally valued using quoted market prices obtained from an independent third-party investment service provider. U.S. government agency securities are generally categorized in Level 2 of the fair value hierarchy.

Mortgage and asset-backed securities

Mortgage and asset-backed securities are generally valued based on quoted prices or spread data, which are obtained from an independent third-party investment service provider. Mortgage and asset-backed securities are generally categorized in Level 2 of the fair value hierarchy. If external prices or significant inputs are unobservable, the Company will determine fair value using its own internal model estimates. In such cases, mortgage and asset-backed securities are categorized in Level 3 of the fair value hierarchy.

Corporate

The fair value of corporate bonds is determined using recently executed transactions or market price quotations obtained from an independent third-party investment service provider. Corporate bonds are generally categorized in Level 2 of the fair value hierarchy.

U.S. State and political subdivisions

The fair value of state and municipal securities is determined using recently executed transactions or market price quotations obtained from an independent third-party service provider. These bonds are generally categorized in Level 2 of the fair value hierarchy.

Non-U.S. sovereign government

Foreign sovereign government obligations are valued using quoted prices in active markets and obtained from an independent third-party service provider. These bonds are generally categorized in Level 2 of the fair value hierarchy.

Valuation Techniques — Cash and Cash Equivalents

The carrying amounts of these items approximate fair value due to the short-term maturity of these instruments. Cash and cash equivalents include deposits in banks, money market accounts and money market funds, which fair value of these instruments is based upon quoted market prices. The Company does not adjust the quoted market price for such instruments. Cash and cash equivalents are categorized in Level 1 of the fair value hierarchy.

Valuation Techniques — Other Invested Assets

Other invested assets primarily include direct investments in equity securities and exchange-traded direct equity investments. Equity securities and exchange-traded equity securities are generally valued based on quoted prices. Such investments are categorized in Level 1 of the fair value hierarchy. Investment in a certain fund that is not actively traded but inputs that are observable in the market or can be derived principally from observable market data is categorized in Level 2 of the fair value hierarchy.

Valuation Techniques — Replacement Bank Warrants

The fair value of the Company's replacement bank warrants is based upon an unadjusted market price obtained from an independent pricing service. Replacement bank warrants are categorized in Level 3 of the fair value hierarchy.

Valuation Techniques — Interest Rate Derivative Instrument

The fair value of the Company's interest rate swap contract is based upon observable market data including contractual terms, market prices and interest rates and is obtained from the counterparty. The interest rate derivative instrument is categorized in Level 2 of the fair value hierarchy.

Valuation Techniques — Financial Guarantee Insurance Contracts

The fair value of the Company's financial guarantee insurance contracts was determined using a discounted cash flow model based on inputs that include assumptions of expected losses net of expected recoveries where loss reserves have been established and expected losses where loss reserves have not been recognized. The model inputs included, loss and recovery estimates (reserve contracts), expected default and loss given default rates (non-reserve contracts), estimated discount rates and the Company's own estimated credit valuation adjustment.

The fair value of the Company's financial guarantee insurance contracts was $899.0 million and $682.6 million at December 31, 2013 and 2012, 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.

Fair Value Hierarchy Tables

The following fair value hierarchy table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2013 and 2012:

(U.S. dollars in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Assets / Liabilities at Fair Value	
ASSETS	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Debt securities available for sale:……………………………..								
Mortgage and asset-backed securities…………………………								
RMBS………………………………………………………	$ -	$ -	$ 158,920	$ 263,036	$ 698	$ 896	$ 159,618	$ 263,932
CMBS………………………………………………………	-	-	105,254	118,669	-	-	105,254	118,669
Asset-backed securities………………………………………	-	-	209,525	119,954	-	-	209,525	119,954
U.S. Government and government agencies……………………	143,291	195,653	116,746	125,699	-	-	260,037	321,352
Corporate and other……………………………………………	4,040	5,579	437,587	476,477	-	4,277	441,627	486,333
U.S. states and political subdivisions…………………………	-	-	90,758	52,456	10,831	-	101,589	52,456
Non-U.S. sovereign government………………………………	-	-	-	101		-	-	101
Total debt securities available for sale…………...…………	147,331	201,232	1,118,790	1,156,392	11,529	5,173	1,277,650	1,362,797
Other invested assets……………………………………………	15,625	8,395	1,982	1,878	1,796	-	19,403	10,273
Cash and cash equivalents………………………………………	219,201	115,418	-	-	-	-	219,201	115,418
Restricted cash and cash equivalents……………………………	21,725	709	-	-	-	-	21,725	709
Credit default swap contracts……………………………………	-	-	-	-	173,840	212,116	173,840	212,116
Replacement bank warrants………………………………………	-	-	-	-	-	138,132	-	138,132
Interest rate derivative instrument………………………………	-	-	7,033	-	-	-	7,033	-
Assets of consolidated variable interest entities…………………	-	-	-	-	346,487	473,912	346,487	473,912
Total assets……………………………………………	$ 403,882	$ 325,754	$ 1,127,805	$ 1,158,270	$ 533,652	$ 829,333	$ 2,065,339	$ 2,313,357
LIABILITIES								
Credit default swap contracts…………………………………	$ -	$ -	$ -	$ -	$ 528,041	$ 590,382	$ 528,041	$ 590,382
Liabilities of consolidated variable interest entities…………	-	-	-	-	206,593	333,486	206,593	333,486
Total liabilities…………………………………………	$ -	$ -	$ -	$ -	$ 734,634	$ 923,868	$ 734,634	$ 923,868

Level 3 Assets and Liabilities Reconciliation Tables

Level 3 Assets

The following table provides a reconciliation for the Company's assets measured at fair value on a recurring basis using unobservable inputs (Level 3) for the years ended December 31, 2013 and 2012:

(U.S. dollars in thousands)	Mortgage and Asset-Backed Securities		Corporate and Other		Credit Default Swap Contracts		Replacement Bank Warrants		Assets of Consolidated Variable Interest Entities	
LEVEL 3 ASSETS	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Balance, beginning of period…………………………………	$ 896	$ 2,397	$ 4,277	$ -	$ 212,116	$ 401,082	$ 138,132	$ 100,765	$ 473,912	$ 440,117
Deconsolidation of VIEs……………………………………	6,599	39,003	-	-	-	-	-	-	(60,139)	-
Realized gains (losses)………………………………………	(7,375)	14,707	(5,831)	-	-	-	-	-	-	-
Unrealized gains (losses) included in earnings………………	-	-	-	-	(38,276)	(188,966)	-	-	(67,286)	33,795
Unrealized gains (losses) included in OCI……………………	-	(437)	4	-	-	-	-	37,367	-	-
Purchases……………………………………………………	2,854	3,229	18,782	4,277	-	-	-	-	-	-
Issuances……………………………………………………	-	-	-	-	-	-	-	-	-	-
Settlements…………………………………………………	-	-	-	-	-	-	(138,132)	-	-	-
Sales…………………………………………………………	(2,276)	(58,003)	(328)	-	-	-	-	-	-	-
Transfers into Level 3………………………………………	-	-	-	-	-	-	-	-	-	-
Transfers out of Level 3……………………………………	-	-	(4,277)	-	-	-	-	-	-	-
Balance, end of period………………………………………	$ 698	$ 896	$ 12,627	$ 4,277	$ 173,840	$ 212,116	$ -	$ 138,132	$ 346,487	$ 473,912

Level 3 Liabilities

The following table provides a reconciliation for the Company's liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3) for the years ended December 31, 2013 and 2012:

(U.S. dollars in thousands)	Credit Default and Other Swap Contracts		Liabilities of Consolidated Variable Interest Entities	
LEVEL 3 LIABILITIES	**2013**	**2012**	**2013**	**2012**
Balance, beginning of period	$ 590,382	$ 1,271,546	$ 333,486	$ 239,398
Deconsolidation of VIEs	-	-	(218)	-
Realized gains (losses)	(5,701)	(21,695)	-	-
Unrealized gains (losses) included in earnings	(56,640)	(659,469)	(126,675)	94,088
Balance, end of period	$ 528,041	$ 590,382	$ 206,593	$ 333,486

There were no purchases, issuances, settlements, sales, transfers into Level 3 or transfers out of Level 3 as of December 31, 2013 and 2012.

The following table provides quantitative information regarding the significant unobservable inputs used to measure the fair value of the Company's Level 3 assets and liabilities on a recurring basis as of December 31, 2013 and 2012:

(U.S. dollars in thousands) Level 3 Assets / Liabilities	Fair Value as of December 31, 2013	Fair Value as of December 31, 2012	Valuation Techniques	Significant Unobservable Inputs	Range of Inputs 2013	Range of Inputs 2012
Assets						
Mortgage and asset-backed securities	$ 698	$ 896	Discounted cash flows	Constant prepayment rate	0% - 7.4%	0% - 11.3%
				Constant default rate	4.2% - 13.3%	6% - 18%
				Loss severity	62%	74%
				Yield	8%	8%
Corporate and other	12,627	4,277	Discounted cash flows	Yield	11.2%	11.75% - 12%
Credit default and other swap contracts	173,840	212,116	Discounted cash flows	Loss severity	10% - 71.6%	20% - 77%
				Default rate	0% - 100%	0.30% - 100%
				Market premiums	23 bps - 36 bps	0 bps - 55.9 bps
				Weighted average life	0.25 yrs - 16 yrs	0.5 yrs - 34 yrs
				Non-performance risk	2% - 13%	6% - 26%
Assets of consolidated VIEs	346,487	473,912	Discounted cash flows	Constant prepayment rate	0% - 11.3%	3% - 23%
				Constant default rate	4.2% - 53.6%	6% - 90%
				Loss severity	59.7% - 100%	74% - 100%
				Yield	4.5% - 12%	4.5% - 8%
				Non-performance risk	2% - 13%	6% - 26%
Liabilities						
Credit default and other swap contracts	$ 528,041	$ 590,382	Discounted cash flows	Loss severity	10% - 71.6%	10% - 77%
				Default rate	0% - 100%	0.22% - 100%
				Market premiums	23 bps - 478 bps	11.4 bps - 295 bps
				Weighted average life	0.45 yrs - 40 yrs	0.25 yrs - 42 yrs
				Non-performance risk	2% - 13%	6% - 26%
Liabilities of consolidated VIEs	206,593	333,486	Discounted cash flows	Constant prepayment rate	0% - 11.3%	0% - 10%
				Constant default rate	5.75% - 37%	15.5% - 90%
				Loss severity	59.7% - 100%	90% - 100%
				Yield	4.5% - 12%	5% - 15%
				Non-performance risk	2% - 13%	6% - 26%

The significant unobservable inputs used in the fair value measurement of the Company's credit default and other swap contracts and assets and liabilities of consolidated VIEs are shown in the table above. Significant changes in any of those inputs in isolation can result in a materially lower or higher fair value measurement.

