SYNCORA HOLDINGS LTD.

Consolidated Financial Statements

As of September 30, 2016 (Unaudited) and December 31, 2015 and for the Nine Months Ended September 30, 2016 and 2015 (Unaudited)

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SYNCORA HOLDINGS LTD.
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2016 (Unaudited) and DECEMBER 31, 2015
(U.S. dollars in thousands, except share and per share amounts)

	2016	2015
ASSETS		
Debt securities, available-for-sale, at fair value (amortized cost: $1,281,080 and $1,343,434)	$ 1,309,724	$ 1,355,985
Other invested assets, at fair value	74,201	57,470
Cash and cash equivalents	186,274	245,743
Total cash and invested assets	1,570,199	1,659,198
Restricted cash and cash equivalents	3,380	26,101
Accrued investment income	12,932	8,317
Deferred acquisition costs, net	48,829	54,243
Premiums receivable	122,391	133,516
Salvage and subrogation recoverable	93,970	87,829
Receivables on insurance cash flow certificates, net	262,043	314,412
Property and equipment, net	49,142	50,781
Leasehold rights and other definite-lived intangible assets, net	19,012	21,544
Toll rights and other indefinite-lived intangible assets	97,726	97,726
Other assets	65,005	46,437
Assets of consolidated variable interest entities, at fair value	126,065	125,608
Total assets	$ 2,470,694	$ 2,625,712
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Unpaid losses and loss adjustment expenses	$ 815,889	$ 1,007,186
Unearned premium revenue	318,705	366,821
Credit default and other swap contracts, at fair value	155,453	97,962
Notes payable (par value: $685,551 and $719,142)	389,650	366,237
Accrued interest on notes payable	114,828	129,592
Reinsurance premiums payable	13,160	15,239
Accounts payable, accrued expenses and other liabilities	46,298	42,452
Pension and other post-retirement benefits	11,370	11,200
Liabilities of consolidated variable interest entities, at fair value	66,687	73,726
Total liabilities	1,932,040	2,110,415
Shareholders' equity		
Non-controlling interest in subsidiary- Series B perpetual non-cumulative preferred shares of Syncora Guarantee Inc. (2,000 shares authorized and issued; 1,345 shares outstanding, 655 shares held by subsidiary; $134,500 liquidation preference)	13,453	13,453
Non-controlling interest in consolidated entity	3,052	3,146
Series A perpetual non-cumulative preferred shares (250,000 shares authorized and issued (2015); 165,416 outstanding (2015), 84,584 shares held as treasury (2015); $0.01 par value) and additional paid-in capital ($165,416 liquidation preference (2015))	—	163,162
Common shares (500,000,000 shares authorized; 89,613,228 and 59,314,204 shares issued; 86,568,682 and 56,269,616 shares outstanding, 3,044,588 shares held as treasury; $0.01 par value) and additional paid-in capital	2,716,220	2,678,346
Accumulated deficit	(2,215,369)	(2,343,216)
Accumulated other comprehensive income	21,298	406
Total Syncora Holdings Ltd. common shareholders' equity	522,149	335,536
Total Syncora Holdings Ltd. shareholders' equity	522,149	498,698
Total shareholders' equity	538,654	515,297
Total liabilities and shareholders' equity	$ 2,470,694	$ 2,625,712

See accompanying Notes to Unaudited Consolidated Financial Statements.

SYNCORA HOLDINGS LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (Unaudited)
NINE MONTHS ENDED SEPTEMBER 30, 2016 and 2015
(U.S. dollars in thousands, except share and per share amounts)

	2016	2015
Revenues		
Net premiums earned	$ 52,224	$ 47,839
Net investment income	36,280	31,488
Net realized losses on investments, including other-than-temporary impairment losses of $(24,740) and $(7,841)	(9,386)	(3,695)
Net loss on insurance cash flow certificates, net of amortization of deferred gains of $1,947 and $2,597	(43,238)	(49,777)
Toll revenue	21,195	19,486
Fees and other income	21,755	9,919
Net (loss) earnings on credit default and other swap contracts, net unrealized (losses) gains of $(55,721) and $117,880 and realized gains (losses) and other settlements of $3,451 and $(3,593)	(52,270)	114,287
Net change in fair value of consolidated variable interest entities	18,699	9,117
Total revenues	45,259	178,664
Expenses		
Net (recoveries) losses and loss adjustment expenses	(101,416)	(128,090)
Amortization of deferred acquisition costs, net	5,414	6,454
Realized loss on interest rate derivative instrument	501	2,678
Interest expense, including accretion of $15,731 and $18,335	53,571	53,918
Operating expenses	70,022	62,448
Total expenses	28,092	(2,592)
Income before income tax expense	17,167	181,256
Income tax expense	4,137	1,767
Net income	13,030	179,489
Net income attributable to non-controlling interest	393	801
Net income attributable to controlling interest	12,637	178,688
Comprehensive income:		
Net income	13,030	179,489
Change in pension and other postretirement benefits	(51)	(82)
Net unrealized gains (losses) on investments	20,943	(11,923)
Comprehensive income	33,922	167,484
Comprehensive income attributable to non-controlling interest	393	801
Comprehensive income attributable to controlling interest	33,529	166,683
Basic and diluted income per share attributable to common shareholders of Syncora Holdings Ltd.:		
Net income attributable to controlling interest	12,637	178,688
Extinguishment of Series A perpetual non-cumulative preference shares	115,210	83,431
Earnings attributable to common shareholders of Syncora Holdings Ltd	$ 127,847	$ 262,119
Earnings per common share of Syncora Holdings Ltd	$ 2.07	$ 4.66
Weighted average common shares outstanding	61,688,062	56,269,616

See accompanying Notes to Unaudited Consolidated Financial Statements.

SYNCORA HOLDINGS LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)
NINE MONTHS ENDED SEPTEMBER 30, 2016 and 2015
(U.S. dollars in thousands)

	2016	2015
Non-controlling interest in subsidiary – Series B perpetual non-cumulative preferred shares of Syncora Guarantee Inc.		
Balance—beginning of period	$ 13,453	$ 13,453
Balance—end of period	13,453	13,453
Non-controlling interest in consolidated entity		
Balance—beginning of period	3,146	—
Capital contribution	—	3,152
Net income attributable to non-controlling interest	393	801
Distributions	(487)	(463)
Balance—end of period	3,052	3,490
Series A perpetual non-cumulative preference shares		
Balance—beginning of period	163,162	246,593
Extinguishment of Series A perpetual non-cumulative preference shares	(163,162)	(83,431)
Balance—end of period	—	163,162
Common shares and additional paid in capital		
Balance—beginning of period	2,678,346	2,678,374
Issuance of common shares	37,874	—
Derivative instrument indexed to common shares	—	29
Balance—end of period	2,716,220	2,678,403
Accumulated deficit		
Balance—beginning of period	(2,343,216)	(2,643,351)
Net income attributable to controlling interest.	12,637	178,688
Extinguishment of Series A perpetual non-cumulative preference shares	115,210	83,431
Balance—end of period	(2,215,369)	(2,381,232)
Accumulated other comprehensive income		
Balance—beginning of period	406	22,501
Other comprehensive income (loss) attributable to controlling interest	20,892	(12,005)
Balance—end of period	21,298	10,496
Total common shareholders' equity—end of period	522,149	307,667
Total shareholders' equity—end of period	$ 538,654	$ 487,772

See accompanying Notes to Unaudited Consolidated Financial Statements.

SYNCORA HOLDINGS LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
NINE MONTHS ENDED SEPTEMBER 30, 2016 and 2015
(U.S. dollars in thousands)

	2016	2015
Cash flows from operating activities:		
Premiums collected	$ 12,255	$ 12,756
Investment income collected	36,951	34,217
Tolls collected	20,625	20,139
Fees received on credit default swaps	5,235	5,312
Losses paid on credit default swaps	(15)	(8,637)
Claims paid to policyholders and loss adjustment expenses paid	(135,794)	(18,112)
Cash received from settlement	40,000	—
Operating expenses paid	(74,471)	(46,511)
Interest paid on notes payable	(45,930)	—
Income taxes (paid) received	(1,667)	1,363
Other cash receipts	9,610	5,420
Cash paid for insurance cash flow certificates	(6,962)	(7,621)
Cash received on insurance cash flow certificates	7,148	8,280
Investment income collected by variable interest entities	3,727	4,216
Interest and other expenses paid by variable interest entities	(3,172)	(3,403)
Net cash (used in) provided by operating activities	(132,460)	7,419
Cash flows from investing activities:		
Proceeds from sales of investments	824,999	286,184
Proceeds from maturity of investments	155,846	177,225
Purchases of investments	(908,207)	(438,126)
Purchases of property and equipment	(535)	(689)
Net proceeds from consolidated variable interest entities' assets	21,827	21,246
Net cash provided by investing activities	93,930	45,840
Cash flows from financing activities:		
Net paydowns of consolidated variable interest entities' liabilities	(11,869)	(10,338)
Paydown on note payable	(9,070)	—
Net cash used in financing activities	(20,939)	(10,338)
(Decrease) increase in cash and cash equivalents	(59,469)	42,921
Cash and cash equivalents—beginning of period	245,743	150,066
Cash and cash equivalents—end of period	$ 186,274	$ 192,987
Supplemental non- cash transactions related to restructuring (see Note 1):		
17.3 million newly issued common shares in exchange for $70 million discount received on notes	21,642	—
13.0 million newly issued common shares and the $40 million of reallocated notes in exchange for conversion of Series A preferred shares	47,950	—

See accompanying Notes to Unaudited Consolidated Financial Statements.

SYNCORA HOLDINGS LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
NINE MONTHS ENDED SEPTEMBER 30, 2016 and 2015
(U.S. dollars in thousands)

	2016	2015
Reconciliation of net income to net cash (used in) provided by operating activities:		
Net income	$ 13,030	$ 179,489
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Change in:		
Premiums receivable	11,125	22,021
Deferred acquisition costs, net	5,414	6,453
Other assets	(29,827)	(19,993)
Loss and loss adjustment expenses	(191,297)	(125,302)
Unearned premium revenue	(48,116)	(52,054)
Notes payable	23,413	19,136
Accounts payable, accrued expenses and other liabilities	(12,380)	46,737
Depreciation and amortization	4,707	4,935
Unrealized gains on credit default and other swap contracts	55,721	(117,880)
Net change in variable interest entities	(18,699)	(9,117)
Foreign currency exchange loss	3,214	4,829
Accretion on insurance cash flow certificates	43,238	49,777
Other operating	7,997	(1,612)
Total adjustments	(145,490)	(172,070)
Net cash (used in) provided by operating activities	$ (132,460)	$ 7,419

See accompanying Notes to Unaudited 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 subsidiary, Syncora Capital Assurance Inc. (“SCAI”). Syncora Guarantee (U.K.) Ltd. (“Syncora Guarantee-UK”) was formerly a wholly-owned subsidiary of SGI and was domiciled and licensed as a financial guarantee insurance company in England. On July 1, 2015, the High Court of England and Wales approved the transfer of all Syncora Guarantee-UK’s assets and liabilities, including its policies and the right to receive premiums therefrom, to an SGI UK branch pursuant to Part VII of the UK Financial Services and Markets Act (the “Part VII Transfer”). The Part VII Transfer became effective on July 2, 2015 and Syncora Guarantee-UK was dissolved on July 10, 2015. The Prudential Regulation Authority issued a direction notice cancelling SGI UK branch’s authorization effective November 5, 2015 and, accordingly, the SGI UK branch formally closed.

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. SGI collects and expects to continue to collect premiums on existing business; however, because of the events discussed herein, SGI ceased writing substantially all new business in January 2008 and is no longer licensed to do so in certain states and other jurisdictions.

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 collects and expects to continue to collect premiums on existing business but 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.

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 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").

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.

In connection with the restructuring transactions discussed below, the Board of Managers of Pike Pointe approved a one-time extraordinary distribution of $50.0 million to SGI conditioned upon the successful closing of the restructuring transactions which took place on August 12, 2016. As Pike Pointe is a wholly-owned subsidiary, this distribution did not have an effect on shareholders equity, but increased SGI’s liquidity position by such amount. This distribution was completed on August 12, 2016.

The Company has two reportable operating business segments, which are Financial Guarantee Insurance and Other. The Company’s financial guarantee business segment is conducted primarily through its operating subsidiaries, SGI and SCAI. The Company’s other business segment relates to its non-insurance operations and includes primarily the operations of Pike Pointe.