Non-Performance Risk

The Company considers the effect of nonperformance risk in determining the fair value of its liabilities and the consolidated VIE liabilities. The fair value of the Company's CDS reflects the risk that SGI or SCAI, as applicable, will not be able to honor their obligations under their CDS contracts, or its Non-Performance Risk. Since neither the Company, SGI or SCAI have an observable

market credit spread, the Company, SGI and SCAI each measure their Non-Performance Risk based on market observable credit spreads of a comparable financial guarantee insurance company.

The fair value of the Company's consolidated VIE liabilities reflects the Non-Performance Risk that the Company will not be able to honor VIE obligations where VIE liabilities exceed the value of the related pledged assets.

Set forth below is information regarding the Company's in-force CDS and other swap contracts as of December 31, 2013 and December 31, 2012, including the fair value of such contracts, the Non-Performance Risk discount on such contracts which is embedded in the credit default and other swap contracts liability on the accompanying consolidated balance sheets:

(U.S. dollars in millions)	Syncora Guarantee		Syncora Capital Assurance		Consolidated	
	2013	2012	2013	2012	2013	2012
Fair value of credit default and other swap contracts, before giving effect to Non-Performance Risk	$ 274.6	$ 400.2	$ 677.6	$ 978.8	$ 952.2	$ 1,379.0
Less:						
Non-Performance Risk	84.1	184.7	340.1	603.9	424.2	788.6
Fair value of credit default and other swap contracts, after giving effect to Non-Performance Risk	$ 190.5	$ 215.5	$ 337.5	$ 374.9	$ 528.0	$ 590.4

Set forth below is certain information regarding the Company's VIE liabilities as of December 31, 2013 and 2012, including the fair value, the Non-Performance Risk discount on such liabilities which is embedded in the VIE liability on the accompanying balance sheet:

(U.S. dollars in thousands)	December 31, 2013	December 31, 2012
Fair value of VIE liabilities, before giving effect to Non-Performance Risk	$ 207,558	$ 336,146
Less:		
Non-Performance Risk	965	2,660
Fair value of VIE liabilities, after giving effect to Non-Performance Risk	$ 206,593	$ 333,486

Financial Instruments Not Carried at Fair Value

At December 31, 2013 and 2012, the carrying value of the Company's notes was $322.0 million and $292.4 million, respectively. The interest rate on these notes is 5.0% and 6.0% for each series with the first maturity date on such notes scheduled for December 2011 and in June 2024. The fair value of the Company's notes is difficult and complex to estimate as such notes are not listed on any exchange or publicly traded in any market. Any trading activity is inherently limited, and the prices are not necessarily indicative of the fair value of the notes. Additionally, as described in Note 2, there are many risks and uncertainties affecting the Company that could affect its financial and liquidity position and consequently the value of these notes. In connection with the Countrywide settlement, on July 17, 2012 the Company valued notes with an original par value of $40.2 million at an estimated fair value of $10.4 million based on a discounted cash flow model and available information at the time of transaction. This provides a data point as to the value of these notes. See Note 9 below for further discussion.

9. Notes Payable

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 3, SGI issued the notes described in the table below to the counterparties of such CDS contracts. In accordance with GAAP, the Company recorded the notes at their estimated fair value of $141.0 million at the date of their issuance and accretes the discount from the face amount of the notes over the term of the notes on a level basis using the interest method. Such accretion is recorded as interest expense which is reflected in other "Operating expenses" in the accompanying consolidated statements of operations.

Scheduled repayment of the Company's short-term notes on December 28, 2011 was subject to conditions that were not met and consequently principal and interest payments were not approved by the NYDFS as described in footnote (a) below. Further, in November 2012 and December 2013, SGI again sought approval for payment on its short-term surplus notes, and on November 8, 2012 and December 24, 2013, respectively; the NYDFS did not approve such payment. Although the terms of the short-term notes do not require the Company to seek NYDFS approval for such payments according to any schedule, the Company intends to seek

approval thereof on an annual basis. There can be no assurance as to when or whether the conditions to payment of the Company's short-term notes, including NYDFS approval thereof, will be satisfied.

In addition, the Company was obligated by the terms of its long-term surplus notes to pay interest of approximately $18.5 million on the outstanding principal balance of $475 million together with paid-in-kind interest. In December 2013, the Company sought approval for payment of interest on its long-term surplus notes, and on December 24, 2013, the NYDFS did not approve such payment, as described in footnote (b) below. Although the terms of the long-term notes do not require the Company to seek NYDFS approval for such payments according to any schedule, the Company intends to seek approval thereof on an annual basis. There can be no assurance as to when or whether the conditions to payment of the Company's long-term notes, including NYDFS approval thereof, will be satisfied.

The table below sets forth certain information regarding the aforementioned notes.

Date Issued	Interest Rate	Date of Maturity	Par Value (Face Amount of Notes)	Estimated Fair Value At Issuance	Total Interest Expense Year Ended December 31, 2013	Total Interest Expense Year Ended December 31, 2012	Carrying Value At December 31, 2013	Carrying Value At December 31, 2012	Estimated Yield to Maturity
7/15/2009	5.00% **(a)**	12/28/2011	$ 144,197,488	$ 91,155,000	$ 7,983,143	$ 8,118,767	$ 144,197,488	$ 144,197,488	31.88%
7/15/2009	6.00% **(b)**	6/27/2024	575,089,945	49,875,000	47,259,445	36,737,115	177,783,363	148,203,517	31.88%
			$ 719,287,433	$ 141,030,000	$ 55,242,588	$ 44,855,882	$ 321,980,851	$ 292,401,005	

(a) Interest 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. Interest subsequent to June 27, 2011 was required to be paid in cash, subject to the prior approval of the NYDFS. As described below, absent the satisfaction of the conditions to payment, including the approval of the NYDFS, the Company is not entitled to make payments on its notes. Failure to make any payment on such notes as a result of the failure of any such condition would not constitute a default thereunder. Principal and interest scheduled to be paid on December 28, 2013 and 2012 was not approved by the NYDFS. Accordingly, the interest not approved for payment by the NYDFS on December 28, 2013 and 2012 was not capitalized on the outstanding principal balance reflected above, but accrues interest at the existing rate. The outstanding principal balance of the notes as of June 27, 2011 also will separately accrue interest at such rate.

(b) Interest is 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, 2013. Interest subsequent to June 27, 2013 was required to be paid in cash, subject to the prior approval of the NYDFS. As described below, absent the satisfaction of the conditions to payment, including the approval of the NYDFS, the Company is not entitled to make payments on its notes. Failure to make any payment on such notes as a result of the failure of any such condition would not constitute a default thereunder. Principal and interest scheduled to be paid on December 28, 2013 was not approved by the NYDFS. Accordingly, the interest not approved for payment by the NYDFS on December 28, 2013 was not capitalized on the outstanding principal balance reflected above, but accrues interest at the existing rate. The outstanding principal balance of the notes as of June 27, 2013 also will separately accrue interest at such rate. Commencing on December 28, 2018, principal amortizes in twelve equal installments payable semi-annually on June 27th and December 28th through the maturity of the notes.

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 to the extent the Company has sufficient free and divisible surplus to make such payment. Absent the satisfaction of these conditions, the Company is not entitled to 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.

10. Liabilities for Unpaid Losses and Loss Adjustment Expenses

The Company's reserve for unpaid losses and loss adjustment expenses as of December 31, 2013 and 2012 consists of case basis reserves established in accordance with GAAP. Such case basis reserves represent the probability weighted average of the Company's estimates of the present value, discounted at the risk free rate of interest, of expected losses on insured debt obligations that have defaulted or are expected to default. As of December 31, 2013, the range of risk free rates used to discount the Company's liability for losses and loss adjustment expenses was 0.0% to 3.8%. Activity in the Company's liability for unpaid losses and loss adjustment expenses for the years ended December 31, 2013 and 2012 are summarized as follows:

(US dollars in thousands)	2013	2012
Gross unpaid losses and loss adjustment expenses at beginning of year	$ 1,232,045	$ 1,020,032
Salvage and subrogation recoverable	(139,226)	(209,398)
Reinsurance balances recoverable on unpaid losses and loss adjustment expenses	(3,715)	(5,023)
Net unpaid losses and loss adjustment expenses at beginning of year	1,089,104	805,611
Increase (decrease) in net losses and loss adjustment expenses incurred in respect of losses occurring in:		
Current year	98,203	61,508
Prior years	(494,332)	230,666
Current year effect for consolidation of VIEs	1,262	8,984
Net losses and loss adjustment expenses paid	197,142	(17,665)
Net unpaid losses and loss adjustment expenses at end of period	891,379	1,089,104
Salvage and subrogation recoverable	468,003	139,226
Reinsurance balances recoverable on unpaid losses and loss adjustment expenses	165	3,715
Gross unpaid losses and loss adjustment expenses at end of period	$ 1,359,547	$ 1,232,045

Case Basis Reserves for Losses and Loss Adjustment Expenses

A discussion of certain case basis reserves established by the Company as of December 31, 2013 and December 31, 2012 is set forth below.

Reserves for unpaid losses and loss adjustment expenses on the Company's guarantees of obligations supported by HELOC, CES, and Alt-A mortgage loan collateral, after giving effect to reinsurance, were $883.3 million and $1,007.8 million as of December 31, 2013 and 2012, respectively ($883.3 million and $1,007.9 million, respectively, before giving effect to reinsurance). The change in reserves from December 31, 2012 to December 31, 2013 is primarily attributable to positive loss development of $143.5 million.

The aforementioned reserves as of December 31, 2013 and 2012 represent the Company's probability weighted average estimate of the: (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 (iii) any unearned premium revenue relating to such guarantees at the balance sheet date. The Company's probability weighted average estimate of losses on the aforementioned guarantees is based on assumptions and estimates extending over many years into the future. Such assumptions and estimates are 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 loss adjustment expenses will vary, perhaps materially, from any estimate. Among other things, the assumptions could be affected by an increase in unemployment, further decreases in house prices, increase in consumer costs, lower advance rates by lenders or other parties, lower than expected revenues or other events or trends. The Company's estimates are determined based on an analysis of results of a cash flow model.

The cash flow model projects probability weighted average expected cash flows from the underlying mortgage notes. The model output is dependent on, and sensitive to, key input assumptions, including assumptions regarding default rates, draw rates, recoveries and prepayment rates. The cash flow from the mortgages is then run through the "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. 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. At both December 31, 2013 and December 31, 2012, the Company had assumed that the majority of the peak defaults occurred in mid-2009 and would continue until mid-2010. The Company extended the assumed ramp down of such defaults to steady state from nine months at December 31, 2009 to a default rate, which generally remained fixed for a range of six to twelve months followed by a ramp down over a range of eighteen to thirty-six months at December 31, 2013. All of the transactions are currently in their modeled ramp down periods.

After the ramp down, the Company assumes a steady state constant default rate at a rate well above historical norms. The constant default rate is a function of several factors, two of which are the state of the economy and unemployment.

The Company's default assumptions for the first lien transactions at December 31, 2013 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 57% to 84% based upon actual loss severity observances and collateral characteristics to determine the expected loss on the collateral in those transactions.

The Company has exercised rights available to it in connection with its insurance of certain RMBS to require the sponsor of such securities to repurchase mortgage loans backing such securities that breached certain representations and warranties. While the sponsor has disputed, and may in the future dispute, its obligations to repurchase all or a portion of these mortgages, if the Company is successful in enforcing its rights, whether through litigation or otherwise, it will reduce the ultimate losses the Company expects to incur through its insurance of the aforementioned securities. No assurance can be given that the Company will be successful in enforcing its rights to require the repurchase of mortgages discussed above. If the Company were successful in enforcing these rights, its ability to realize a financial benefit from the repurchase of the aforementioned mortgages is limited to the losses incurred by the Company through its insurance of the RMBS backed by such mortgages and by the financial ability of the sponsor to honor its obligations. As of December 31, 2013 and 2012, the Company estimated that it would realize a net benefit from such recoveries. This benefit is recorded in the Company's consolidated financial statements through a reduction in reserves for losses that it would otherwise have had to carry and as a salvage and subrogation recoverable. The Company's estimate considers a variety of factors including its historical rate of success at requiring sponsors to repurchase mortgages, uncertainties associated with a favorable resolution to its disputes with the sponsors, as well as the aforementioned limits regarding the financial benefit it may realize from such repurchases. The actual salvage recovery may vary materially (favorably or unfavorably) from the Company's estimates.

As of December 31, 2013 and 2012, the Company's reserves for losses and loss adjustment expenses, after giving effect to reinsurance, on public finance transactions was $231.3 million and $198.3 million ($231.5 million and $202.1 million before giving effect to reinsurance), respectively.

As of December 31, 2013 and 2012, the Company's reserves for losses and loss adjustment expenses, after giving effect to reinsurance, on structured single risk transactions was $239.2 million and $14.0 million ($239.2 million and $14.0 million before giving effect to reinsurance), respectively. As described in Note 1, although the Company received 100% of the equity ownership of the reorganized American Roads and the debt of American Roads has been discharged in bankruptcy, the holders of the originally issued debt continue to benefit from the Company's insurance policy and therefore a reserve has been established by the Company.

As of December 31, 2013 and 2012, the Company's reserves for losses and loss adjustment expenses, after giving effect to reinsurance, on its guarantees of CDOs was $5.6 million and $8.0 million ($5.6 million and $8.0 million before giving effect to reinsurance), respectively.

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 Company's 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, Surveillance 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, Surveillance 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, Surveillance 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) Special Monitoring List—low investment grade credits where a material covenant or trigger may be breached and closer monitoring is warranted; (ii) 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; (iii) 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; and (iv) Loss List—credits where a loss is probable and reasonably estimable. Credits that are not closely monitored credits are considered to be fundamentally sound, normal risk.

The following table sets forth certain information in regard to the Company's closely monitored credits as of December 31, 2013. 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 ICFs and related alternative structures.

(U.S. dollars in millions)	Special Monitoring List	Yellow Flag List	Red Flag List	Loss List	Total
Number of policies	126	28	8	43	205
Remaining weighted-average contract period (in years)	13.8	11.2	8.0	11.5	11.3
Insured contractual payments outstanding:					
Principal	$ 2,088	1,394	1,565	1,239	6,286
Interest	1,277	847	459	607	3,190
Total	$ 3,365	2,241	2,024	1,846	9,476
Gross loss and LAE liability	$ 2	31	9	2,437	2,479
Less:					
Gross potential recoveries	2	3	3	515	523
Unearned premium reserve [(1)]	1	3	—	67	71
Discount, net	—	—	—	525	525
Loss and LAE liabilities reported in the balance sheet	$ (1)	25	6	1,330	1,360

(1) The claim liability is determined on a contract by contract basis. As such, instances may arise where the unearned premium revenue on a contract may exceed the present value of the expected net cash outflows. The unearned premium in the table above represents the aggregate of unearned premium revenue on each contract but not in excess of the associated present value of the expected net cash outflows on such contract.

11. Exposures Under Guarantees

While the Company establishes reserves for losses and loss adjustment expenses on obligations it has guaranteed or reinsured (see Note 4), 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. Set forth below are tables which reflect certain information regarding the Company's in-force principal and interest exposure at December 31, 2013. 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 the Company's in-force guaranteed principal and interest exposure by bond sector as of December 31, 2013:

Bond Exposure
(U.S. dollars in millions)

	GPO[1]	GIO[1]	Total	NPO[1]	NIO[1]	Total
Public Finance						
General Obligation	$ 9,999	$ 4,058	$ 14,057	$ 9,999	$ 4,058	$ 14,057
Special Revenue	8,755	7,647	16,402	8,609	7,468	16,077
Utility	4,311	2,125	6,436	4,311	2,125	6,436
Non Ad Valorem	3,028	1,903	4,931	3,028	1,903	4,931
Appropriation	1,618	861	2,479	1,618	861	2,479
Total Public Finance	$ 27,711	$ 16,594	$ 44,305	$ 27,565	$ 16,415	$ 43,980
Asset-Backed Securities						
RMBS	$ 1,370	$ 368	$ 1,738	$ 1,362	$ 366	$ 1,728
Commercial ABS	474	31	505	474	31	505
Total Asset-Backed Securities	$ 1,844	$ 399	$ 2,243	$ 1,836	$ 397	$ 2,233
Collateralized Debt Obligations						
Cashflow CDO	$ 3,555	$ 181	$ 3,736	$ 3,555	$ 181	$ 3,736
Synthetic CDO	2,684	-	2,684	2,684	-	2,684
Total Collateralized Debt Obligations	$ 6,239	$ 181	$ 6,420	$ 6,239	$ 181	$ 6,420
Structured Single Risk						
Power & Utilities	$ 7,273	$ 6,749	$ 14,022	$ 7,273	$ 6,749	$ 14,022
Global Infrastructure	7,260	4,474	11,734	7,203	4,437	11,640
Specialized Risk	1,172	383	1,555	1,172	383	1,555
Total Structured Single Risk	$ 15,705	$ 11,606	$ 27,311	$ 15,648	$ 11,569	$ 27,217
Total Outstanding	$ 51,499	$ 28,780	$ 80,279	$ 51,288	$ 28,562	$ 79,850

[1] GPO, GIO, NPO and NIO represent Gross Principal Outstanding, Gross Interest Outstanding, Net Principal Outstanding and Net Interest Outstanding, respectively.

The following table sets forth the number of years to maturity of the Company's in-force guaranteed principal and interest exposure at December 31, 2013:

Years to Maturity - Debt Service Amortization
(U.S. dollars in millions)

	Scheduled Net Debt Service	NPIO[1]
2013 Q4	$ -	$ 79,850
2014 Q1	1,428	78,422
2014 Q2	1,344	77,078
2014 Q3	1,663	75,415
2014 Q4	1,904	73,511
Total 2014	$ 6,339	
2015	$ 4,960	$ 68,551
2016	5,538	63,013
2017	4,457	58,556
2018	3,608	54,948
Total 2015-2018	$ 18,563	
2019-2023	$ 15,408	$ 39,540
2024-2028	12,270	27,270
2029-2033	8,211	19,059
2034 and thereafter	19,059	-
Total 2019-thereafter	$ 54,948	
Total	$ 79,850	

[1] NPIO represents Net Principal and Interest Outstanding.

The following table sets forth the Company's in-force guaranteed principal exposure by geographic concentration at December 31, 2013:

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

	GPO	NPO	% NPO
United States			
California	$ 4,998	$ 4,952	9.7 %
New York	3,019	3,019	5.9
Illinois	2,099	2,099	4.1
Texas	1,787	1,787	3.5
Florida	1,741	1,641	3.2
Alabama	1,289	1,289	2.5
Pennsylvania	1,176	1,176	2.3
Colorado	940	940	1.8
Georgia	912	912	1.8
New Jersey	744	744	1.5
Tennessee	665	665	1.3
Virginia	664	664	1.3
Washington	654	654	1.3
Ohio	635	635	1.2
Puerto Rico	615	615	1.2
Massachusetts	566	566	1.1
Michigan	562	562	1.1
Indiana	554	554	1.1
South Carolina	534	534	1.0
Minnesota	529	529	1.0
Other[(1)]	5,516	5,516	10.8
Non-PF Multi[(2)(3)]	7,381	7,373	14.3
Total United States	$ 37,580	$ 37,426	73.0 %
International			
United Kingdom	$ 7,846	$ 7,789	15.2 %
Australia	1,791	1,791	3.5
France	771	771	1.5
Chile	756	756	1.5
Netherlands	685	685	1.3
New Zealand	624	624	1.2
Other[(1)]	1,175	1,175	2.3
Non-PF Multi[(2)(4)]	271	271	0.5
Total International	$ 13,919	$ 13,862	27.0 %
Total Par Outstanding	$ 51,499	$ 51,288	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 $5,492 million in CDO, $1,683 million in ABS and $198 million in SSR net par.
[(4)] Consists of $266 million in SSR and $5 million in CDO net par.

Exposure to Residential Mortgage Market

The Company is exposed to residential mortgages directly, through its insurance guarantees of RMBS.

As of December 31, 2013, the Company's total net direct exposure to RMBS aggregated approximately $1.4 billion (the amount excludes exposure related to guarantees which were effectively defeased or, in-substance, commuted pursuant to ICFs – see Note 3), representing approximately 2.7% 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 the Company's internal ratings, as well as the ratings of certain rating agencies, of the insured transactions at December 31, 2013 (excluding exposure related to guarantees which were effectively defeased or, in-substance, commuted pursuant to ICFs as discussed above).