Completion of Restructuring Transactions

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

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

  The discount received in the Exchange Offers (principal, paid-in-kind interest and accrued and unapproved interest) is being accounted for as a debt modification since the creditors before and after the discount remain the same and the change in the terms is not considered substantial. A substantial change is considered to be a change in cash flows of greater than 10% as a result of the modification of terms. As the change in cash flows is less than 10%, modification accounting is appropriate. Under debt modification accounting, no gain or loss is recorded, and a new effective interest rate is established based on the new carrying value of the surplus notes and new cash flows. Additionally, any consideration paid to the creditors including non-cash consideration is capitalized and amortized as part of the effective yield calculation. The fair value of the common shares issued is accounted for as consideration paid to the creditors in exchange for the reduction in principal, paid-in-kind interest, and accrued and unapproved interest. SHL issued 17.3 million common shares and the share price used was as of August 12, 2016 ($1.25).

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

  As the Existing SHL Preferred Shares are considered to be extinguished as part of the Exchange Offers, the difference between the consideration paid (15% SHL Common Shares issued and outstanding after giving effect to the Restructuring Transactions, plus the estimated fair value of $40.0 million of Existing SGI Surplus Notes comprised of principal, paid-in-kind interest and accrued and unapproved interest) and the carrying value of the original preferred shares is recognized as a reduction of the accumulated deficit. SHL issued 13.0 million common shares and the share price used was as of August 12, 2016 ($1.25). The estimated fair value of the $40.0 million of Existing SGI Surplus Notes principal, paid-in-kind interest and accrued and unapproved interest is also reflected as an increase to notes payable and accrued interest in the consolidated balance sheet. For purposes of earnings per share to common shareholders, the gain on extinguishment noted above will be reflected as net income available to common shareholders.

- The remaining $30.0 million of discounted long-term and short-term surplus notes were transferred from Syncora Holdings to SGI and cancelled by SGI, which did not have any effect on the consolidated balance sheet.

- Pursuant to an amended and restated tax sharing agreement, SGI reallocated $1.75 billion of excess net operating losses to Syncora Holdings US Inc. for its sole use and benefit, where these net operating losses may be used more broadly. In addition, Syncora Holdings US Inc. provided contractual protections relating to the preservation and utilization of SGI retained net operating losses. The amendments to the tax sharing agreement did not have any effect on the consolidated balance sheet.

- SGI made a net cash payment of $55.0 million on its long-term and short-term externally held surplus notes after receiving approval from the NYDFS. This payment was reflected as a $9.1 million reduction to principal of the Existing Short-Term Surplus Notes and a $45.9 million reduction to accrued interest.

- The NYDFS granted SGI and SCAI permission to increase their earned surplus to the greatest extent possible given their current gross paid in and contributed surplus by allocating the entire balance of that account to earned surplus. SGI and SCAI reflected this permitted practice in their third quarter 2016 statutory quarterly financial statements and resulted in a positive earned surplus balance. This permitted practice has no effect on the GAAP consolidated financial statements.

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, 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 speculative and may result in a loss of substantially all of their investment. Also, the market price of Syncora Holdings common shares have experienced, and may continue to experience, a high degree of volatility in response to numerous factors, including many over which the Company has no control. Additionally, given the risks outlined below, including those with respect to SGI's liquidity and financial position, the Company cautions investors that investment in SGI's preferred shares or surplus notes should also be considered speculative.

Syncora Holdings is a holding company with no operations or significant assets other than $3.2 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 its preferred shareholders. There can be no assurance that Syncora Holdings will be able to maintain adequate capital or have sufficient liquidity in the future to pay its operating expenses. See Note 23 for financial information of Syncora Holdings.

The Company is exposed to significant risks and uncertainties that may materially affect its financial and liquidity position. These relate to, among other things, (i) a potential liquidity mismatch resulting from the timing of anticipated future claims payments and subsequent cash recoveries related to these claims payments, (ii) the potential for future adverse loss and claims development on its insured obligations, (iii) the resolution of various litigation matters, including recoveries from SGI's insurance policy litigation claims, and (iv) the failure of SGI to receive interest or principal payments on or to otherwise monetize or recognize value from SCAI's surplus note(s). 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

- SGI faces a potential liquidity mismatch between expected future medium to long-term claims payments and recoveries relating to these claims. As of September 30, 2016, SGI anticipates that it will be requested to make gross claim payments in the period 2017 to 2029 of at least approximately $119.6 million, excluding remediated RMBS claims, followed in later years (in some cases significantly later years) by recoveries of these claims payments. SGI also remains exposed to transactions with refinancing risk through to 2019, including one credit with a heightened risk of material claims payments with an aggregate par outstanding of $850.1 million and a number of other credits with exposure to refinancing risk and the risk of material principal repayments with an aggregate par outstanding of $2.1 billion, in each case as of September 30, 2016. The amount and timing of the recoveries related to future claims payments are subject to greater uncertainty than the amount and timing of such future claims payments themselves. Pursuant to the Company's accounting policy and guidance under 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 unpaid loss and loss adjustment expenses in Note 4). Because of the inherent uncertainty in estimating future claim payments and recoveries (including, whether, when and to what extent investment grade and non-investment grade credits may be able to refinance), no assurance can be given that the amount or timing of claims payments, related recoveries, or ultimate losses match SGI's estimates, and such differences could materially and adversely affect SGI's results of operations, financial condition and liquidity. SGI may also experience significant adverse development on its insured obligations that may place further demands on SGI's liquidity and financial position. See Note 12. "Schedule of Insured Financial Obligations with Credit Deterioration" caption for further discussion.

- 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 those assumed in the Company's reserve estimate (that may or may not result in an increase in such loss reserves) in the near to medium term.

- SGI 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 claims 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 CMBS CDOs.

- As of September 30, 2016, the Company has $460.5 million of net exposure to Puerto Rico (excluding interest outstanding of $96.9 million), which includes reinsurance of bond policies and direct investments by the Company as a result of remediation transactions, consisting predominantly of bonds issued by the Puerto Rico Electric Power Authority ("PREPA") of $208.5 million (excluding interest outstanding of $45.4 million), general obligation bonds of the Commonwealth of Puerto Rico (the "Commonwealth") of $216.5 million (excluding interest outstanding of $40.1 million) and other obligations of Puerto Rico's instrumentalities of $35.5 million (excluding interest outstanding of $11.4 million).

  On November 5, 2015, PREPA entered into a Restructuring Support Agreement (the "RSA") with its bank lenders and an ad hoc group of uninsured bondholders to restructure the debt held by those creditor groups. On December 23, 2015, PREPA amended and restated the RSA to add restructuring terms for bonds insured by National Public Finance Guarantee Corporation and Assured Guaranty Municipal Corp. The RSA has been amended multiple times to extend milestone deadlines and implement other modifications. Legislation required to implement the RSA was enacted on February 16, 2016.

  On April 6, 2016, the Puerto Rico legislature passed the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act ("Moratorium Act"), which empowers the Governor to declare a moratorium on the payment of certain Puerto Rico credits, including PREPA's power revenue bonds.

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

  Pursuant to the first supplement to the RSA, dated as of June 29, 2016, PREPA and SGI reached an agreement regarding the treatment of approximately $197 million in principal amount of guarantees issued by SGI covering PREPA-issued bonds. These guarantees are 100% reinsured to SCAI pursuant to an affiliate reinsurance treaty. As part of that agreement, SGI agreed to purchase $38.5 million of new PREPA bonds to fund in part PREPA's July 1, 2016 payment of principal and interest due to its bondholders. These new bonds, which accrue interest at a 7.5% annual rate and mature on January 1, 2020 and July 1, 2020, were purchased by SCAI pursuant to an assignment under the Public Finance Reinsurance Agreement. The RSA also contemplates the purchase of additional PREPA power revenue bonds by SGI in the near to medium term.

  The recovery plan contemplated by the RSA is subject to a number of conditions precedent, including approval by the Puerto Rico Energy Commission and the assignment of an investment grade rating to restructuring bonds to be issued by a new securitization vehicle contemplated by the RSA. The enactment of PROMESA and its effect on SGI as it relates to the RSA is also uncertain. There is significant risk and uncertainty related to PREPA's ability to implement the recovery plan and the terms of the restructuring of the bonds insured by the Company as well as the effect on PREPA of Puerto Rico's weak economy, high debt load and limited liquidity. In the event that SCAI is unable to meet its obligations under its reinsurance agreement, SGI may experience losses on its exposure to PREPA which could have a material adverse effect on the Company's liquidity and financial position.

- The Company has direct insurance and reinsurance exposure to certain credits within European countries. Global economic conditions have been negatively affected with concerns about the continued sovereign debt crisis within the European region and the possibility that certain European Union member states will default on their debt obligations or leave the European Union. The continued uncertainty over the outcome of the European Union governments' efforts to provide financial support for sovereigns and sub-sovereigns and the possibility of further deteriorating conditions in Europe could have a material adverse effect on the Company's financial and liquidity position. As of September 30, 2016, the Company's in-force guaranteed principal exposure to the European Union was approximately $5.5 billion of which $5.0 billion of net exposure is to credits in the UK and denominated in British Pound sterling and $231.0 million was specifically related to certain credits in higher risk countries, such as Portugal and Italy. The United Kingdom held a referendum on June 23, 2016, in which a majority of voters voted to exit the European Union ("Brexit"). Negotiations have commenced to determine the future terms of the United Kingdom's relationship with the European Union. Brexit has caused currency exchange rate fluctuations that resulted in the weakening of the British Pound, in which a portion of our insured portfolio is denominated. In addition, the Company has indirect exposure to European banks for which

Brexit will have unknown consequences. Until there is greater certainty on the terms and conditions of the United Kingdom's relationship with the European Union, the Company cannot provide any assurance of its effect on its business, results of operations, liquidity and financial position, which could be material and adverse.

- 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. With respect to the Company's investment portfolio, a prolonged period of low interest rates, along with declining investment balances, may adversely affect the Company's ability to generate sufficient investment income to fund its future obligations. Issuers or borrowers whose securities or loans the Company insures or holds as well as the Company's counterparties under swaps and other derivative contracts may default on their obligations to the Company due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud or other reasons. Additionally, the underlying assets supporting securities that the Company has guaranteed may deteriorate further, causing these securities to incur losses.

- The Company 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 September 30, 2016, approximately $6.5 billion of the Company's in-force guaranteed net par outstanding exposure of $22.8 billion was denominated in such currencies. The Company translates foreign currencies into U.S. dollars at the current market exchange rates. Changes in the exchange rates between foreign currencies and U.S. dollars may have an adverse effect on the settlement of potential claims or the value of salvage/recoveries and therefore could have a material adverse effect on the Company's liquidity and 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 deterioration in the residential mortgage market through its guarantees of residential mortgage-backed securities ("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 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 also continues to have significant exposure to a number of large structured single risk transactions (7 transactions with an aggregate insured principal outstanding of $1.7 billion) with material risk of adverse development, including event driven risks, such as political, operational, bankruptcy, legal and regulatory actions. Such adverse events could have a material adverse effect on the Company's 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. As discussed in Note 20, SGI's ability to pay dividends is also subject to regulatory constraints. 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.

- SGI's subsidiary, SCAI has significant exposure to public finance transactions (including Puerto Rico), structured single risk and collateralized debt obligations. These exposures continue to pose a risk of material adverse development to SGI.

- 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. To date, the NYDFS has permitted SCAI to make payments to SGI on its long-term surplus note. On June 27, 2016, the NYDFS approved the semi-annual payment of $6.1 million of interest on its long-term note from SCAI to SGI. No assurance can be given as to whether and when the NYDFS will approve future payments of interest or principal on SCAI's $200 million long-term surplus note (the "Existing Surplus Note"). The failure of SGI to (i) receive all future principal and interest payments of $263.9 million due from SCAI under the Existing Surplus Note or any surplus notes to be issued by SCAI to the Company (pursuant to the capital support agreement or otherwise) ("Future SCAI Surplus Notes") or (ii) monetize or realize value from the Existing Surplus Note or any Future SCAI Surplus Notes could have a material adverse effect on SGI's anticipated liquidity position.

- SGI and SCAI entered into an intercompany capital support agreement whereby SGI has agreed to purchase up to $100 million of additional SCAI surplus notes if SCAI's statutory policyholders' surplus at the end of the prior quarter is below $100 million, or is projected to be below $100 million at the end of the coming quarter, so long as the SGI's statutory policyholders' surplus as of the prior quarter is not less than $100 million. Such a purchase (without any subsequent sale to a third party) could place further demands on the SGI's liquidity, exacerbate SGI's potential "liquidity mismatch" and otherwise have a material adverse effect on SGI's liquidity position. There can be no assurance that SGI will have sufficient statutory policyholders' surplus and liquidity to purchase the surplus notes if needed by SCAI.