Exposure to RMBS

The following table presents the net principal outstanding for the Company's insured RMBS portfolio by type of collateral as of December 31, 2013:

RMBS Exposure
(U.S. dollars in millions)

	NPO	% NPO
Prime (1st lien)	$ 41	3.0 %
Prime (2nd lien)	38	2.8
Prime (HELOC)	212	15.5
Alt-A (1st lien)	656	48.4
Alt-A (2nd lien)	12	0.9
Subprime (1st lien)	313	22.9
Subprime (2nd lien)	51	3.7
Subprime (1st lien) - International	39	2.8
Total RMBS Outstanding	$ 1,362	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 reserves for unpaid losses for the Company's insured RMBS portfolio by year of origination (year the guarantee was underwritten and issued) as of December 31, 2013. Net principal outstanding in the table below excludes principal effectively defeased or, in-substance, commuted by the Company in connection with its acquisition of ICFs, whereas net reserves for unpaid losses in the table below are reported on the same basis as reflected in the Company's balance sheet (not adjusted to reflect reserves effectively defeased or, in-substance, commuted pursuant to the Company's acquisition of ICFs).

RMBS Exposure
(U.S. dollars in millions)

	2004	2005	2006	2007	Total
Prime/Alt-A	$ 155	$ 58	$ 110	$ 636	$ 959
Subprime	52 (1)	103	-	248	403
Total RMBS Outstanding	$ 207	$ 161	$ 110	$ 884	$ 1,362

(U.S. dollars in millions)

	2004	2005	2006	2007	Total
Net case reserves for unpaid losses	$ 55	$ 160	$ 360	$ (153) (2)	$ 422

(1) Includes $0.1 million relating to business underwritten and issued in 1999.
(2) As described further in Note 21, net case reserves for unpaid losses reflect the effect of the JPMorgan settlement.

The following tables show the Company's current internal and rating agency ratings on all of the Company's direct RMBS exposure by deal, grouped by collateral type. The Company'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. The Company bases its analysis on information received from the trustees or from the issuer, as well as on-site visits to issuers, servicers, collateral managers and project sites. Modeling results are also considered. The Company also takes into consideration the rating agencies' rationale for their ratings; however, variations may exist between the Company's ratings and the ratings of the rating agencies. Rating agencies may change their ratings on obligations on a frequent basis and in some cases ratings issued by ratings

agencies may be withdrawn by such ratings agencies. Accordingly, the following tables may not reflect the ratings agencies most current published ratings.

	Vintage	Internal Rating	S&P Rating[1]	Moody's Rating[1]	NPO
Prime (1st lien)					
1.	2004	bbb	NR	Ba2	$ 22
2.	2004	aa	AA+	NR	14
3.	2004	aa	AA+	Ba1	5
Total					$ 41
Prime (2nd lien)					
1.	2006	d	D	C	$ 38
Total					$ 38
Prime (HELOC)					
1.	2004	d	CCC	Ca	$ 68
2.	2004	d	CCC	Ca	46
3.	2005	d	D	C	20
4.	2006	d	D	C	44
5.	2006	d	D	Ca	23
6.	2006	d	NR	C	5
7.	2006	d	CC	Ca	-
8.	2007	d	D	Ca	6
Total					$ 212
Alt-A (1st lien)					
1.	2005	c	AA+	B3	$ 28
2.	2005	d	CC	Caa2	10
3.	2007	bbb-	CCC	Caa3	269
4.	2007	b-	NR	Caa3	226
5.	2007	c	CCC	Caa3	123
6.	2007	d	NR	C	-
Total					$ 656
Alt-A (2nd lien)					
1.	2007	d	CC	Ca	$ 12
2.	2007	d	D	B1	-
Total					$ 12

Subprime (1st lien)					
1.	1999	b	NR	Caa1	$ -
2.	2004	a-	AAA	A1	28
3.	2004	b-	AA-	B2	17
4.	2004	aa	AAA	Aa2	7
5.	2005	c	CCC	-	93
6.	2005	bbb-	AA+	A1	8
7.	2005	bbb-	BBB+	Baa1	2
8.	2007	c	CCC	C	158
Total					$ 313
Subprime (2nd lien)					
1.	2007	c	CCC	Caa3	$ 36
2.	2007	c	CC	C	10
3.	2007	c	CCC	Ca	5
Total					$ 51
Subprime (1st lien) - International					
1.	2007	bbb	BBB	Baa2	$ 39
Total					$ 39
Total RMBS Outstanding					$ 1,362

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

Exposure to CDOs

The following table presents the net notional exposure of the Company's guaranteed CDOs by type(1) of referenced asset as of December 31, 2013. A CDO is a security that is collateralized by, or synthetically references, a pool of debt obligations such as corporate loans, bonds and ABS:

CDO Exposure
(U.S. dollars in millions)

	NPO	% NPO	# of Credits
Cashflow CDO			
US CLO	$ 2,629	42.2 %	12
Euro CLO	748	12.0	4
TRUPS CDO	169	2.7	5
Multi-Sector CDO	7	0.1	1
ABS CDO	2	0.0	1
Total Cashflow CDO	$ 3,555	57.0 %	23
Synthetic CDO			
Corporate Synthetic CDO	$ 1,750	28.0 %	7
CMBS CDO	934	15.0	1
Total Synthetic CDO	$ 2,684	43.0 %	8
Total Collateralized Debt Obligations Outstanding	$ 6,239	100.0 %	31

(1) Asset type is defined as follows. A Cash flow CDO is a securitized bond that is collateralized by a pool of debt obligations such as corporate loans, bonds and ABS. A US CLO is a CDO with underlying collateral primarily consisting of senior secured bank loans made to corporate entities domiciled in the United States and rated below investment grade at inception (i.e., rated below "BBB-" by S&P, "Baa3" by Moody's and "BBB-" by Fitch). A Euro CLO is a CDO with underlying collateral primarily consisting of senior secured bank loans made to corporate entities domiciled in Europe and generally rated below investment grade at inception (i.e., rated below "BBB-" by S&P, "Baa3" by Moody's and "BBB-" by Fitch). A Trups CDO is a CDO with underlying collateral primarily consisting of trust preferred securities issued by bank holding companies. A Multi-Sector CDO is a CDO with underlying collateral primarily consisting of ABS securities (including less than 50% RMBS bonds). An ABS CDO is a CDO with underlying collateral primarily consisting of RMBS bonds (greater than 50%) and other ABS securities.

A Synthetic CDO is a CDO that synthetically references a portfolio of debt obligations through the use of credit default swaps. A Corporate Synthetic CDO is a CDO that references a pool primarily consisting of senior unsecured corporate credits rated investment grade at inception (i.e., rated at least "BBB-" by S&P, "Baa3" by Moody's and "BBB-" by Fitch or higher). A CMBS CDO is a CDO that synthetically references a portfolio of Commercial Mortgage Backed Securities.

The following table presents the net notional exposure of the Company's guaranteed CDOs by rating as of December 31, 2013:

CDO Ratings[1]
(U.S. dollars in millions)

	NPO	% NPO
AAA	$ 2,650	42.5 %
AA	2,476	39.7
A	-	0.0
BBB	1,011	16.2
Below investment grade	102	1.6
Total Collateralized Debt Obligations Outstanding	$ 6,239	100.0 %

[1] Based on S&P rating as reflected in Syncora's records, if available, and internal Syncora rating if no S&P rating is available.

12. Insurance Premiums

As of December 31, 2013, the Company reported a premium receivable of $202.9 million primarily related to installment policies for which premiums will be collected over the term of the contracts. Premiums are discounted at a risk-free rate that considers the expected maturity of each contract. The weighted average risk-free rate used to discount future installment premiums was 2.5% and the weighted average collection term of the premium receivable was 11.7 years. For the year ended December 31, 2013, the accretion of the premium receivable was $5.2 million and is reported in "Premiums earned" on the accompanying consolidated statement of operations. As of December 31, 2013, the Company reported a reinsurance premium payable of $1.4 million, which represents the portion of the Company's premium receivable that is due to reinsurers. The reinsurance premium payable will be accreted and paid, as premiums due to the Company are accreted and collected. The following table presents a roll forward of the Company's premium receivable for the year ended December 31, 2013:

(U.S. dollars in thousands)

			Adjustments		
Premium Receivable as of December 31, 2012	Premium Payments Received	Premiums from New Business Written	Changes in Expected Term of Policies	Accretion of Premium Receivable Discount	Premium Receivable as of December 31, 2013
$ 227,493	$ (27,073)	$ -	$ (2,708)	$ 5,235	$ 202,947

The following table presents, as of December 31, 2013, the Company's installment premiums on direct business expected to be collected in the future and the periods in which such collections are expected to occur. In addition to that presented in the table below, the Company had installment premiums receivable of $39.3 million (on a present value basis) relating to assumed reinsurance business at December 31, 2013:

(U.S. dollars in thousands)	Expected Collection of Premiums
Three months ended:	
March 31, 2014	$ 3,730
June 30, 2014	4,163
September 30, 2014	3,994
December 31, 2014	2,334
Twelve months ended:	
December 31, 2014	14,221
December 31, 2015	13,099
December 31, 2016	11,422
December 31, 2017	10,345
December 31, 2018	9,640
Five years ended:	
December 31, 2018	58,727
December 31, 2023	41,971
December 31, 2028	28,306
December 31, 2033	20,259
December 31, 2038	11,018
December 31, 2043	884
December 31, 2048	269
December 31, 2053	26
Total	$ 161,460

The following table presents the expected unearned premium revenue balance and the expected future premium earnings of the Company's direct in-force business as of and for the periods presented. In addition to that presented in the table below, the Company had unearned premium revenue of $88.8 million relating to assumed reinsurance business at December 31, 2013.