- 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 remains exposed to significant risks and uncertainties that may materially and adversely affect its financial condition, liquidity position and ability to make future payments on its surplus notes. Consequently, there 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.

- As discussed in more detail in Note 12, SGI has exercised rights available to it in connection with certain RMBS it insures and has issued put-back notices to sponsors of such securities to require the repurchase of mortgage loans which back the securities and has recorded a salvage recoverable at September 30, 2016, which reflects its estimate of its ultimate recovery from such repurchases. Sponsors and originators have disputed SGI's right to require them to repurchase the aforementioned mortgages and SGI is involved in litigation to enforce these rights. If SGI is unsuccessful in enforcing its rights and does not realize the benefit it recorded through the aforementioned salvage recoverable as and when expected, it may have a material effect on SGI's anticipated liquidity position and material adverse effect on SGI's financial position. Likewise, if SGI is successful in enforcing its rights in an amount greater than the benefit it recorded through the aforementioned salvage recoverable, it may have a materially positive effect on SGI's financial and liquidity positions. SGI periodically engages in discussions attempting to resolve these claims. While a negotiated resolution could result in an amount below that recorded in the aforementioned salvage recoverable, it could also result in an amount greater than such salvage recoverable.

- 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 receivables from insurance cash flow certificates. Failure of the Company to receive these payments would have a material adverse effect on the Company.

- 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 12). Similarly, a material portion of the Company's case basis reserves reflect 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 and may result in material changes in the Company's financial position. 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 and potential loss of control rights. 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 directly and indirectly involved in a number of legal proceedings. 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 (or another entity on its behalf) 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, including stress in the energy sector, the Company is exposed to the specific risks faced by the particular businesses, municipalities or pools of assets covered by its financial guarantee products. In light of the continuing economic and financial stresses in the United States and Europe, various businesses and municipalities are facing financial difficulties. In addition, catastrophic events or terrorist acts could adversely affect the ability of public sector issuers to meet their obligations with respect to securities insured by the Company and the Company may incur material losses due to these exposures if the economic stress caused by these or other events is more severe than the Company currently foresees. Other events, such as interest rate changes or volatility, could, in certain instances, also materially affect the Company or its insured obligations.

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

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

- 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. These limitations may prevent Syncora Holdings Ltd. from taking certain strategic actions or may make it more difficult for Syncora Holdings Ltd. to attract additional capital. See Note 17 for more information.

- Notwithstanding the amendments to the 2009 MTA obtained by the Company on August 24, 2015, as discussed in Note 3, and the restructuring transactions completed on August 12, 2016 as discussed in Note 1, the Company remains subject to certain contractual and regulatory restrictions that limit its financial and operating flexibility and may materially and adversely impair its ability to execute on its strategic plan. See below Description of the Company’s On-Going Strategic Plan and associated risks.

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

- Syncora Holdings’ business could be negatively affected as a result of actions of activist stockholders, and such activism could affect the trading value of its securities. Responding to actions by activist stockholders can be costly and time-consuming, disrupting operations and diverting the attention of management and employees. Such activities could interfere with management’s ability to execute its strategic plan. In addition, a proxy contest for the election of directors at our annual meeting would require Syncora Holdings to incur significant legal fees and proxy solicitation expenses and require significant time and attention by management and board of directors. The perceived uncertainties as to Syncora Holdings’ future direction also could affect the market price and volatility of its securities.

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

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

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

Management has concluded that through September 30, 2017, there is not substantial doubt about the ability of the Company to continue as a going concern. Notwithstanding management's conclusion that there is not substantial doubt about the ability of the Company to continue as a going concern through September 30, 2017, the Company remains exposed to significant risks and uncertainties, as 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

Following the completion of the restructuring transactions on August 12, 2016, the Company, together with its subsidiaries, is undertaking a comprehensive review of its strategic plan and continues to seek to enhance stakeholder value. 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, manage its expenses and reduce its liabilities and (iii) realize maximum value, and/or monetize its assets, investments in subsidiaries and various legal proceedings described in Note 19 and from any other rights and remedies the Company may have, whether through litigation, settlement, sale or other monetization. In addition, management is actively reviewing other alternatives to enhance stakeholder value by, among other things, (i) entering into a potential reinsurance transaction with a third party, and (ii) utilizing NOLs that have been reallocated to Syncora Holdings US Inc. as part of the restructuring transaction.

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

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

To remediate its previously reported policyholders' deficit and reestablish compliance with its regulatory minimum policyholders' surplus, on July 15, 2009, SGI consummated a Master Transaction Agreement with certain of its financial counterparties (the "Counterparties") to CDS contracts insured by its financial guarantee insurance policies and certain related transactions (referred to collectively as the "2009 MTA").

The 2009 MTA consisted of the following primary components:

i. the restructure, effective defeasance or, in-substance, commutation (in whole or in part) of substantially all of SGI's exposure to such CDS contracts, in exchange for which SGI paid the Counterparties consideration comprised of approximately $1.2 billion in cash, issuance of $625.0 million surplus notes of SGI and the transfer of common shares of Syncora Holdings;

ii. the reinsurance or novation of certain business to a newly formed, wholly-owned insurance subsidiary of SGI, SCAI, in which SGI also issued back-up guarantees on such novated guarantees, which would cover claims on such policies to the extent not satisfied by SCAI;

iii. the effective defeasance or, in-substance, commutation, of certain of SGI's exposure to insured RMBS securities. See below for further discussion; and

iv. 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.

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

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

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

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

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

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

In connection with the 2009 MTA, the Company invested in a fund (the "RMBS Fund") that executed certain transactions designed to effectively defease or, in-substance, commute the Company's exposure on certain of its financial guarantee insurance policies written on RMBS. The RMBS Fund purchased certain of such RMBS in return for a trust certificate of an owner trust representing the uninsured cash flows of such RMBS ("Uninsured Cash Flow Certificate") plus a cash payment. In general, the

RMBS Fund contributed any such purchased RMBS (and certain of the Company's reimbursement rights) to separate owner trusts in return for certificates representing the cash flows consisting of insurance payments made on the policies insuring such RMBS ("Insurance Cash Flow Certificates"). In return for such investments, the Insurance Cash Flow Certificates were distributed to the Company. The Company will, should the cash flows from the underlying RMBS transaction be sufficient, receive certain reimbursement payments in respect of insurance payments previously made by the Company on such RMBS. The Company also entered into several alternative transactions effectively replicating the economics of the RMBS Offer.

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

During the nine months ended September 30, 2016 and 2015, the Company purchased additional RMBS and other securities with an aggregate principal exposure of approximately \$147.7 million and \$38.3 million, respectively, for consideration of approximately \$95.8 million and \$34.9 million, respectively (excluding VIE activity).

The following table illustrates the components of the net receivable on insurance cash flow certificates on the accompanying consolidated balance sheets at September 30, 2016 and December 31, 2015:

(U.S. dollars in thousands)

	2016	2015
Receivables on insurance cash flow certificates	$ 351,019	$ 399,282
Deferred gain	(88,976)	(84,870)
Receivables on insurance cash flow certificates, net	$ 262,043	$ 314,412

4. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") for interim financial information. In the opinion of management, all adjustments (consisting of normal recurring accruals and the use of estimates) considered necessary for a fair presentation pursuant to these requirements have been included. Actual results could differ from those estimates. The results of operations for any interim period are not necessarily indicative of the results for a full year.

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.

Reclassifications

Certain reclassifications were 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 as a result of these reclassifications.

Investments

The Company determines the appropriate classification of investments at the time of purchase, which are recorded on the trade date. All of the Company's investments in debt (including Uninsured Cash flow Certificates ("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 certain 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.

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 in the period such change is made.

Cash and Cash Equivalents

The Company's cash and cash equivalents include cash on hand, interest bearing bank deposits, commercial paper 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.

When an insured issue is retired early, is called by the issuer or is in substance paid in advance through a refunding accomplished by placing U.S. Government securities in escrow, any remaining unearned premium revenue is earned at that time, since there is no longer risk to the Company. Also, premiums earned may be accelerated as a result of the Company's remediation transactions, which result in the Company no longer being at risk (hereafter collectively with refunding referred to as "Premium Accelerations").

Toll Revenue

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

Fees and Other Income

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.

Operating Expenses

Operating expenses primarily include compensation and employee benefits, professional and legal fees, computer related costs, rent and occupancy costs, depreciation and amortization expense, foreign currency exchange losses and other general and administrative expenses.

Interest Expense

Interest expense is recognized on the accrual basis using the effective interest rate method.

Unpaid 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 12).

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 September 30, 2016 and December 31, 2015 was 1.3% and 1.8%, respectively. 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 due to refinements in the assumptions used in the Company's cash flow models based on research and information review. In other cases, 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.

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 Premium Acceleration, 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 and putbacks 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, leasehold improvements, roadways, bridges and facilities, buildings and toll plazas, furniture, computers, equipment, and construction in progress. All additions and improvements to property and equipment are recorded at cost and, except for land and construction in progress, are depreciated over the appropriate useful life of the asset using the straight-line method. Expenditures for maintenance, repairs and inspections are charged to operating expenses as incurred.

Property and equipment are tested for impairment whenever events or changes in circumstances suggest that an asset or asset group's carrying value may not be fully recoverable. An impairment, 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. There was no impairment of property and equipment at September 30, 2016 and December 31, 2015.

Intangible Assets

Definite-lived intangible assets consist of leasehold rights, customer relationships, covenants not to compete and software. Definite-lived intangible assets are amortized over their respective useful lives, which range from 3 to 15 years. Definite-lived intangible assets are 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 intangible asset is impaired, the related assets are written down to fair value. There was no impairment of definite-lived intangibles at September 30, 2016 and December 31, 2015.

Indefinite-lived intangible assets primarily relate to Pike Pointe and include toll rights, a trademark and goodwill. Management performs its annual impairment test as of August 31, or more frequently if facts and circumstances indicate that an impairment has occurred. In accordance with applicable guidance, the Company uses fair value techniques to evaluate indefinite-lived intangible assets for possible impairment. Management's test compares the fair value of the indefinite-lived intangible assets with its carrying amount. If the fair value of the indefinite-lived intangible asset is less than the carrying amount, impairment is recognized in an amount equal to the difference. The fair value of the indefinite-lived intangible is generally established using discounted cash flows. For the nine months ended September 30, 2016 and year ended December 31, 2015, management's assessment determined that indefinite-lived assets were not impaired.

Goodwill reflects the excess of the reorganization value (or purchase price) of the Company over the fair value of tangible and identifiable intangible assets, net of liabilities, from the adoption of fresh start reporting (or purchase GAAP accounting). Pike Pointe recorded goodwill upon emergence from bankruptcy and does not amortize goodwill; however management performs its annual impairment test as of August 31, or more frequently if facts and circumstances indicate that an impairment has occurred. This impairment test is calculated at the reporting unit level, which was determined to be each toll road facility. The goodwill impairment test has three steps. The first step evaluates events and circumstances to determine if it is more likely than not that the fair value of the reporting unit is less than its carrying amount. If the qualitative assessment concludes that the fair value of the reporting units exceeds the carrying amount, goodwill is not impaired and the additional steps are not necessary. The second step identifies potential impairments by comparing the fair value of a reporting unit with its book value, including goodwill. If the fair value of the reporting units exceeds the carrying amount, goodwill is not impaired and the third step is not necessary. If the carrying value exceeds the fair value, the third step calculates the possible impairment by comparing the implied fair value of goodwill with the carrying amount. If the implied goodwill is less than the carrying amount, a write-down is recorded. To derive the fair value of the reporting units, the Company utilizes the income approach, given the lack of comparable publicly-traded information. Under the income approach, fair value was determined based on estimated future cash flows discounted at an appropriate risk-adjusted discount rate which represents the rate of return an outside investor would expect to earn. Although the cash flow forecasts are based on assumptions that are considered reasonable by management and consistent with the plans and estimates used to manage the underlying business, there is significant judgment in determining the expected future cash flows attributable to these reporting units. Management believes the fair values estimated are reasonable, however actual performance in the short-term and long-term could be materially different from forecasts, which could impact future estimates of fair value of the reporting units and may result in impairment of goodwill. For the nine months ended September 30, 2016 and year ended December 31, 2015, management's test determined that goodwill was not impaired.