(U.S. dollars in thousands)	Expected Collection of Premiums	Unearned Premium Revenue	Expected Premium Earnings: Upfront	Installments	Accretion	Total
Three months ended:						
March 31, 2014	$ 3,730	$ 442,471	$ 6,938	$ 3,871	$ 1,243	$ 12,052
June 30, 2014	4,163	432,779	5,946	3,745	1,222	10,913
September 30, 2014	3,994	423,265	5,872	3,642	1,197	10,711
December 31, 2014	2,334	413,901	5,806	3,558	1,154	10,518
Twelve months ended:						
December 31, 2014	14,221	413,901	24,562	14,816	4,816	44,194
December 31, 2015	13,099	378,019	22,436	13,446	4,418	40,300
December 31, 2016	11,422	344,662	21,415	11,941	4,025	37,381
December 31, 2017	10,345	313,919	20,358	10,387	3,683	34,428
December 31, 2018	9,640	285,243	19,180	9,497	3,367	32,044
Five years ended:						
December 31, 2018	58,727	285,243	107,951	60,087	20,309	188,347
December 31, 2023	41,971	166,795	79,041	39,405	12,457	130,903
December 31, 2028	28,306	90,072	52,145	24,578	6,975	83,698
December 31, 2033	20,259	41,702	32,498	15,872	3,339	51,709
December 31, 2038	11,018	17,074	16,781	7,847	825	25,453
December 31, 2043	884	9,635	6,542	898	80	7,520
December 31, 2048	269	5,458	3,983	195	19	4,197
December 31, 2053	26	1,346	4,092	19	-	4,111
December 31, 2058	-	8	1,338	-	-	1,338
December 31, 2063	-	-	8	-	-	8
Total	$ 161,460		$ 304,379	$ 148,901	$ 44,004	$ 497,284

The following sets forth the components of premiums earned for the years ended December 31, 2013 and 2012:

(U.S. dollars in thousands)	2013	2012
Gross premiums written	$ (1,110)	$ (11,064)
Reinsurance premiums assumed	7,151	1,216
Total premiums written	6,041	(9,848)
Change in direct unearned premium revenue	124,722	91,593
Change in assumed unearned premium revenue	2,704	9,008
Gross premiums earned	133,467	90,753
Reinsurance premiums ceded	8	(73)
Change in prepaid reinsurance premiums	(761)	(437)
Ceded premiums earned	(753)	(510)
Net premiums earned	$ 132,714	$ 90,243

For the years ended December 31, 2013 and 2012, net premiums earned include $67.6 million and $22.0 million, respectively, of earned premium relating to Refundings.

13. Deferred Acquisition Costs and Deferred Ceding Commissions

Deferred acquisition costs, net of deferred ceding commission revenue, as well as related amortization, as of and for the years ended December 31, 2013 and 2012 are as follows:

(U.S. dollars in thousands)	2013	2012
Deferred acquisition costs, net—beginning of year	$ 95,270	$ 106,361
Acquisition costs and ceding commission revenue amortized:		
Acquisition costs amortized	(18,487)	(11,142)
Ceding commission revenue amortized	79	51
Amortization of deferred acquisition costs	(18,408)	(11,091)
Commutations	(678)	—
Deferred acquisition costs, net—end of year	$ 76,184	$ 95,270

Accelerated amortization of deferred acquisition costs due to Refundings was $9.7 million and $3.1 million for the years ended December 31, 2013 and 2012, respectively.

14. Accumulated Other Comprehensive Income

Changes in accumulated other comprehensive income by components are as follows:

(U.S. dollars in thousands)	Available-for-sale securities	Replacement bank warrants	Unrecognized pension and postretirement benefit costs	Total
Balance, December 31, 2012	**$ 62,308**	**$ 54,851**	**$ -**	**$ 117,159**
Other comprehensive income before reclassifications	(19,223)	-	1,431	(17,792)
Amounts reclassified from accumulated other comprehensive income	(17,277)	(54,851)	-	(72,128)
Current period other comprehensive, net	(36,500)	(54,851)	1,431	(89,920)
Balance, December 31, 2013	**$ 25,808**	**$ -**	**$ 1,431**	**$ 27,239**

The following table provides details regarding reclassifications out of accumulated other comprehensive income:

Details About Accumulated Other Comprehensive Income Components	Year Ended December 31, 2013
(U.S. dollars in thousands)	
Available-for-sale securities:	
Realized gains on sale of securities	$ (21,842)
Other-than-temporary impairments	4,565
Replacement bank warrants:	
Jefferson County litigation and claims settlement	(54,851)
Total reclassifications for the period	**$ (72,128)**

15. Income Taxes

Syncora Holdings is not subject to any taxes in Bermuda on either income or capital gains under current Bermuda law. In the event that there is a change such that these taxes are imposed, Syncora Holdings would be exempted from any such tax until March 2016 pursuant to Bermuda law.

SGI has subsidiary and branch operations in certain international jurisdictions that are subject to relevant taxes in those jurisdictions. SGI and SCAI file a consolidated U.S. federal tax return with Syncora Holdings U.S. Inc. (the U.S. common parent of the Syncora Holdings' group) and its subsidiaries (which consists of SGI, SCAI and Syncora Holdings U.S. Inc.'s other U.S. based subsidiaries). Syncora Holdings U.S. Inc. maintains a tax sharing agreement with its subsidiaries, whereby each subsidiary determines its payment due to/from Syncora Holdings U.S., Inc. on a separate company return basis. Further, if the subsidiary's separate return

computation results in a taxable loss for the period, Syncora Holdings U.S., Inc. will reimburse the subsidiary to the extent that such loss reduces the Company's consolidated income tax liability. The tax sharing agreement calls for the reimbursement to take place within thirty days of Syncora Holdings filing its federal consolidated tax return.

Management has concluded that results from operations forecasted to be generated in the future are more likely than not insufficient to permit realization of the deferred tax assets, thus a valuation allowance has been established against the entire deferred tax assets of the Company at December 31, 2013 and December 31, 2012. The valuation allowance was calculated in accordance with the provisions of the accounting pronouncements for income taxes, which place primary importance on operating results in recent periods when assessing the need for a valuation allowance. The Company intends to maintain a full valuation allowance for its net deferred tax assets until sufficient positive evidence exists to support reversal of all or a portion of the valuation allowance.

At December 31, 2013, the Company's cumulative NOLs, which may be carried forward to offset future taxable income, are $3.0 billion. The Company's ability to utilize its NOLs at December 31, 2013 expires from 2027 through 2031. Approximately $161.3 million of the Company's NOLs as of December 31, 2013 are subject to limitation under Section 382 of the Internal Revenue Code 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 the aforementioned code section, will occur if shareholders owning (or deemed under the aforementioned code section to own) 5% or more of Syncora Holdings' common shares increase their collective ownership of the aggregate amount of outstanding shares of Syncora Holdings by more than 50% over 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' By-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 of the Internal Revenue Code ("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 or any change in ownership arising from a new issuance 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.

As of December 31, 2013 and 2012, respectively, the Company had no unrecognized tax benefit and no adjustments to liabilities or operations were required.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense, which were zero for the years ended 2013 and 2012. Tax years 2010 through 2013 are subject to examination by federal authorities. There are currently no federal, state or local tax audits underway for the Company as of December 31, 2013.

The Company is a Bermuda corporation and, except for gross basis withholding taxes on U.S. source investment income, neither it nor its non-U.S. subsidiaries have paid U.S. Federal corporate income taxes, on the basis that they are not engaged in a trade or business or otherwise subject to taxation in the United States. However, because definitive identification of activities which constitute being engaged in a trade or business in the United States is not provided by the Internal Revenue Code of 1986, as amended, regulations or court decisions, there can be no assurance that the Internal Revenue Service would not contend that the Company or its non-U.S. subsidiaries are engaged in a trade or business or otherwise subject to taxation in the United States.

In addition to the foregoing, there is a risk that the Internal Revenue Service could disagree with a number of tax positions taken by the Company 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 the Company were successfully challenged by the Internal Revenue Service, there could be a material adverse effect on the amount of NOLs available to the Company to offset taxable income.

The Company's income tax provision for the years ended December 31, 2013 and 2012 was $1,914,095 and $2,612,937, respectively. The decrease of $0.7 million is primarily due to a $0.8 million current foreign income tax provision decrease for SGI-UK.

The difference between the expected and actual tax benefit or expense for each of the years ending December 31, 2013 and 2012 is primarily attributable to the full valuation allowance recorded by the Company in such years, as discussed above.

The Company's net deferred tax assets as of December 31, 2013 and 2012 consist of the following:

(U.S. dollars in thousands)	2013	2012
Gross deferred tax assets	$ 1,684,336	$ 2,282,257
Valuation allowance	(1,422,518)	(2,061,590)
Deferred tax assets, net	261,818	220,667
Deferred tax liability	261,818	220,667
Net deferred tax assets	$ —	$ —

The gross deferred tax assets are due principally to the Company's NOLs, the mark-to-market on CDS contracts, loss and loss adjustment reserves and capital loss carry forwards. Gross deferred tax liabilities are due principally to the Company's mark-to-market on CDS contracts, ICFs and deferred acquisition costs. As of December 31, 2013 and 2012 the Company recorded a full valuation allowance against its gross deferred tax assets.

16. Business Combination- Pike Pointe

On September 4, 2013, the Company completed the business combination of Pike Pointe upon its emergence from Chapter 11 bankruptcy (See Note 1). Upon emergence from Chapter 11 bankruptcy, Pike Pointe adopted fresh start reporting in accordance with the accounting guidance for reorganizations. The adoption of fresh start reporting resulted in Pike Pointe becoming a new entity for financial reporting purposes, which required it to revalue its assets and liabilities to fair value. In estimating fair value, Pike Pointe based its estimates and assumptions on guidance prescribed by fair value measurements. Fresh start reporting requires resetting the historical net book value of assets and liabilities to fair value by allocating the entity's reorganization value to its assets and liabilities.

In connection with the acquisition of 100% of the equity of American Roads valued at $205.3 million as part of the bankruptcy the Company recognized approximately $115.0 million of identifiable intangible assets, cash of $54.7 million and other net tangible assets of $35.6 million. In exchange, the Company adjusted its salvage recoverable to fair value to reflect the consideration transferred in exchange for the receipt of the equity ownership and adjusted its reserves to reflect its estimate of the claims representing the full amount of principal and interest. The results of operations for Pike Pointe are included in the accompanying consolidated statements of operations since September 4, 2013.