Retirement and Other Post Retirement Benefits

The Company's subsidiary, Pike Pointe, has non-contributory defined benefit pension and post-retirement plans, which provide certain benefits to its eligible employees. Pension and other postretirement benefit costs and obligations are determined primarily based upon employees' length of service, the employee's average compensation during the last ten years of service, rates of return on pension plan assets, future health care costs and a contractually established rate for union employees represented by collective bargaining agreements. Benefits provided under the other post retirement plans include medical and prescription drug, life insurance and dental benefits. The Company recognizes the underfunded or overfunded status of a defined benefit pension and other post-retirement plan as an asset or liability and recognizes actuarial gains and losses in the year in which they occur through accumulated other comprehensive income, which is a component of stockholder's equity. These are amortized through the consolidated statements of operations and comprehensive income (loss).

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.

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 earnings on 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 default 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.

Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into U.S. dollar equivalents at exchange rates prevailing as of the date of the consolidated balance sheet. Revenues and expenses are translated at average exchange rates prevailing during the period. Gains and losses resulting from foreign currency transactions to U.S. dollar equivalents are recorded in current income and reflected in the operating expenses caption in the consolidated statements of operations.

Earnings Per Share

Basic earnings per share amounts are calculated by dividing earnings attributable to common shareholders by the weighted average number of common shares outstanding during the period, excluding the effect of dilutive securities. Diluted earnings per share amounts are calculated by dividing earnings attributable to common shareholders by the sum of the weighted average number of common shares outstanding during the period plus additional shares potentially issued from all dilutive securities. There were no dilutive securities outstanding at September 30, 2016 and 2015, respectively.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In August of 2014, the FASB issued “Consolidation - Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity”. This standard applies to a consolidated collateralized financing entity defined as a consolidated VIE that holds financial assets and issues beneficial interests in those financial assets that are classified as financial liabilities. The Company may elect to measure the financial assets and the financial liabilities of a consolidated collateralized financing entity using a measurement alternative provided in this standard. The measurement alternative requires both the financial assets and the financial liabilities of the consolidated collateralized financing entity to be measured using the more observable of the fair value of the financial assets and the fair value of the financial liabilities with the changes in fair value recognized to earnings. Upon adoption, a reporting entity may apply the measurement alternative to existing consolidated collateralized financing entities. This standard was effective for interim and annual periods beginning January 1, 2016. The adoption of this standard did not affect the Company’s consolidated financial statements.

In February of 2015, the FASB issued “Consolidation - Amendments to the Consolidation Analysis” for consolidation of legal entities including VIEs. This standard eliminates the specialized consolidation model and guidance for limited partnerships, amends the conditions for evaluating whether a fee paid to a decision maker or a service provider represents a variable interest in a VIE, amends the related party guidance for the determination of the primary beneficiary of a VIE, and requires certain investment funds designed as VIEs, except money market funds, to apply the amended consolidation guidance. The standard was effective for interim and annual periods beginning January 1, 2016. The adoption of this standard did not have a material effect on the Company's consolidated financial statements.

Accounting Pronouncements Pending Adoption

In May of 2014, the FASB issued "Revenue from Contracts with Customers". This standard amends the accounting guidance for recognizing revenue for the transfer of goods or services from contracts with customers unless those contracts are within the scope of other accounting standards. In August 2015, the FASB issued "Revenue from Contracts with Customers – Deferral of the Effective Date" which defers the effective date of this standard to interim and annual periods beginning January 1, 2018, and is applied on a retrospective or modified retrospective basis. The Company is evaluating the effect of adopting this standard.

In August of 2014, the FASB issued "Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern", which provides guidance on determining when and how to disclose going concern uncertainties in the consolidated financial statements. Under the new guidance, management would be required to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. Certain disclosures must be provided if "conditions or events raise substantial doubt about an entity's ability to continue as a going concern." The new standard is effective for annual reporting periods ending after December 15, 2016, with early adoption permitted. The Company will adopt this standard for the year ending December 31, 2016 and subsequent interim periods. As this is a disclosure requirement, adoption of this standard will not have a material effect on the Company's consolidated financial statements.

In May of 2015, the FASB issued "Financial Services – Insurance – Disclosures about Short-Duration Contracts." The primary objective of this standard is to improve disclosures for insurance entities which issue short-duration contracts. This standard made significant amendments to the Short-Duration Contract disclosure section and limited amendments affecting the General disclosures. The Company, as a provider of financial guarantee contracts, is subject to the General sections but not the Short-Duration Contract sections. As such, the limited amendments made to the General disclosure section are not expected to have a material effect on the Company's financial statement disclosures. This standard is effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016.

In January 2016, the FASB issued "Financial Instruments - Overall - Recognition and Measurement of Financial Assets and Financial Liabilities". This standard amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This guidance includes requirements for certain equity investments with readily determinable fair values to be measured at fair value with changes recognized in net income and for financial liabilities where the fair value option has been elected, requiring the portion of the fair value change related to instrument-specific credit risk (which includes a Company's own credit risk) to be separately reported in other comprehensive income. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those years. The Company is evaluating the effect of adopting this standard.

In February 2016, the FASB issued "Leases". This standard amends the accounting guidance for leasing transactions, which requires lessees to recognize right-of-use assets and lease liabilities, initially measured at the present value of the lease payments, on the balance sheet. This standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is evaluating the effect of adopting this standard.

In June of 2016, the FASB issued "Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments." This standard introduces a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses. This standard applies to financial assets measured at amortized cost, debt securities and other financial assets measured at fair value through other comprehensive income, loans, receivables and certain other financial instruments. This standard requires that financial assets measured at amortized cost be presented at the net amount expected to be collected by recording a valuation allowance, with changes in the allowance reflected in the income statement each period. For available for sale debt securities, credit losses should also be recorded through a valuation allowance, limited to the difference between the fair value and amortized cost of the security. This standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is evaluating the effect of adopting this standard.

In August 2016, the FASB issued "Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments". This standard addresses eight specific cash flow issues, with the objective of reducing the existing diversity in practice in how these transactions are classified in the statement of cash flows. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those years, with early adoption permitted provided that all of the amendments are adopted in the same period. The standard requires application using a retrospective transition method to each period presented. The Company is evaluating the effect of adopting this standard.

5. Investments

The amortized cost and fair value of investments as of September 30, 2016 and December 31, 2015 are as follows:

	September 30, 2016			
(U.S. dollars in thousands)	**Cost or Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Debt securities				
Mortgage-backed securities:				
RMBS [1]	$ 138,252	$ 3,430	$ —	$ 141,682
CMBS	79,313	1,007	—	80,320
Asset-backed securities	60,196	444	—	60,640
U.S. Government and government agencies	194,917	1,725	(3)	196,639
Corporate and other	653,090	17,566	(5)	670,651
U.S. states and political subdivisions of the states	155,312	4,480	—	159,792
Total debt securities	$ 1,281,080	$ 28,652	$ (8)	$ 1,309,724

[1] Residential mortgage-backed securities include $12.6 million of fair value and $11.6 million of amortized cost related to UCFs at September 30, 2016.

	December 31, 2015			
(U.S. dollars in thousands)	**Cost or Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Debt securities				
Mortgage-backed securities:				
RMBS [1]	$ 100,848	$ 1,991	$ (574)	$ 102,265
CMBS	120,894	562	(2,963)	118,493
Asset-backed securities	170,434	60	(282)	170,212
U.S. Government and government agencies	337,237	1,027	(281)	337,983
Corporate and other	469,137	13,035	(2,409)	479,763
U.S. states and political subdivisions of the states	144,884	4,450	(2,065)	147,269
Total debt securities	$ 1,343,434	$ 21,125	$ (8,574)	$ 1,355,985

[1] Residential mortgage-backed securities include $2.8 million of fair value and $2.5 million of amortized cost related to UCFs at December 31, 2015.

The change in net unrealized gains consists of changes in the valuation and holdings of debt securities of $16.1 million, and $(4.4) million for the nine months ended September 30, 2016 and 2015, respectively.

Proceeds from sales of debt securities, net of receivables, for the nine months ended September 30, 2016 and 2015 were $825.5 million and $293.7 million, respectively.

The gross realized gains and gross realized (losses) for the nine months ended September 30, 2016 and 2015 were $16.4 million and $4.7 million and $(25.7) million and $(8.4) 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 September 30, 2016 and December 31, 2015 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.

	2016		2015	
(U.S. dollars in thousands)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due within one year	$ 115,692	$ 116,076	$ 93,448	$ 93,656
Due after one through five years	593,484	602,385	598,588	599,420
Due after five through ten years	167,191	173,164	115,354	115,235
Due after ten years	126,952	135,457	143,868	156,704
Subtotal	1,003,319	1,027,082	951,258	965,015
Mortgage- and asset-backed securities	277,761	282,642	392,176	390,970
Total	$ 1,281,080	$ 1,309,724	$ 1,343,434	$ 1,355,985

Net investment income for the nine months ended September 30, 2016 and 2015 is derived from the following sources:

(U.S. dollars in thousands)	**2016**	**2015**
Debt securities and cash and cash equivalents	$ 34,883	$ 31,626
Equity securities	2,169	1,077
Other invested assets	475	147
Less: Investment expenses	(1,247)	(1,362)
Net investment income	$ 36,280	$ 31,488

The Company has a formal review process for all debt 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 also has a formal review process for all equity securities in the Company's investment portfolio, including a review for impairment losses. Factors considered when assessing impairment include; the length of the time and the extent to which the market value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value. Management considers all available evidence to evaluate the realizable value of its investment in equity securities classified as available-for-sale.

If it is determined that an impairment is other than temporary, then an impairment loss is recognized in the consolidated statements of operations equal to the difference between the investment's cost and its fair value at the balance sheet date for which the assessment is made. The measurement of the impairment shall not include partial recoveries after the balance sheet date. The fair value of the investment becomes the new cost basis of the investment and shall not be adjusted for subsequent recoveries in fair value.

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 nine months ended September 30, 2016 and 2015, the Company recorded other-than-temporary impairment charges of $24.7 million and $7.8 million, respectively, on its debt securities. The other-than-temporary impairment charges recorded by the Company during the nine months ended September 30, 2016 and 2015 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 debt securities (including its UCFs) before recovering their cost.

The following tables present the aggregate gross unrealized losses and fair value by investment category at September 30, 2016 and December 31, 2015, respectively:

(U.S. dollars in thousands)	12 Months or More					
	Unrealized loss		Fair value		Number of securities	
	2016	2015	2016	2015	2016	2015
Mortgage-backed securities:						
RMBS…………………………………	$ -	$ (2)	$ -	$ 129	-	9
CMBS…………………………………	-	(2,451)	-	15,098	-	14
Asset-backed securities…………………	-	(175)	-	8,034	-	6
US Government and government agency..	-	-	-	-	-	-
Corporate and other…………………….	(2)	(288)	99	4,303	1	4
US states & political subdivisions………	-	(16)	-	364	-	1
Total debt securities………………	$ (2)	$ (2,932)	$ 99	$ 27,928	1	34

	Less than 12 Months					
	Unrealized loss		Fair value		Number of securities	
	2016	2015	2016	2015	2016	2015
Mortgage-backed securities:						
RMBS…………………………………	$ -	$ (572)	$ -	$ 49,543	-	17
CMBS…………………………………	-	(512)	-	11,463	-	14
Asset-backed securities…………………	-	(107)	-	11,517	-	15
US Government and government agency..	(3)	(281)	4,504	47,606	2	21
Corporate and other…………………….	(3)	(2,121)	494	90,155	9	117
US states & political subdivisions………	-	(2,049)	-	42,379	-	13
Total debt securities………………	$ (6)	$ (5,642)	$ 4,998	$ 252,663	11	197

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).

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 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 in excess of that currently recorded by the Company. 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 September 30, 2016 and December 31, 2015, 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)

	2016	2015
Notional Amount Outstanding	$ 3,788	$ 5,699
Weighted Average Life (years)	20.3	16.4
Percentage of referenced assets by rating[1]		
AAA	15.5 %	19.5 %
At or above investment grade but below AAA	84.5	75.6
Below investment grade	-	4.9
Total	100.0 %	100.0 %

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

The following table provides the components of the net change in fair value of credit default and other swap contracts for the nine months ended September 30, 2016 and 2015:

(U.S. dollars in thousands)	2016	2015
Change in fair value of credit default and other swap contracts:		
Realized gains (losses) and other settlements:		
Net CDS contract premiums received and receivable	$ 3,466	$ 5,044
Net CDS contract losses paid and payable	(15)	(8,637)
Total realized gains and losses and other settlements	3,451	(3,593)
Unrealized gains (losses):		
Change in fair value of CDS contracts	(55,721)	117,880
Net change in fair value of credit default and other swap contracts[1] [2]	$ (52,270)	$ 114,287

(1) The change in realized/unrealized (losses) gains relating to the CDS and other swap contracts still held as of September 30, 2016 and 2015 was $(52.3) million and $122.9 million, respectively.

(2) Includes unrealized (losses) gains of $(2.4) million and $0.8 million for interest rate swap contracts for the nine months ended September 30, 2016 and 2015, respectively.

7. Consolidation of VIEs

The Company has exposure to VIEs primarily 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.

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 September 30, 2016 and December 31, 2015. As of September 30, 2016 and December 31, 2015, the Company's qualitative and quantitative analyses have indicated that it does not have a controlling financial interest in any other VIEs.

	2016		2015	
(U.S. dollars in thousands)	Assets	Liabilities	Assets	Liabilities
Subprime (1st lien)	$ 69,290	$ 63,924	$ 74,456	$ 70,948
Prime (HELOC)	22,199	615	25,034	707
Alt-A (2nd lien)	7,341	2,072	6,531	1,992
Alt-A (1st lien)	8,634	76	8,397	79
Subprime (2nd lien)	18,601	-	11,190	-
	$ 126,065	$ 66,687	$ 125,608	$ 73,726

The following table presents the revenues and expenses of consolidated VIEs included in the Company's consolidated statements of operations for the nine months ended September 30, 2016 and 2015:

(U.S. dollars in thousands)	2016	2015
Interest income	$ 3,647	$ (6,733)
Interest expense	(2,900)	(3,047)
Other expenses	(192)	(297)
Net realized and unrealized losses	18,144	19,194
Net change in variable interest entities	$ 18,699	$ 9,117

Set forth below is the cumulative effect of consolidating VIEs on net income and shareholders' deficit for the nine months ended September 30, 2016 and 2015:

(U.S. dollars in thousands)	2016	2015
Net premiums earned	$ (131)	$ 514
Net investment income	(5,453)	(6,604)
Earnings on insurance cash flow certificates	(1,320)	(7,265)
Net realized (gains) losses on investments	(1,765)	(1,616)
Net losses and loss adjustment expenses	(2,254)	(1,546)
Unrealized gains and losses on credit derivatives	-	(2,885)
Net change in variable interest entities	18,699	9,117
Total effect on net income (loss)	7,776	(10,285)
Total effect on other comprehensive loss	(994)	(874)
Total effect on comprehensive income (loss)	6,782	(11,159)
Total effect on shareholders' equity- beginning of period	$ (69,918)	$ (53,689)
Total effect on shareholders' equity- end of period	$ (63,136)	$ (64,848)

The Company's maximum exposure to loss provided through its financial guarantees with respect to debt obligations of unconsolidated variable interest entities is included within net par outstanding described in Note 13. In addition, as of September 30, 2016, the Company had immaterial investments of 7 unconsolidated VIEs.

8. Financial Instruments and Fair Value Measurements and Disclosures

A 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 a market index of market observable credit spreads of comparable financial guarantee insurance companies.

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 — Contingent Consideration

Contingent consideration, which is included on the accompanying consolidated balance sheets in "Accounts payable, accrued expenses and other liabilities", represents a portion of the total purchase price consideration to the sellers of Swap Financial Group LLC ("SFG") as a result of its acquisition by Syncora Investment Holdings, LLC, a wholly-owned subsidiary of SGI, on January 8, 2015. To determine the fair value of the contingent consideration, the Company utilized a discounted cash flow model based on inputs and assumptions of forecasted revenues and expenses of SFG. The inputs used in determining the fair value were mostly unobservable and as a result, the fair value of this contingent consideration is categorized into the Level 3 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, commercial paper, 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 — 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 Company believes that the best estimate of fair value for its entire portfolio of insurance contracts is the discounted expected premiums less the discounted expected losses over the remaining life of each contract. To determine this fair value, the Company utilized a discounted cash flow model based on inputs that include assumptions of expected losses net of expected recoveries where loss reserves have been established (reserve contracts), and expected premiums and losses where loss reserves have not been recognized (non-reserve contracts). For non-reserve contracts, estimates of expected loss are driven by assumptions as to default and loss given default rates for each contract. Market-based discount rates that are credit adjusted for the premium payer and the Company's own credit risk are applied to the premium and loss cash flows, respectively, to ultimately determine the contract’s fair value. The inputs used in determining fair value were mostly unobservable and as a result the fair value could change materially.

The fair value of the Company's insurance contracts was $389.2 million and $485.5 million at September 30, 2016 and December 31, 2015, respectively. The fair value of the Company's 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 September 30, 2016 and December 31, 2015:

(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	2016	2015	2016	2015	2016	2015	2016	2015
Debt securities available for sale:								
Mortgage and asset-backed securities								
RMBS	$ -	$ -	$ 129,112	$ 99,462	$ 12,570	$ 2,803	$ 141,682	$ 102,265
CMBS	-	-	80,320	118,493	-	-	80,320	118,493
Asset-backed securities	-	-	60,640	170,212	-	-	60,640	170,212
U.S. Government and government agencies	147,547	160,118	49,092	177,865	-	-	196,639	337,983
Corporate and other	2,632	2,599	606,776	460,319	61,243	16,845	670,651	479,763
U.S. states and political subdivisions	-	-	101,535	113,203	58,257	34,066	159,792	147,269
Total debt securities available for sale	150,179	162,717	1,027,475	1,139,554	132,070	53,714	1,309,724	1,355,985
Other invested assets	42,358	30,228	703	23,348	31,140	3,894	74,201	57,470
Other assets	-	-	20	521	5,550	5,454	5,570	5,975
Cash and cash equivalents	186,274	239,498	-	6,245	-	-	186,274	245,743
Restricted cash and cash equivalents	3,380	22,071	-	4,030	-	-	3,380	26,101
Assets of consolidated variable interest entities	-	-	-	-	126,065	125,608	126,065	125,608
Total assets	$ 382,191	$ 454,514	$1,028,198	$1,173,698	$ 294,825	$ 188,670	$1,705,214	$1,816,882
LIABILITIES								
Credit default swap contracts	$ -	$ -	$ -	$ -	$ 155,453	$ 97,962	$ 155,453	$ 97,962
Contingent consideration	-	-	-	-	2,984	3,719	2,984	3,719
Liabilities of consolidated variable interest entities	-	-	-	-	66,687	73,726	66,687	73,726
Total liabilities	$ -	$ -	$ -	$ -	$ 225,124	$ 175,407	$ 225,124	$ 175,407

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) as of September 30, 2016 and 2015:

(U.S. dollars in thousands)	Mortgage and Asset-Backed Securities		Corporate and Other		U.S. States and Political Subdivisions		Other Invested Assets		Other Assets		Credit Default Swap Contracts		Assets of Consolidated Variable Interest Entities	
LEVEL 3 ASSETS	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Balance, beginning of period	$ 2,803	$ 591	$16,845	$ -	$34,066	$ -	$ 3,894	$ 3,877	$5,454	$ -	$ -	$ 58,606	$125,608	$250,998
Deconsolidation of VIEs	-	-	-	-	-	-	-	-	-	-	-	-	-	(94,663)
Realized gains (losses)	(1,996)	(1,216)	(1,915)	-	(12,597)	-	-	-	96	-	-	-	-	-
Unrealized gains (losses) included in earnings	-	-	-	-	-	-	3,914	-	-	-	-	(36,623)	457	(19,869)
Unrealized gains (losses) included in OCI	627	424	2,107	-	(1,752)	-	460	29	-	-	-	-	-	-
Purchases	13,322	3,716	-	-	38,540	-	5,270	15,650	-	-	-	-	-	-
Settlements	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sales	(2,186)	(616)	-	-	-	-	(798)	(1,097)	-	-	-	-	-	-
Transfers into Level 3	-	-	44,206	-	-	-	18,400	-	-	-	-	-	-	-
Balance, end of period	$12,570	$2,899	$61,243	$ -	$58,257	$ -	$31,140	$18,459	$5,550	$ -	$ -	$ 21,983	$126,065	$136,466

For the nine months ended September 30, 2016, transfers into Level 3 were $62.6 million, which related to corporate and other and other invested assets. The transfers into Level 3 during the nine months ended September 30, 2016 were due to the unavailability of observable market prices. There were no transfers into or out of Level 3 during the nine months ended September 30, 2015.

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 nine months ended September 30, 2016 and 2015:

(U.S. dollars in thousands)	Credit Default and Other Swap Contracts		Contingent Consideration		Liabilities of Consolidated Variable Interest Entities	
LEVEL 3 LIABILITIES	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Balance, beginning of period	$ 97,962	$ 298,575	$ 3,719	$ -	$ 73,726	$ 183,686
Deconsolidation of VIEs	-	-	-	-	-	(99,699)
Payment of contingent consideration	-	-	(735)	-	-	-
Realized (gains) losses	(3,451)	3,593	-	-	-	-
Unrealized (gains) losses included in earnings	60,942	(157,829)	-	3,662	(7,039)	(6,614)
Balance, end of period	$ 155,453	$ 144,339	$ 2,984	$ 3,662	$ 66,687	$ 77,373

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 September 30, 2016 and December 31, 2015:

(U.S. dollars in thousands)

Level 3 Assets / Liabilities	Fair Value 2016	Fair Value 2015	Valuation Techniques	Significant Unobservable Inputs	Range of Inputs 2016	Range of Inputs 2015
Assets						
Mortgage- and asset-backed securities	$ 12,570	$ 2,803	Discounted cash flows	Constant prepayment rate	1.2% - 10.0%	0.8% - 12%
				Constant default rate	3.9% - 31.7%	3.9% - 24.6%
				Loss severity	51.7% - 100%	53.3% - 100%
				Yield	6.0% - 8.25%	7.0% - 9.0%
Corporate and other	61,243	16,845	Discounted cash flows	Yield	4.5% - 9.9%	5.95%
			Transaction price			
U.S. states and political subdivisions	58,257	34,066	Discounted cash flows	Yield	7.5% - 13.3%	5.6% - 7.7%
			Transaction price			
Other invested assets	31,140	3,894	Net asset value	Yield	0% - 12.0%	0% - 9.4%
Other assets	5,550	5,454	Discounted cash flows	Yield	2.71%	3.31%
				Years to realization	3 yrs	3 yrs
Assets of consolidated VIEs	126,065	125,608	Discounted cash flows	Constant prepayment rate	1.03% - 12.25%	0.3% - 12%
				Constant default rate	3.8% - 34.7%	3.1% - 34.8%
				Loss severity	47.6% - 100%	48.7% - 100%
				Yield	5.75% - 6.25%	6.50% - 9%
				Non-performance risk	4.0% - 11.4%	16% - 27%
Liabilities						
Credit default and other swap contracts	$155,453	$ 97,962	Discounted cash flows	Loss severity	10% - 60%	10% - 60%
				Default rate	0.05% - 27.65%	0.11% - 55.89%
				Market premiums	22 bps - 247 bps	12 bps - 276 bps
				Weighted average life	0.3 yrs - 36.8 yrs	0.3 yrs - 38 yrs
				Non-performance risk	1.95% to 9.05%	14% to 25%
Contingent consideration	2,984	3,719	Discounted cash flows	Discount rate	0% - 2.0%	0% - 2.0%
Liabilities of consolidated VIEs	66,687	73,726	Discounted cash flows	Constant prepayment rate	2.25% - 12.26%	1.8% - 11.2%
				Constant default rate	4.9% - 34.75%	3.1% - 34.8%
				Loss severity	47.6% - 100%	48.7% - 100%
				Yield	5.75% - 11.37%	6.50% - 25.1%
				Non-performance risk	4.0% - 11.4%	16% - 27%

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 CDS 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 SGI nor SCAI have an observable market credit spread, SGI and SCAI each measure their Non-Performance Risk based on market observable credit spreads of comparable financial guarantee insurance companies.

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 and VIE liabilities as of September 30, 2016 and December 31, 2015, including the fair value of such contracts and VIE liabilities, the Non-Performance Risk discount on such contracts and VIE liabilities which is embedded in the credit default and other swap contracts and the VIE liabilities on the accompanying consolidated balance sheets:

(U.S. dollars in millions)	CDS and other swap contracts		VIE liabilities	
	2016	2015	2016	2015
Fair value, before giving effect to Non-Performance Risk	$ 415.6	$ 404.0	$ 77.5	$ 86.5
Less:				
Non-Performance Risk	260.1	306.1	10.8	12.8
Fair value, after giving effect to Non-Performance Risk	$ 155.5	$ 97.9	$ 66.7	$ 73.7

Financial Instruments Not Carried at Fair Value

At September 30, 2016 and December 31, 2015, the carrying value of the Company's notes was $389.7 million and $366.2 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 may vary significantly between trades. Based on limited available market data obtained by management, as of September 30, 2016 and December 31, 2015 the Company's short-term notes and long-term notes were found to have a price of approximately 91 and 84 and 74 and 74, respectively. 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, management believes that the fair value of these notes is subject to volatility. See Note 11 for further discussion.