17. Preferred Shares

Non-Controlling Interest in Subsidiary – Series B Perpetual Non-Cumulative Preferred Shares of SGI

On February 11, 2008, Syncora Guarantee Re Ltd., a former affiliate of SGI issued 2,000 shares of non-cumulative perpetual Series B preferred shares (the "Series B Preferred Shares") for consideration aggregating $200 million pursuant to the exercise of a put option under its capital facility. After the merger of Syncora Guarantee Re with and into SGI, the Series B Preferred Shares became preferred shares of SGI. The Series B Preferred Shares have a par value of $120 per share and a liquidation preference of $100,000 per share. Holders of outstanding Series B Preferred Shares are entitled to receive, in preference to the holders of SGI's common shares non-cumulative cash dividends at a percentage rate per Series B Preferred Share for any dividend period ending on or prior to December 9, 2009, one-month LIBOR plus 1.00% per annum, calculated on an actual/360 day basis; and for any subsequent dividend period, one-month LIBOR plus 2.00% per annum, calculated on an actual/360 day basis. Accordingly, the carrying value of the Series B Preferred Shares of $20.0 million represents the net proceeds received upon the issuance less the reversal of the fair value of the put option on the date of exercise.

The holders of the Series B Preferred Shares are not entitled to any voting rights as shareholders of SGI and their consent is not required for taking any corporate action. Subject to certain requirements, the Series B Preferred Shares may be redeemed, in whole or in part, at the option of SGI at any time or from time to time after December 9, 2009 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. SGI has not declared or paid dividends on the Series B Preferred Shares during the years ended December 31, 2013 and 2012. In connection with the Countrywide settlement discussed above, SGI holds 655 shares of its non-cumulative perpetual Series B preferred shares, which were transferred by BAC.

Series A Perpetual Non-Cumulative Preferred Shares

On April 5, 2007, Syncora Holdings consummated a private placement sale of $250.0 million of its Series A Preferred Shares. Net proceeds from the offering were $246.6 million after offering costs of $3.4 million. The Series A Preferred Shares are perpetual securities with no fixed maturity date and, if declared by the Board of Syncora Holdings, pay a fixed dividend, on a semi-annual basis during the first and third quarters of each fiscal year, at the annualized rate of 6.88% until September 30, 2017. After such date, the Series A Preferred Shares, if declared by the Board of Syncora Holdings, will pay dividends, on a quarterly basis, at a floating rate based on three-month LIBOR plus 2.715%. Dividends on the Syncora Holdings Series A Preferred Shares are non-cumulative. The Syncora Holdings Series A Preferred Shares have a liquidation preference of $1,000 per preferred share. There are 250,000 Syncora Holdings Series A preferred shares outstanding.

18. Commitments and Contingencies

a. Legal Matters

In the ordinary course of business, SGI is subject to litigation or other legal proceedings. SGI intends to vigorously defend against all actions in which it is a defendant and against other potential actions, and SGI does not expect the outcome of these matters to have a material adverse effect on SGI's financial position, results of operations or liquidity. SGI can provide no assurance that the ultimate outcome of these actions will not cause a loss nor have a material adverse effect on SGI's financial position, results of operations or liquidity.

As of March 31, 2013, 26 states or jurisdictions have suspended the Company's license to conduct insurance business in such states or jurisdictions, revoked, placed an order of impairment against it, or the Company voluntarily surrendered its license, agreed to cease writing business in such states or jurisdictions, its license expired or the Company opted not to renew its license. Management anticipates that SGI will be able to continue to collect premiums on existing business in such states or jurisdictions. Additional states or jurisdictions may suspend SGI's license, place an order of impairment against it or, in lieu of a suspension or order, SGI may voluntarily agree to cease writing business and let such licenses expire or opt not to renew its licenses in additional states or jurisdictions.

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

Bond Insurers Conspiracy Litigation

From July 2008 to July 2010, lawsuits were filed by a number of California municipal entities in California state court against several bond insurers, including SGI, the three major credit rating agencies, and two individual defendants. The complaints include allegations that the bond insurer defendants failed to fully disclose their investments in subprime mortgage-backed securities and insurance of subprime instruments and that the defendants conspired to perpetuate and maintain a dual system of bond rating in violation of California state antitrust laws and California state common law. The complaints seek unspecified damages and other relief. Defendants' motion to strike the pleadings under a California statute was granted as to the antitrust conspiracy claims. Both parties filed appeals of the decision on the motion to strike, as well as applications for attorneys' fees. Syncora has entered into a settlement agreement, which is subject to approval by the court, pursuant to which Plaintiffs will voluntarily dismiss their claims against Syncora, both parties will dismiss their pending appeals and motions for attorneys' fees, and Syncora will make a de minimis payment to Plaintiffs. In the settlement agreement, Syncora expressly denies any liability to Plaintiffs in connection with the lawsuits.

Jefferson County Litigation

SGI was involved in numerous litigation proceedings as plaintiff and defendant in connection with Jefferson County, Alabama ("Jefferson County"). On December 3, 2013, SGI settled all litigation and claims and commuted all of its insurance policies issued in connection with the Jefferson County Sewer Warrants (the "Warrants") pursuant to the consensual plan of debt adjustment of Jefferson County (the "Plan"). As provided by the Plan, SGI received a partial recovery on claims totaling $246 million, including claims with respect to certain warrants it owned as a result of past payments under insurance policies. As of December 31, 2013, SGI has no insurance exposure to and holds no warrants or other debt instruments issued by Jefferson County. In connection with the Plan, SGI was released by all relevant parties from any legal claims against it in connection with its insurance of the Warrants. In exchange for the commutation of its insurance policies and partial payment in respect of the Warrants it owned, SGI released Jefferson County and JP Morgan Chase Bank N.A. and JP Morgan Securities from all legal claims held by SGI against them in connection with the Warrants.

RMBS Litigation

On January 29, 2009, SGI filed suit against Countrywide, alleging that Countrywide made misrepresentations in connection with several securitizations of home equity mortgage loans. SGI later filed an amended complaint to add BAC as an additional defendant as the successor to Countrywide. On July 17, 2012, SGI settled all such claims.

On February 5, 2009, SGI, together with co-plaintiffs U.S. Bank National Association ("US Bank") and CIFG Assurance North America, Inc. ("CIFG"), filed suit in the Supreme Court of the State of New York, New York County, against GreenPoint, alleging that GreenPoint breached representations and warranties in connection with a securitization of primarily home-equity mortgage loans originated by GreenPoint, and for which SGI acted as credit enhancer, and seeking damages and other relief for breach of contract. GreenPoint moved to dismiss all of the claims against it. In response, SGI argued it is a third-party beneficiary of the underlying sale agreements between GreenPoint and the purchaser of the loans originated by GreenPoint, and CIFG made the same

argument. On March 3, 2010, the court denied GreenPoint's motion with regard to the claims of US Bank and granted the motion with regard to SGI and CIFG's arguments that they are third-party beneficiaries of the underlying sale agreements. On April 14, 2010, all plaintiffs filed their First Amended Complaint, with SGI alleging claims against GreenPoint under the Indemnification Agreement among SGI, GreenPoint and another person. SGI's claims related to GreenPoint's breaches of representations and warranties in the Indemnification Agreement and breaches of GreenPoint's promises to indemnify SGI. Following oral argument on January 6, 2011 regarding GreenPoint's motion to dismiss SGI's claims (and CIFG's claims) in the First Amended Complaint and the plaintiffs' cross-motion for permission to serve a Second Amended Complaint, the court granted GreenPoint's motion without prejudice and denied the plaintiffs' cross-motion without prejudice, but permitted the plaintiffs to make a motion for leave to file a Third Amended Complaint. The plaintiffs' motion for leave to file a Third Amended Complaint was filed on June 10, 2011. By Decision and Order dated February 24, 2012, and entered by the court on February 28, 2012, the court denied the motion for leave to file a Third Amended Complaint on grounds of res judicata. On March 26, 2012, SGI and CIFG filed a Notice of Appeal with respect to that decision to the Supreme Court of the State of New York, Appellate Division, First Department. On May 4, 2012, SGI and CIFG filed a second Notice of Appeal raising additional issues. On July 20, 2012, GreenPoint moved to dismiss the second Notice of Appeal, and the plaintiffs filed their opposition on August 27, 2012. By Order dated October 4, 2012, the court denied GreenPoint's motion to dismiss the second appeal. The plaintiffs perfected their appeal on December 3, 2012; GreenPoint's opposition was filed on February 5, 2013, and plaintiffs' reply brief was filed on March 8, 2013. Oral argument on the appeal was heard on April 3, 2013. On April 25, 2013, First Department affirmed the trial court's dismissal of SGI and CIFG. On May 28, 2013, SGI and CIFG moved for leave to appeal to the Court of Appeals for reargument of the First department's decision, which motion was denied by Order dated September 24, 2013. On or about November 5, 2013, SGI and CIFG filed a motion for leave to appeal to the New York Court of Appeals and GreenPoint opposed on November 15, 2013. On February 25, 2014, the New York Court of Appeals denied SGI's and CIFG's motion for leave to appeal. Accordingly, SGI's litigation against Greenpoint was terminated. Meanwhile, US Bank's prosecution of its claims as Indenture Trustee on behalf of SGI and CIFG has continued and SGI has been actively involved in discovery. The Court has ordered that the first phase of fact discovery be directed toward the issue of standing on the part of US Bank, on the theory that certain agreements in the securitization were not properly assigned. Phase I of fact discovery was substantially completed on November 15, 2013. On December 16, 2013, US Bank and GreenPoint each served motions for summary judgment on the issue of US Bank's standing. Opposition papers to both motions were served February 3, 2014 and reply papers were served February 26, 2014. In connection with the summary judgment motions, US Bank and GreenPoint have each moved to strike the opposing expert's testimony. On April 9, 2014 US Bank further sought leave to file a sur-reply addressing certain testimony submitted by GreenPoint on Reply. The Court has not yet addressed US Bank's request for a sur-reply, nor has a date for oral argument on the summary judgment motions been set.

On September 16, 2009, SGI filed a proof of claim against Lehman Brothers Holdings Inc. ("LBHI") in the United States Bankruptcy Court for the Southern District of New York in connection with the same securitization as that at issue in the case described immediately above, which proof of claim was amended on January 13, 2010. On September 21, 2009, U.S. Bank as Indenture Trustee filed a proof of claim on behalf of this and other trusts against LBHI in the same court (the "Trustee's Claim"). Neither SGI's nor the Trustee's Claim has been resolved and the hearing on LBHI's objection to SGI's proof of claim has been adjourned without rescheduling another date for a hearing. On May 2, 2013, in connection with SGI's proof of claim, LBHI commenced an adversary proceeding against SGI also in the United States Bankruptcy Court for the Southern District of New York seeking to disallow that part of SGI's claim against the Lehman bankruptcy estate which LBHI alleges is contingent and/or subordinating any allowed claim. On September 26, 2013, LBHI filed its motion for summary judgment; SGI's opposition and cross-motion were filed on October 25, 2013; LBHI filed its reply on November 4, 2013; and SGI filed its reply on November 21, 2013. Oral argument on the summary judgment motions was held on February 19, 2014 and, in light of the Court's response at argument to LBHI's motion, LBHI and SGI each withdrew, without prejudice, its motion for summary judgment.