9. Property and Equipment

Property and equipment consist of the following at September 30, 2016 and December 31, 2015:

(U.S. dollars in thousands)

Asset Class	Depreciation Life	Gross 2016	Gross 2015	Net 2016	Net 2015
Land	-	$ 2,138	$ 2,138	$ 2,138	$ 2,138
Leasehold improvements	Shorter of life of lease or asset	12,126	11,800	7,079	8,011
Roadways	15 years	2,590	2,582	2,108	2,230
Bridges and facilities	75 years	37,557	37,557	35,616	36,090
Buildings and toll plazas	3-20 years	1,568	1,563	918	1,059
Furniture, computers and equipment	3-5 years	1,064	973	448	509
Construction in progress	-	835	744	835	744
Total		57,878	57,357	$ 49,142	$ 50,781
Less accumulated depreciation and amortization		(8,736)	(6,576)		
Property and equipment, net		$ 49,142	$ 50,781		

10. Intangible Assets

Definite-lived intangible assets subject to amortization consist of the following at September 30, 2016 and December 31, 2015:

(U.S. dollars in thousands)

	Gross 2016	Gross 2015	Net 2016	Net 2015
Lease rights	$ 13,954	$ 13,954	$ 7,967	$ 9,427
Customer relationships	10,777	10,777	9,536	10,074
Covenants not to compete	1,805	1,805	1,241	1,486
Software	1,516	1,516	268	557
Total	28,052	28,052	$ 19,012	$ 21,544
Less accumulated amortization	(9,040)	(6,508)		
Definitive-lived intangible assets, net	$ 19,012	$ 21,544		

Indefinite-lived intangible assets not subject to amortization consist of the following at September 30, 2016 and December 31, 2015:

(U.S. dollars in thousands)

	Gross 2016	Gross 2015	Net 2016	Net 2015
Toll rights	$ 66,307	$ 66,307	$ 66,307	$ 66,307
Goodwill	30,117	30,117	30,117	30,117
Trademark	1,302	1,302	1,302	1,302
Total	97,726	97,726	$ 97,726	$ 97,726
Less impairment	-	-		
Total	$ 97,726	$ 97,726		

11. 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, on July 15, 2009, SGI issued $150.0 million face amount of short-term and $475.0 million face amount of long-term surplus notes to the counterparties of such CDS contracts. Subsequent to their issuance, $142.5 million of paid-in-kind interest has been added to the face amount of the surplus notes. As part of the 2012 settlement of RMBS-related claims and other claims with Bank of America Corp. ("BAC") and affiliates thereof, $48.4 million face amount of surplus notes ($21.2 million short-term and $27.2 million long-term) were received back from the Company which included $7.7 million of paid-in-kind interest. Furthermore, in connection with the August 12, 2016 restructuring, the total face amount of the short-term and long-term notes was reduced by $33.5 million as a result of the discount received and the surplus note payment. The total face amount of the surplus notes, including paid-in-kind interest held by third parties as of September 30, 2016 is $685.6 million. The short-term surplus notes have a 5.00% interest rate and matured on December 28, 2011, and the long-term surplus notes have a 6.00% interest rate and mature on June 27, 2024. The Company recorded the notes at their estimated fair value of $141.0 million ($91.2 million for the short-term notes and $49.8 million for the long-term notes) at the date of their issuance and accretes the discount from the face amount of the notes over the term of the notes using the interest method. As discussed in Note 1, the reallocated surplus notes were recorded at fair value on August 12, 2016 with the discount also accreting over the term of the notes using the interest method. The estimated yield to maturity used for both notes was 31.88% at origination; as a result of the August 12, 2016 restructuring, the estimated yield to maturity on the long-term surplus notes is 30.11%. The estimated yield to maturity on the reallocated surplus notes (long-term surplus notes only) is 12.64%. Such accretion is recorded as interest expense which is reflected in the accompanying consolidated statements of operations. See table below for the par value, carrying value and accrued interest of these surplus notes as of September 30, 2016 and December 31, 2015, and interest expense for the nine months ended September 30, 2016 and 2015:

(U.S. dollars in millions)	Total		Short-term		Long-term	
	2016	2015	2016	2015	2016	2015
Par value	$ 685.6	$ 719.1	$ 130.2	$ 144.2	$ 555.4	$ 574.9
Carrying value	389.7	366.2	130.2	144.2	259.5	222.0
Accrued interest	114.8	129.6	39.4	36.5	75.4	93.1
Interest expense	53.6	53.9	(2.1)	6.6	55.7	47.3

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

Scheduled repayment of the Company's short-term notes on December 28, 2011 did not meet the conditions to payment (including the approval of the NYDFS) and consequently principal and interest payments were not made. Further, in December 2014 and December 2015, SGI again sought approval for payment on its short-term surplus notes, and on December 24, 2014 and December 21, 2015, respectively, the NYDFS did not approve such payment. Accordingly, any interest not approved for payment by the NYDFS on or after December 28, 2011 will not be capitalized on the outstanding principal balance reflected above, but will accrue interest at the existing rate. The outstanding principal balance of the short-term surplus notes as of June 27, 2011 also will separately accrue interest at such rate.

In addition, SGI was obligated by the terms of its long-term surplus notes to pay interest of approximately $118.7 million on the outstanding principal balance of $475 million together with paid-in-kind interest that was scheduled to be paid on June 27, 2016. In June 2016, SGI sought approval for payment of interest on its long-term surplus notes, and on June 27, 2016, the NYDFS did not approve such payment. Accordingly, any interest not approved for payment by the NYDFS on or after December 28, 2013 will not be capitalized on the outstanding principal balance reflected above, but will accrue interest at the existing rate. The outstanding principal balance of the long-term surplus 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. The Company can provide no assurance about whether the NYDFS will approve any future payments on the short-term or long-term notes.

In connection with the August 12, 2016 restructuring transactions, $30.0 million of long-term and short-term surplus notes were transferred from the Company to SGI, and cancelled by SGI. $23.6 million and $6.4 million of long-term and short-term notes, respectively (including principal, paid-in-kind interest and accrued interest) of surplus notes were cancelled. In addition, upon closing of the transaction, SGI made a net cash payment of $55.0 million on its long-term and short-term externally held surplus notes after receiving approval from the NYDFS.

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

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

12. Liabilities for Unpaid Losses and Loss Adjustment Expenses

The Company's reserve for unpaid losses and loss adjustment expenses as of September 30, 2016 and December 31, 2015 consists of case basis reserves, which 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 September 30, 2016 and December 31, 2015, the range of risk free rates used to discount the Company's liability for losses and loss adjustment expenses was and 0.0% to 1.97% and 0.0% to 2.27%, respectively.

Activity in the Company's liability for unpaid losses and loss adjustment expenses for the nine months ended September 30, 2016 and 2015 are summarized as follows:

(U.S. dollars in thousands)	2016	2015
Gross unpaid losses and loss adjustment expenses at beginning of period	$ 1,007,186	$ 1,169,778
Salvage and subrogation recoverable	(87,829)	(72,823)
Reinsurance balances recoverable on unpaid losses and loss adjustment expenses	—	(139)
Net unpaid losses and loss adjustment expenses at beginning of period	919,357	1,096,816
Increase (decrease) in net losses and loss adjustment expenses incurred in respect of losses occurring in:		
Current year	580	38,507
Prior years	(101,996)	(166,597)
Current year effect for consolidation of VIEs	—	10,893
Net losses and loss adjustment expenses paid	(96,022)	(29,554)
Net unpaid losses and loss adjustment expenses at end of period	721,919	950,065
Salvage and subrogation recoverable	93,970	94,341
Reinsurance balances recoverable on unpaid losses and loss adjustment expenses	—	70
Gross unpaid losses and loss adjustment expenses at end of period	$ 815,889	$ 1,044,476

Case Basis Reserves for Losses and Loss Adjustment Expenses

A summary of case basis reserves for losses and loss adjustment expenses as of September 30, 2016 and December 31, 2015 are as follows:

(U.S. dollars in millions)	Gross		Net	
	2016	2015	2016	2015
HELOC, CES and Alt-A mortgage loan collateral	$ 677.9	$ 733.6	$ 677.9	$ 733.6
Public finance	128.4	138.2	128.4	138.2
Structured single risk	8.2	134.2	8.2	134.2
CDOs	1.4	1.2	1.4	1.2
Total	$ 815.9	$ 1,007.2	$ 815.9	$ 1,007.2

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, both before and after giving effect to reinsurance, were $677.9 million and $733.6 million as of September 30, 2016 and December 31, 2015, respectively. The change in reserves from December 31, 2015 to September 30, 2016 is primarily attributable to positive loss development of $52.9 million.

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 represent the Company's probability weighted average estimate of: (i) the net present value of claims to be paid subsequent to the balance sheet date, less (ii) the net present value of recoveries subsequent to the balance sheet date, and (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.

The Company generally observed peak defaults for the second lien transactions in 2009 and 2010. Default rates at June 30, 2016 are mostly forecasted with steady state default rates. Exceptions to this may include transactions for which there is an excessive build-up of severely delinquent loans for which defaults are anticipated or transactions whose collateral includes loans whose interest-only periods will end, at which point temporary increases to default rates are expected.

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

The Company's default assumptions for the first lien transactions at September 30, 2016 and December 31, 2015 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 41% to 66% at September 30, 2016 and from 42% to 67% at December 31, 2015 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 and/or the originator of mortgage loans backing such securities to repurchase mortgage loans backing such securities that breached certain representations and warranties and/or to pay damages, and in the case of claims against GreenPoint Mortgage Funding, Inc. ("GreenPoint"), these claims are now being pursued by U.S. Bank as indenture trustee. While a sponsor and GreenPoint have disputed, and may in the future dispute, their obligations to repurchase all or a portion of these mortgages and/or to pay damages, if the Company or the indenture trustee 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. The Company records a benefit for a portion of Syncora Guarantee's interest in putbacks, when those putbacks are noticed by the trustee. As of September 30, 2016, the Company recorded a net benefit based on approximately $538 million in original principal balance of mortgage loans putback that have been noticed through the date the Company's financial statements were available to be issued, by U.S. Bank which, despite the strength of the Company's or indenture trustee's claims, are subject to material discounts for the inherent uncertainty of litigation, timing and collectability. In October of 2016, US Bank as indenture trustee noticed additional putbacks of approximately $10 million in original principal balance of mortgage loans. These additional putback notices have been incorporated into the Company's net benefit recorded as of September 30, 2016. US Bank as indenture trustee is continuing to investigate and review additional loans and as a result, the amount of noticed putbacks and the Company's net benefit are anticipated to increase through future repurchase demands, and this amount may be material. The Company's discounted interest in this benefit is recorded in the Company's financial statements through salvage and subrogation recoverable. Given the inherent uncertainty of litigation, no assurance can be given that the Company or indenture trustee will be successful in enforcing its rights to require a sponsor or GreenPoint to repurchase the mortgage loans and/or pay damages discussed above or, if successful, in collecting. If the Company or indenture trustee were successful in enforcing these rights, the ability of the Company to realize a financial benefit from the repurchase of mortgages loans and/or damages paid by a sponsor or GreenPoint 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 or GreenPoint to honor their obligations. As a result, and due to the risks involved in any litigation, the actual recoveries and therefore the benefit to the Company may vary materially (favorably or unfavorably) from the Company's estimates.

The change in reserves for the Company's guarantees of public finance transactions from December 31, 2015 to September 30, 2016 is primarily attributable to adverse loss development of $11.5 million.

As shown in the table above, gross and net unpaid losses and loss adjustment expenses on structured single risk transactions decreased by $126.0 million from December 31, 2015 to September 30, 2016 primarily as a result of the Company's active remediation efforts.

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, the surveillance department uses a Frequency of Review Schedule to prioritize reviews to ensure lower rated and larger exposure credits are being looked at more frequently. In addition, the surveillance department uses screening tools to review the entire Public Finance portfolio based upon news feeds, trade data, material event notices and other third party information. For the Structured Single Risk portfolio, the surveillance department will retain technical consultants as needed to track construction and operational risk and reviews this portfolio based upon reports it receives on a monthly, quarterly or annual basis.

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

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

The following tables set forth certain information in regard to Syncora Guarantee's closely monitored credits as of September 30, 2016 and December 31, 2015, respectively. The number of policies, remaining weighted-average contract period, and insured contractual payments outstanding in the table below excludes exposures that were effectively defeased or, in-substance, commuted through the acquisition of Insurance Cash Flow Certificates and related alternative structures.