SGI filed a number of suits against EMC Mortgage LLC, JPMorgan Securities LLC (formerly known as Bear, Stearns & Co.) and JPMorgan Chase Bank in connection with various securitizations of home equity loans. On February 24, 2014, SGI settled all such claims for a cash settlement of $400 million. See Note 21 for further discussion.

ARPA Litigation

The Arkansas River Power Authority ("ARPA") is a joint action agency in Colorado formed in 1979 to provide electricity to its constituent municipalities. ARPA currently has six member municipalities. ARPA's members are contractually obligated to purchase their electricity requirements from ARPA. In 2004, ARPA announced plans to convert an existing natural gas-fired generator in Lamar, Colorado to a coal-fired facility (the "Repowering Project"). To raise funds for the Repowering Project, ARPA issued several series of bonds guaranteed by SGI. The costs of the Repowering Project went well over budget forcing ARPA to issue additional debt. In addition, the Repowering Project fell behind schedule and when it did come on-line, the Lamar plant exceeded pollution emission standards. The Lamar plant is not currently operating.

In March 2011, one of ARPA's members – the city of Trinidad, Colorado – filed a complaint against ARPA in Colorado state court. In that case, Trinidad alleges ARPA mismanaged the Repowering Project and seeks, among other things, to terminate its membership in ARPA. Trinidad also seeks a declaratory judgment vacating the promise Trinidad made to buy power from ARPA. That case has been scheduled for trial in September 2014.

On May 21, 2013, SGI filed a complaint against Trinidad in United States District Court for the District of Colorado. The complaint alleges breach of the implied covenant of good faith and fair dealing and anticipatory breach of contract based on Trinidad's attempt to repudiate its membership in ARPA and its contractual promise to purchase power from ARPA. On June 27, 2011, Trinidad filed its answer to SGI's complaint denying liability. The Court has scheduled trial in that matter for July 2014.

Detroit Bankruptcy and Litigation

On July 5, 2013, the City of Detroit (the "City") filed suit in, and obtained a temporary restraining order from, a Michigan State court (the "State Court") against SGI based on allegations that SGI interfered with the City's restructuring negotiations with certain of its creditors. Specifically, the City alleged that SGI caused the withholding of certain casino revenues that are collateral securing hedge arrangements (the "Swap Agreements"), which SGI insures, between certain counterparties (the "Swap Counterparties"), with which the City is in negotiations, and parties affiliated with the City. Upon entry of the temporary restraining order, the custodian of the collateral arrangement released the casino revenues to the City. The Court set a hearing on July 26, 2013 for SGI to show cause to the Court regarding why a preliminary injunction, preventing the withholding of future casino revenues, should not be issued. SGI denies the City's allegations. On July 11, 2013, SGI filed a Notice of Removal to remove the case to federal court in the Eastern District of Michigan (the "District Court"). On July 12, 2013, SGI filed a motion in the District Court to dissolve the temporary restraining order and to conduct expedited discovery of the City. On July 15, 2013, the City filed a response to SGI's July 12 motion stating that it is willing to consent to the dissolution of the temporary restraining order, and that the City opposes expedited discovery. The City's response further stated that the City has reached agreement in principle with the Swap Counterparties, without disclosing the terms of such agreement, which would moot the City's prior action against SGI.

On July 18, 2013, Detroit filed for bankruptcy protection in the Eastern District of Michigan (the "Bankruptcy Court"). Additionally, on July 18, 2013, Detroit filed a motion to assume a Forbearance and Optional Termination Agreement (the "Forbearance Agreement") entered into between the City, the Service Corporations and the Swap Counterparties. Pursuant to the Forbearance Agreement, the City purports to receive a right to unilaterally terminate the Swap Agreements and the Swap Counterparties agree to forbear from taking any action that would impede the flow of casino revenues to the City.

On July 19, 2013, the City filed a notice of pendency of bankruptcy before the District Court asking that the District Court transfer the City's suit to the Bankruptcy Court. SGI also filed a proposed stipulated order dissolving the TRO, which the City declined to sign. The suit has been dismissed by agreement of the parties.

On July 24, 2013, SGI filed a declaratory judgment action against the Swap Counterparties in the Supreme Court for the State of New York. The suit against the Swap Counterparties seeks 1) a declaration that the Swap Counterparties may not terminate the Swap Agreements without SGI's consent, and if they attempt to do so, such conduct and any agreement related to it would be void and 2) a permanent injunction preventing the Swap Counterparties from terminating the Swap Agreements without SGI's consent.

On July 31, 2013, the Swap Counterparties filed a notice of removal to federal court in the District Court for the Southern District of New York and a notice of pendency of bankruptcy asking the federal court to transfer the action to the Bankruptcy Court in Michigan. An emergency hearing was held on July 31, 2013, regarding whether transfer is jurisdictionally proper. After full briefing, on October 1, 2013, a hearing was held on the motion before Hon. Lewis A. Kaplan. Without deciding whether there was federal or bankruptcy court jurisdiction, Judge Kaplan ordered that the action be transferred to the District Court for the Eastern District of Michigan.

The case was transferred to the Eastern District of Michigan on October 10, 2013. On that same day, the City filed a motion to intervene that also requested that the case be referred to the Bankruptcy Court. Additionally, on October 17, 2013, the Swap Counterparties filed a motion to dismiss the Complaint. SGI's opposition brief was due on November 7, 2013. Finally, Syncora has filed a motion for summary judgment on its claims. The matter has since been referred to the Bankruptcy Court. The City's motion to intervene and the Swap Counterparties' motion to dismiss are both fully briefed. The case was ultimately dismissed without prejudice by consent of the parties.

The hearing on the City's Motion to Assume/Approve the Forbearance and Optional Early Termination Agreement originally slated to be heard on September 23, 2013 was subsequently adjourned without date shortly before the hearing. Subsequent to that time, the City procured a commitment for $350 million in Debtor in Possession financing and has moved for approval of that financing. That motion has now been combined with City's Assumption Motion and was heard on December 17 and 18, 2013. After

the Court halted the hearing and ordered the City to negotiate a better deal with the Swap Counterparties, and after it did so, the hearing resumed on January 3, 2014 for final witnesses, and concluded on January 13, 2014 with closing argument. On January 16, 2014, the trial court denied the motion to assume the Forbearance Agreement, and granted in part and denied in part the City's motion for post-petition financing.

On January 31, 2014, the City filed a Complaint for Declaratory and Injunctive Relief against the Detroit General Retirement System Service Corporation, Detroit Police and Fire Corporation, Detroit Retirement Systems Funding Trust 2005 and Detroit Retirement Systems Funding Trust 2006 alleging that the COPs the Company insures and owns are illegal, unenforceable and void from the beginning. Specifically, the City's complaint alleges that the City and its advisors structured the COPs transaction to avoid the debt limitations imposed by Michigan's Home Rule Cities Act.

On February 21, 2014, the City filed its Plan of Debt Adjustment (the "Plan") with the bankruptcy court. The Plan sets forth, among other things, the City's proposed treatment for its various proposed classes of creditors. The Plan contemplates the City disputing the validity of the COPs and related claims and proposes a settlement that provides for minimal recoveries to the Company's insured bondholders.

On March 4, 2014, the City filed a renewed attempt to settle its Swap obligations in a so-called "Settlement and Plan Support Agreement," which provided that the City would use the periodic payments on the Swaps to satisfy a reduced $85 million payment in exchange for a release of the liens on the casino revenues and a vote in favor of the plan. On April 11, 2014 the Bankruptcy Court approved the City's settlement. Syncora filed its notice of appeal of this ruling on April 21, 2014.

On April 25, 2014, the City filed its Third Amended Disclosure Statement and Plan of Adjustment (the "Third Amended Plan") with the bankruptcy court. The Third Amended Plan was further amended on May 5, 2014 (the "Amended Plan"). The plan contemplates similar treatment of COP claims as the prior plan, but with lower recovery and slightly different form of recovery. It preserves the settlement option informed by the City's COPs invalidity litigation. The Amended Plan also incorporates certain new agreements in principle with groups of creditors, including the General Obligation Bondholders and the uniform and non-uniform retirees.

The Court's Fourth Amended Order Scheduling Order places plan confirmation on July 23, 2014 after the City request a slight delay from the original timeline to accommodate certain solicitation procedures and objections. Syncora is pursuing discovery, both written and depositions, of the City and of certain third parties, including the Detroit Institute of Art, Christie's, and the State of Michigan.

Other Litigation

On April 18, 2012, SGI filed a summons with notice in the Supreme Court of the State of New York, initiating an action against Alinda Capital Partners LLC, American Roads LLC, Macquarie Securities (USA) Inc. ("Macquarie") and John S. Laxmi alleging the defendants made misrepresentations and omissions in obtaining insurance from SGI on bonds issued by American Roads LLC. SGI filed and served the complaint on September 24, 2012. In lieu of an answer, the defendants filed motions to dismiss the complaint on November 13, 2012. SGI responded on December 21, 2012. SGI has since entered a stipulation dismissing Alinda Capital Partners, LLC, American Roads LLC and Mr. Laxmi from the case with prejudice. The case continues against the remaining defendant, Macquarie. On July 10, 2013, Macquarie's motion to dismiss was decided in favor of SGI. As a result of this decision, the parties have proceeded to document discovery, which is currently continuing and involves pending motions to compel discovery by both parties.

On August 1, 2012, SGI, along with Syncora Capital Assurance filed Constitutional claims against the State of California alleging impairment of contract (specifically, that certain provisions of Assembly Billx1 26 ("AB26") as amended by AB 1484 constitute a material impairment of contract between California Redevelopment Agencies ("RDAs"), their bondholders, and SGI) and a taking of SGI's property interest in those contracts for which SGI is entitled to just compensation. SGI has approximately $1.6 billion of exposure to bonds issued by various RDAs under financial guarantees and debt service reserve surety policies. RDA bonds are secured by tax increment funding, which is derived from the increase in assessed value of property within the RDAs redevelopment area after the effective date of a redevelopment plan. AB26 was designed to alleviate state funding concerns by diverting significant funds from the RDAs to other purposes. AB26 provided for the orderly dissolution of the RDAs and the transfer of their outstanding obligations to successor agencies. Although SGI has not established loss reserves for its exposure to the RDAs, SGI believes that AB26 increases the potential that it will have to pay claims and suffer losses under its financial guaranty policies or debt service reserve policies.