	Total		Loss List		Red Flag List		Yellow Flag List		Special Monitoring List	
(U.S. dollars in millions)	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Insured contractual payments outstanding:										
Principal	$ 3,334	$ 3,964	$ 718	$ 831	$ 869	$ 967	$ 1,213	$ 1,168	$ 534	$ 998
Interest	1,305	1,526	214	256	170	229	629	775	292	266
Total	$ 4,639	$ 5,490	$ 932	$ 1,087	$ 1,039	$ 1,196	$ 1,842	$ 1,943	$ 826	$ 1,264
Number of policies	249	271	204	218	6	9	20	21	19	23
Remaining weighted-average contract period (in years)	10.2	9.9	8.5	8.6	4.6	5.1	14.2	16.3	12.3	7.9
Unpaid loss and loss adjustment expenses:										
Gross amount before reductions	$ 1,197	$ 1,474	$ 1,114	$ 1,239	$ 18	$ 192	$ 65	$ 35	$ 0	$ 8
Gross estimated recoveries	(205)	(112)	(126)	(106)	(18)	-	(61)	(6)	-	-
Unearned premium revenue [1]	(21)	(49)	(16)	(18)	-	(16)	(5)	(11)	0	(4)
Present value discount	(155)	(306)	(179)	(257)	8	(48)	16	(1)	0	-
Total	$ 816	$ 1,007	$ 793	$ 858	$ 8	$ 128	$ 15	$ 17	$ 0	$ 4

[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.

13. Exposures Under Guarantees

While the Company establishes reserves for losses and loss adjustment expenses on obligations it has guaranteed or reinsured, 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 September 30, 2016 and December 31, 2015. 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 by bond sector as of September 30, 2016 and December 31, 2015, respectively:

Bond Exposure
(U.S. dollars in millions)

	NPO[1]	
	2016	**2015**
Public Finance		
Special Revenue	$ 5,081	$ 5,924
General Obligation	3,162	4,379
Utility	2,089	2,659
Non Ad Valorem	1,486	1,721
Appropriation	749	861
Other	4	4
Total Public Finance	$ 12,571	$ 15,548
Asset-Backed Securities		
RMBS	$ 462	$ 552
Commercial ABS	-	72
Total Asset-Backed Securities	$ 462	$ 624
Collateralized Debt Obligations		
Synthetic CDO	$ 253	$ 897
Cashflow CDO	108	771
Total Collateralized Debt Obligations	$ 361	$ 1,668
Structured Single Risk		
Power & Utilities	$ 5,209	$ 5,780
Global Infrastructure	3,715	4,275
Specialized Risk	447	474
Total Structured Single Risk	$ 9,371	$ 10,529
Total Outstanding	$ 22,765	$ 28,369

[1] NPO represents Net Principal Outstanding.

As of September 30, 2016 and December 31, 2015, total Gross Principal Outstanding was $22,957 million and $29,141 million, respectively.

The following table sets forth the number of years to maturity of the Company's in-force guaranteed principal and interest exposure at September 30, 2016:

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

	Scheduled Net Debt	NPIO[1]
2016 Q3	$ -	$ 36,539
2016 Q4	630	35,909
Total 2016	$ 630	
2017	$ 2,188	$ 33,721
2018	1,840	31,881
2019	1,599	30,282
2020	1,766	28,516
Total 2017-2020	$ 7,393	
2021-2025	$ 7,897	$ 20,619
2026-2030	5,490	15,129
2031-2035	4,387	10,742
2036 and thereafter	10,742	-
Total 2021-thereafter	$ 28,516	
Total	$ 36,539	

[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 September 30, 2016 and December 31, 2015, respectively:

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

	NPO		% NPO	
	2016	**2015**	**2016**	**2015**
United States				
California	$ 3,053	$ 3,483	13.1 %	12.3 %
New York	1,652	1,916	7.3	6.8
Texas	723	1,074	3.2	3.8
Florida	683	716	3.0	2.5
Virginia	640	643	2.8	2.3
Colorado	545	556	2.4	2.0
Georgia	458	484	2.0	1.7
District Of Columbia	449	465	2.0	1.6
Tennessee	366	421	1.6	1.5
Alabama	362	570	1.6	2.0
Puerto Rico	362	396	1.6	1.4
Ohio	348	452	1.5	1.6
New Jersey	318	419	1.4	1.5
Illinois	311	551	1.4	1.9
Washington	310	510	1.4	1.8
Pennsylvania	294	582	1.3	2.1
Massachusetts	270	296	1.2	1.0
South Carolina	267	289	1.2	1.0
Maryland	240	267	1.1	0.9
Other(1)	2,199	3,038	9.7	10.7
Non-PF Multi(2)(3)	799	1,966	3.5	6.9
Total United States	$ 14,649	$ 19,094	64.3 %	67.3 %
International				
United Kingdom	$ 5,097	$ 5,778	22.4 %	20.4 %
Australia	1,103	1,305	4.8	4.6
New Zealand	517	485	2.3	1.7
Chile	514	509	2.3	1.8
Other(1)	792	1,105	3.5	3.9
Non-PF Multi(2)(4)	93	93	0.4	0.3
Total International	$ 8,116	$ 9,275	35.7 %	32.7 %
Total Par Outstanding	$ 22,765	$ 28,369	100.0 %	100.0 %

(1) Single state/country with NPO < 1% of the total exposure in the current period plus any multi-state/country Public Finance exposures.
(2) Non-Public Finance deals with underlying securities in multiple states/countries.
(3) Consists of $361 million and $1,370 million of CDO net par in 2016 and 2015, respectively, and $438 million and $596 million of ABS net par in 2016 and 2015, respectively.
(4) Consists of $93 million and $93 million of SSR net par in 2016 and 2015, respectively.

As of September 30, 2016 and December 31, 2015, the total Gross Principal Outstanding was $22,957 million and $29,141 million, respectively.

Exposure to Residential Mortgage Market

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

As of September 30, 2016 and December 31, 2015, the Company's total net direct exposure to RMBS aggregated approximately $0.5 billion (the amount excludes exposure related to guarantees which were effectively defeased or, in-substance, commuted pursuant to ICFs – see Note 3), representing approximately 2.0% 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 September 30, 2016 (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[(1)] as of September 30, 2016 and December 31, 2015, respectively:

RMBS Exposure
(U.S. dollars in millions)

	NPO		% NPO	
	2016	**2015**	**2016**	**2015**
Prime (1st lien)	$ 25	$ 31	5.3 %	5.6 %
Prime (2nd lien)	14	20	3.0	3.6
Prime (HELOC)	106	139	22.9	25.2
Alt-A (1st lien)	27	30	5.8	5.4
Alt-A (2nd lien)	4	5	0.8	0.9
Subprime (1st lien)	246	276	53.6	50.0
Subprime (2nd lien)	16	23	3.5	4.2
Subprime (1st lien) - International	24	28	5.1	5.1
Total RMBS Outstanding	$ 462	$ 552	100.0 %	100.0 %

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

The following table presents the net principal outstanding and net reserves for unpaid losses for the Company's insured RMBS portfolio by year of origination (year the guarantee was underwritten and issued) as of September 30, 2016. 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	$ 84	$ 39	$ 47	$ 6	$ 176
Subprime	31 [1]	93	-	162	286
Total RMBS Outstanding	$ 115	$ 132	$ 47	$ 168	$ 462
(U.S. dollars in millions)					
Net case reserves for unpaid losses	$ 52	$ 136	$ 203	$ 194	$ 585

[1] Includes $0.4 million relating to business underwritten and issued in 1999.

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 as of September 30, 2016. 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.

RMBS Ratings
(U.S. dollars in millions)

	Vintage	Internal Rating	S&P Rating[1]	Moody's Rating[1]	NPO
Prime (1st lien)					
1.	2004	bbb+	NR	Ba2	$ 16
2.	2004	aa	AA+	NR	6
3.	2004	aa	AA+	Ba1	3
Total					$ 25
Prime (2nd lien)					
1.	2006	d	NR	C	$ 14
Total					$ 14
Prime (HELOC)					
1.	2004	d	CCC	Ca	$ 34
2.	2004	d	CCC	Ca	25
3.	2005	d	NR	Ca	12
4.	2006	d	NR	C	27
5.	2006	d	NR	Ca	4
6.	2006	d	NR	Ca	2
7.	2006	d	NR	Ca	-
8.	2007	d	NR	Ca	2
Total					$ 106

Alt-A (1st lien)					
1.	2005	bb	AA+	Baa3	$ 21
2.	2005	d	NR	Caa2	6
3.	2007	d	NR	C	-
Total					$ 27
Alt-A (2nd lien)					
1.	2007	d	NR	Caa1	$ 4
2.	2007	d	D	B1	-
Total					$ 4
Subprime (1st lien)					
1.	1999	b	NR	Caa1	$ -
2.	2004	b-	A	Ba2	15
3.	2004	a+	AAA	Aa2	9
4.	2004	aa	AA+	A1	7
5.	2005	d	CCC	-	93
7.	2007	c	CCC	C	122
Total					$ 246
Subprime (2nd lien)					
1.	2007	bb	BBB+	Baa3	$ 10
2.	2007	d	CC	C	3
3.	2007	c	CC	Ca	3
Total					$ 16
Subprime (1st lien) - International					
1.	2007	bbb	BBB	Baa2	$ 24
Total					$ 24
Total RMBS Outstanding					$ 462

(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 September 30, 2016 and December 31, 2015, respectively. 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	
	2016	2015	2016	2015	2016	2015
Synthetic CDO						
Corporate Synthetic CDO	$ 150	$ 150	41.5 %	9.0 %	1	1
CMBS CDO	103	747	28.4	44.8	1	1
Total Synthetic CDO	$ 253	$ 897	69.9 %	53.8 %	2	2
Cashflow CDO						
TRUPS CDO	$ 57	$ 82	15.9 %	4.9 %	3	4
US CLO	49	389	13.6	23.4	1	8
ABS CDO	2	2	0.6	0.1	1	1
Euro CLO	-	298	-	17.8	0	1
Total Cashflow CDO	$ 108	$ 771	30.1 %	46.2 %	5	14
Total Collateralized Debt Obligations Outstanding	$ 361	$ 1,668	100.0 %	100.0 %	7	16

[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 CMBS CDO is a CDO that synthetically references a portfolio of Commercial Mortgage Backed Securities. 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).

The following table presents the net notional exposure of the Company's guaranteed CDOs by rating as of September 30, 2016:

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

	NPO	% NPO
AAA	$ 212	58.7 %
AA	44	12.3
BBB	103	28.4
Below Investment Grade	2	0.6
Total Collateralized Debt Obligations Outstanding	$ 361	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.

14. Insurance Premiums

As of September 30, 2016, the Company reported a premium receivable of $122.4 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 2.6% and the weighted average collection term of the premium receivable was 12.01 years. For the nine months ended September 30, 2016, the accretion of the premium receivable was $2.5 million and is reported in “Premiums earned” on the accompanying consolidated statement of operations. As of September 30, 2016, the Company reported a reinsurance premium payable of $13.2 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 nine months ended September 30, 2016 and 2015:

(US dollars in thousands)	2016	2015
Premium receivable, beginning of period	$ 133,516	$ 165,335
Premium payments received	(12,046)	(15,375)
Adjustments:		
Changes in expected term of policies	(1,579)	(9,483)
Accretion of premium receivable discount	2,500	2,837
Premium receivable, end of period	$ 122,391	$ 143,314

The following table presents 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, 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 installment premiums receivable of $19.7 million (on a present value basis) and unearned premium revenue of $50.0 million relating to assumed reinsurance business at September 30, 2016:

	Expected Collection	Unearned Premium	Expected Premium Earnings			
(U.S. dollars in thousands)	of Premiums	Revenue	Upfront	Installments	Accretion	Total
Three months ended:						
December 31, 2016	1,017	258,925	3,683	2,146	790	6,619
Twelve months ended:						
December 31, 2017	7,996	236,355	14,388	8,182	3,005	25,575
December 31, 2018	7,743	215,050	13,574	7,731	2,753	24,058
December 31, 2019	7,606	194,855	12,799	7,395	2,509	22,703
December 31, 2020	7,495	175,694	12,049	7,113	2,262	21,424
December 31, 2021	6,737	157,968	11,146	6,580	2,030	19,756
Five years ended:						
December 31, 2026	27,921	89,606	43,226	25,136	7,353	75,715
December 31, 2031	18,931	48,466	25,598	15,542	3,893	45,033
December 31, 2036	13,272	22,065	16,569	9,832	1,429	27,830
December 31, 2041	2,946	11,056	8,742	2,267	185	11,194
December 31, 2046	363	6,543	4,246	267	36	4,549
December 31, 2051	102	2,864	3,605	73	4	3,682
December 31, 2056	-	53	2,812	-	-	2,812
December 31, 2061	-	-	53	-	-	53
Total	$ 102,129		$ 172,490	$ 92,264	$ 26,249	$ 291,003

The following sets forth the components of premiums earned for the nine months ended September 30, 2016 and 2015:

(U.S. dollars in thousands)	2016	2015
Gross premiums written	$ 2,119	$ 3,891
Reinsurance premiums assumed	3,241	(7,840)
Total premiums written	5,360	(3,949)
Change in direct unearned premium revenue	47,008	39,407
Change in assumed unearned premium revenue	1,108	12,647
Gross premiums earned	53,476	48,105
Reinsurance premiums ceded	1,252	(74)
Change in prepaid reinsurance premiums	(2,504)	(192)
Ceded premiums earned	(1,252)	(266)
Net premiums earned	$ 52,224	$ 47,839

For the nine months ended September 30, 2016 and 2015, net premiums earned include $25.7 million and $14.2 million, respectively, of earned premium relating to Premium Accelerations.