A hearing on SGI's Petition for Writ of Mandamus was held on May 3, 2013 in the Superior Court of the State of California for the County of Sacramento and the court held that SGI's contractual impairment claims were premature in the absence of bond

defaults, reserved judgment on the takings claim, and invited an evidentiary hearing regarding any losses that SGI has suffered that are not the same as the impairment claim. The Judge has since dismissed SGI's claims without prejudice in light of the finding of prematurity. SGI may still refile the lawsuit based on subsequent changed facts, such as if bonds do default.

b. Lease and Other Commitments

The Company has lease commitments for office premises at 135 West 50th Street, New York, New York, 461 Fifth Avenue, New York, New York and at Merritt 7 Corporate Park, Norwalk, Connecticut, 595 Market Street, San Francisco, California and 250 Park Avenue, New York, New York. The leased premises at 595 Market Street, San Francisco, California and 250 Park Avenue, New York, New York, are both sublet by the Company.

In addition, Pike Pointe has a lease agreement with the City of Detroit, Michigan, that provides for the right to operate the U.S. portion of the Detroit-Windsor Tunnel through November 3, 2020. A portion of this leased office space and off-site facilities is sublet through December 31, 2020 to the United States Federal Agency which also includes reimbursement for maintenance and operating services.

In addition, in October 2013, the Company entered into an amended three year agreement with International Business Machines Corporation for information technology outsourcing services, effective January 1, 2014. Fees associated with the new agreement were $2.5 million in 2013, and then are expected to be approximately $1.7 million in 2014.

Net minimum aggregate lease commitments are $1.2 million, $1.1 million, $0.9 million, $0 and $0 for the years ended December 31, 2014 through December 31, 2018.

Net rent expense was $1.2 million and $1.2 million for the years ended December 31, 2013 and 2012, respectively.

c. Other

See also Note 2 for a description of continuing risks and uncertainties affecting the Company and other information.

19. Dividend Restrictions

Syncora Holdings

Syncora Holdings' Board of Directors did not declare a quarterly dividend with respect to its common shares or a semi-annual dividend with respect to the Syncora Holdings Series A Preferred Shares during the years ended December 31, 2013 or 2012 or at any time thereafter through to the issuance date of these financial statements. Any future dividends will be subject to the discretion and approval of the Syncora Holdings' Board of Directors, applicable law, regulatory, and contractual requirements. As dividends on the Syncora Holdings Series A Preferred Shares have not been paid in an aggregate amount equivalent to dividends for at least six full quarterly periods, holders of Syncora Holdings' Series A Preferred Shares have the right to nominate two persons who, if elected, will then be appointed as additional directors to the Board of Directors of Syncora Holdings.

SGI and SCAI

The ability of SGI and SCAI to declare and pay a dividend is governed by applicable New York law, including the NYIL. Under the NYIL, the companies are permitted to pay dividends each calendar year, without the prior approval of the NYDFS in an amount equal to the lesser of ten percent of their policyholders' surplus as of the end of the preceding calendar year or their net investment income for the preceding calendar year, as determined in accordance with Statutory Accounting Practices prescribed or permitted by the NYDFS. The NYIL also provides that the companies may distribute dividends to their shareholders in excess of the aforementioned amount only upon giving notice of their intention to declare such dividend, and the amount thereof, to the NYDFS. Moreover, a New York-domiciled insurer may not declare or distribute any dividends except out of earned surplus. The NYDFS may disapprove such distribution if it finds that the financial condition of the companies does not warrant such distribution.

Pursuant to the terms of the 2009 MTA, SGI is not permitted to pay dividends or repurchase, redeem, exchange or convert any equity securities until such time as all notes issued by SGI (see Note 9) are paid in full and the Back-Up Guarantees (see Note 2) no longer exist.

Pursuant to the terms of the 2009 MTA, SCAI is not permitted to pay any dividend or make any distribution to SGI of any other affiliate unless SCAI's remaining note has been paid in full and provided that, after giving effect to any such dividend or distribution SCAI would have sufficient capital as calculated pursuant to the 2009 MTA.

Among other requirements, Article 69 of the NYIL provides that financial guarantee insurance companies maintain minimum policyholders' surplus of $66 million. In accordance with accounting practices prescribed or permitted by the NYDFS, as of December 31, 2013 and 2012, SGI and SCAI reported policyholders' surplus of $973.3 million and $510.7 million, respectively, and

$186.5 million and $172.6 million, respectively. For the years ended December 31, 2013 and 2012, SGI reported net income of $391.5 million and $307.8 million, respectively. For the years ended December 31, 2013 and 2012, SCAI reported net (loss) income of $(108.6) million and $42.0 million, respectively. See also Note 2.

20. Assets on Deposit to Collateralize Certain of the Company's Contractual Obligations

As of December 31, 2013 and 2012, the Company had, in the aggregate, approximately $122.1 million and $155.8 million, respectively, on deposit to collateralize its contractual obligations under certain agreements, including reinsurance, lease, and letter of credit agreements. Of such deposits, $3.5 million and $0.7 million, $17.8 million and $25.2 million and $100.9 million and $129.9 million are recorded on the accompanying consolidated balance sheet in "Restricted cash and cash equivalents", "Other assets" and "Debt securities available for sale, at fair value", respectively.

21. Subsequent Events

JPMorgan Litigation Settlement and Release

On February 24, 2014, the Company settled its RMBS-related claims with JPMorgan and affiliates thereof. Pursuant to the agreement, the Company released all claims against JPMorgan and certain affiliates arising from certain insured RMBS transactions that were the subject of litigation or dispute and made certain other agreements, for which the Company received a cash payment of $400.0 million.

Upon execution of this settlement, the Company obtained additional information on estimated amounts recoverable from RMBS-related claims from JPMorgan and certain affiliates thereof. This information is considered a Type I – Subsequent Event that should be recognized in the Company's ultimate reserve estimates for unpaid losses at December 31, 2013. Accordingly, the December 31, 2013 reserves for unpaid losses and loss adjustment expenses recorded in the consolidated financial statements reflect the updated assumptions and estimates derived from the terms of this settlement. Furthermore, the $400.0 million cash receipt described above is considered a Type II – Subsequent Event, which is not recognized in the December 31, 2013 consolidated financial statements and was received in the first quarter of 2014.

Remediation transactions

In January 2014, the Company completed a remediation transaction of an insured obligation related to a structured single risk credit for a cash outlay of $111 million. This transaction provided additional information on the estimated losses and amounts recoverable and was considered a Type I - Subsequent Event that has been recognized in the Company's ultimate reserve estimates for unpaid losses at December 31, 2013. Accordingly, the December 31, 2013 reserve for unpaid losses recorded in the consolidated financial statements reflect the updated assumptions and estimates derived from this remediation transaction. There was no material effect on earnings as a result of this transaction.

The Company has evaluated all subsequent events through June 3, 2014, the date the consolidated financial statements were available to be issued.

22. Condensed Financial Information of Syncora Holdings (Parent Company Only)

The condensed balance sheets, statements of operations and shareholders' equity (deficit), and statements of cash flows (on an unconsolidated basis) of Syncora Holdings as of December 31, 2013 and 2012 and for the years then ended are set forth below:

(U.S. dollars in thousands)	2013	2012
Assets		
Debt securities available for sale, at fair value (amortized cost: $11,438 and $9,065)	$ 11,718	$ 9,248
Cash and cash equivalents	1,395	1,483
Accrued investment income	20	22
Investment in subsidiaries on an equity basis:		
Syncora Guarantee	372,822	(122,786)
Other subsidiaries	19,588	21,024
Other assets	5,648	14,186
Total assets	$ 411,191	$ (76,823)
Liabilities and Shareholders' Equity (Deficit)		
Liabilities— accounts payable, accrued expenses, and other liabilities	$ —	$ —
Shareholders' equity (deficit)		
Series A perpetual non-cumulative preferred shares and additional paid-in capital	246,593	246,593
Common shares and additional paid-in capital	2,678,374	2,681,713
Accumulated deficit	(2,541,015)	(3,122,287)
Accumulated other comprehensive income	27,239	117,158
Total common shareholders' equity (deficit)	164,598	(323,416)
Total shareholders' equity (deficit)	411,191	(76,823)
Total liabilities and shareholders' equity (deficit)	$ 411,191	$ (76,823)

	2013	2012
Revenues		
Net investment income	$ 63	$ 51
Net realized loss on investments	1	—
Total revenues	64	51
Operating expenses	2,930	(6,768)
(Loss) income before equity in net income of subsidiaries	(2,866)	6,819
Equity in net income of Syncora Guarantee	586,132	648,757
Equity in net (loss) income of other subsidiaries	(1,994)	2,757
Equity in net income of subsidiaries	584,138	651,514
Net income	581,272	658,333
Other comprehensive income:		
Net unrealized (losses) gains on investments	(106)	159
Change in pension and other post-retirement benefits	1,421	—
Equity in other comprehensive (loss) income of Syncora Guarantee	(91,234)	42,096
Total other comprehensive (loss) income	(89,919)	42,255
Total comprehensive income	491,353	700,588
Change in additional paid-in-capital	(3,339)	—
Acquisition of non-controlling interest	—	6,547
Change in shareholders' deficit	488,014	707,135
Total shareholders' deficit- beginning of period	(76,823)	(783,958)
Total shareholders' equity (deficit)- end of period	$ 411,191	$ (76,823)

	2013	2012
Cash flows from operating activities:		
Operating expenses paid	$ (2,967)	$ (2,874)
Investment income collected	133	220
Other cash receipts	8,551	—
Net cash provided by (used in) operating activities	5,717	(2,654)
Cash flows from investing activities:		
Proceeds from sale of debt securities	1,619	1,884
Proceeds from maturity of debt securities	4,832	5,947
Purchases of debt securities	(9,018)	(4,908)
Net cash (used in) provided by operating activities	(2,567)	2,923
Cash flows from financing activities:		
Capital contribution to subsidiary	(3,238)	(172)
Net cash used in financing activities	(3,238)	(172)
(Decrease) increase in cash and cash equivalents	(88)	97
Cash and cash equivalents—beginning of period	1,483	1,386
Cash and cash equivalents—end of period	$ 1,395	$ 1,483

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