15. 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 nine months ended September 30, 2016 and 2015 are as follows:

(U.S. dollars in thousands)	2016	2015
Deferred acquisition costs, net—beginning of period	$ 54,243	$ 64,205
Acquisition costs and ceding commission revenue amortized:		
Acquisition costs amortized	(5,437)	(6,481)
Ceding commission revenue amortized	23	28
Amortization of deferred acquisition costs	(5,414)	(6,453)
Deferred acquisition costs, net—end of period	$ 48,829	$ 57,752

Accelerated amortization of deferred acquisition costs due to Premium Accelerations was $4.0 million and $2.0 million for the nine months ended September 30, 2016 and 2015, respectively.

16. Accumulated Other Comprehensive Income

Changes in accumulated other comprehensive income for the nine months ended September 30, 2016 and 2015 by component are as follows:

(U.S. dollars in thousands)

	2016	2015
Available-for-sale securities		
Balance, Beginning	$ 40	$ 23,115
Other comprehensive income (loss) before reclassifications	17,835	(9,230)
Amounts reclassified from accumulated other comprehensive income:		
Realized gains on sale of securities	(2,190)	(3,550)
Other-than-temporary impairments	5,257	857
Current period other comprehensive, net	20,902	(11,923)
Balance, Ending	$ 20,942	$ 11,192
Unrecognized pension and post retirement benefit costs		
Balance, Beginning	$ 365	$ (614)
Other comprehensive income (loss) before reclassifications	(9)	(82)
Amounts reclassified from accumulated other comprehensive income:		
Pension and other post retirement benefit amounts	-	-
Current period other comprehensive, net	(9)	(82)
Balance, Ending	$ 356	$ (696)
Total	$ 21,298	$ 10,496

17. 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 2035 pursuant to Bermuda law.

As 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 future taxable income.

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. is obligated to 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.

SGI has subsidiary and branch operations in certain international jurisdictions that are subject to relevant taxes in those jurisdictions.

The Company's income tax provision for the nine months ended September 30, 2016 and 2015 was $4.1 million and $1.8 million, respectively.

In accordance with U.S. GAAP, for the nine months ended September 30, 2016 and 2015, the Company recorded income tax expense based on the estimated effective tax rate for the full year 2016 and 2015. The primary reason that this effective tax rate differs from the U.S. statutory tax rate of 35% is the full valuation allowance that Management expects to maintain against its net U.S. deferred tax assets.

As of September 30, 2016 and 2015, respectively, the Company had no unrecognized tax benefits 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 nine months ended September 30, 2016 and 2015. Tax years 2013 through 2016 are subject to examination by U.S. federal authorities. There are currently no U.S. federal, state or local tax audits underway for the Company as of September 30, 2016.

At September 30, 2016, the Company had net operating loss carryforwards expiring from 2027 through 2031 of $2.6 billion.

At September 30, 2016, the Company had capital loss carryforwards of $177.8 million expiring from 2017 through 2020.

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 Company's U.S. deferred tax assets, thus a valuation allowance has been established against the entire U.S. deferred tax assets of the Company at September 30, 2016 and December 31, 2015. 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 U.S. deferred tax assets until sufficient positive evidence exists to support reversal of all or a portion of the valuation allowance.

As of September 30, 2016 and December 31, 2015, the Company recorded net deferred tax liabilities of $5.2 million and $3.4 million, respectively, and are included in “Other liabilities” on the Company’s consolidated balance sheet.

At September 30, 2016, the Company’s cumulative U.S. net operating losses (“NOLs”), which may be carried forward to offset future taxable income, are $2.6 billion. The Company’s ability to utilize its NOLs at September 30, 2016 expires from 2027 through 2031. Approximately $161.3 million of the Company’s NOLs as of December 31, 2015 are subject to limitation under Section 382 of the Internal Revenue Code (“Section 382”) as a result of an ownership change, as defined under that code section, that occurred on August 5, 2008. An ownership change, as defined under Section 382 generally occurs if the percentage stock ownership of shareholders owning (or deemed under Section 382 to own) 5% or more of Syncora Holdings’ common shares increases by more than 50 percentage points over the lowest percentage of Syncora Holdings’ common shares owned by such shareholders during a defined period of time. To avoid an ownership change in the future and further limitation on the use of the Company’s NOLs, on October 21, 2008, Syncora Holdings’ Board of Directors approved changes to Syncora Holdings’ Bye-laws which were subsequently approved by the shareholders on February 9, 2009 to limit the transfer of shares prior to the expiration of certain time periods specified in such bye-laws.

In connection with the Restructuring Transactions completed on August 12, 2016, pursuant to an amended and restated tax sharing agreement, SGI reallocated $1.75 billion of excess net operating losses to Syncora Holdings US Inc. (“SHI”) for its sole use and benefit, where these net operating losses may be used more broadly. In addition, SHI provided contractual protections relating to the preservation and utilization of the SGI’s retained net operating losses. The amendments to the tax sharing agreement did not have any effect on the Company’s consolidated financial results.

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

18. Preferred and Common 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. The put option fair value was $180.0 million at date of exercise. Upon the exercise of the put option, the Company reduced the amount of the Series B Preferred Shares by such amount. Accordingly, the original carrying value of the Series B Preferred Shares of $20.0 million represented the net proceeds received upon the issuance less the reversal of the fair value of the put option on the date of exercise. 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.

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 nine months ended September 30, 2016 and 2015. In connection with the BAC settlement, 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. In February 2015, the Company's subsidiary, SGI, was transferred 84,584 preferred shares of the Company from BAC in connection with the Company's previously reported 2012 settlement of RMBS-related claims and other claims with BAC and affiliates thereof. Such preferred shares were held as treasury shares. As a result of this transfer and based on accounting guidance for extinguishment of preferred shares, Syncora Holdings recorded a reduction to the carrying value of its Series A preferred shares with a corresponding reduction to accumulated deficit. For purposes of earnings per share to common shareholders, this transfer was reflected as a gain which increased the net income available to common shareholders.

In connection with the completed restructuring transaction as discussed in Note 1, all of the Syncora Holdings Series A Preferred Shares were cancelled, including the shares held as treasury and no Syncora Holdings Series A Preferred Shares remain outstanding. As a result of the restructuring transaction related to the conversion of the Syncora Holdings Series A Preferred Shares, based on accounting guidance for extinguishment of preferred shares, Syncora Holdings recorded a reduction to the carrying value of its Series A preferred shares with a corresponding reduction to accumulated deficit. For purposes of earnings per share to common shareholders, this conversion resulted in a gain, which increased the net income available to common shareholders.

Common Shares

In connection with the Company's previously reported 2012 settlement of RMBS-related claims and other claims with BAC and affiliates thereof, the Company reported that as part of such settlement, subsidiaries of BAC transferred or agreed to transfer to SGI or its designee certain of SGI's and the Company's preferred shares, surplus notes and other securities. The transfer of the Company's common shares and preferred shares had remained subject to the Company's board approval and with respect to the preferred shares, regulatory approval. During the fourth quarter of 2014, 3,044,588 of Syncora Holdings' common shares were transferred from BAC to SGI and such shares are accounted for and held as treasury shares by the Company, but remain legally outstanding for voting and other purposes. See Note 20 for further discussion on dividend restrictions.

On August 12, 2016, in connection with the restructuring transaction, in the aggregate, the Company issued 30.3 million of additional common shares, which were recorded at a fair value of $37.9 million.

19. Commitments and Contingencies

a. Legal Matters

In the ordinary course of business, the Company is directly or indirectly subject to litigation or other legal proceedings. The Company intends to vigorously defend its interests, and the Company does not expect the outcome of these matters to have a material adverse effect on the Company's financial position, results of operations or liquidity. The Company can provide no assurance that the ultimate outcome of these actions will not cause a loss nor have a material adverse effect on the Company's financial position, results of operations or liquidity.

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

RMBS Litigation

US Bank v. GreenPoint Mortgage

On February 5, 2009, Syncora Guarantee, together with co-plaintiffs U.S. Bank National Association, as Indenture Trustee ("US Bank") and CIFG Assurance North America, Inc., now merged with and into Assured Guaranty Corp. ("CIFG"), filed suit in the Supreme Court of the State of New York, New York County, against GreenPoint (the "GreenPoint State Action"), alleging that GreenPoint breached representations and warranties that would require repurchase of the breaching mortgage loans and/or the entire loan pool and/or payment of damages in connection with a securitization of primarily home-equity mortgage loans originated by GreenPoint (the "2006-HE1 Securitization"), which was sponsored by Lehman Brothers Holdings Inc. ("LBHI"). In 2010, Syncora Guarantee was dismissed from the case after the Court found that it (as well as CIFG) lacked standing to pursue direct claims against GreenPoint.

On December 16, 2013, GreenPoint moved to dismiss the remaining claims of US Bank on the grounds that it too lacked standing. US Bank cross-moved for partial summary judgment striking GreenPoint's defense that US Bank lacked standing to directly pursue GreenPoint.

On January 28, 2016, the Court rejected GreenPoint's motion for summary judgment and granted US Bank's cross-motion for partial summary judgment, finding that as a matter of law US Bank has standing to directly assert claims against GreenPoint. On February 26, 2016, GreenPoint filed a notice of appeal of that decision.

On October 20, 2016 US Bank served a proposed amended complaint, which is subject to court approval.

Lehman Brothers Proofs of Claim

On September 16, 2009, Syncora Guarantee filed a proof of claim against LBHI in the United States Bankruptcy Court for the Southern District of New York in connection with the same securitization at issue in the GreenPoint State Action, which proof of claim was later amended.

In 2013-2015 LBHI commenced a series of proceedings against Syncora Guarantee in connection with the Syncora Claim in the United States Bankruptcy Court for the Southern District of New York seeking to disallow or subordinate the Syncora Guarantee's claim as well as reduce the reserve relating thereto, all of which Syncora Guarantee opposed.

On September 20, 2016, Syncora Guarantee settled its claim and related litigation with LBHI and Structured Asset Securities Corporation, which settlement became effective upon approval by the bankruptcy court. Syncora Guarantee recorded a receivable for the $14.1 million as of September 30, 2016. On October 6, 2016, the Lehman bankruptcy estate distributed $14.1 million to Syncora Guarantee.

ARPA Litigation

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

In 2014, Lamar, Colorado (one of the six ARPA member municipalities) and others, filed a series of suits against ARPA and Syncora Guarantee alleging that ARPA mismanaged the project and seeking, among other things, to terminate its membership in ARPA. Syncora Guarantee is no longer named as a party in these litigations. Notwithstanding that Syncora Guarantee is no longer a party to these litigations, an unfavorable outcome in these litigations could have an adverse effect on Syncora Guarantee as guarantor of certain of APRA's bond obligations.

Macquarie Litigation

On April 18, 2012, Syncora Guarantee initiated an action in the Supreme Court of the State of New York against Macquarie Capital (USA) Inc. ("Macquarie"), among others. The case remains pending only against Macquarie, with Syncora Guarantee having entered into a stipulation dismissing the other defendants from the lawsuit. Syncora Guarantee alleges that Macquarie made misrepresentations and omissions in obtaining insurance in connection with a bond offering by American Roads LLC. Macquarie's motion to dismiss the claims was denied in its entirety and decided in Syncora Guarantee's favor. On September 28, 2015, Syncora Guarantee filed a motion to amend its complaint to include additional allegations against Macquarie. In May 2016, Macquarie filed a motion to dismiss Syncora Guarantee's amended complaint and, in the alternative, to narrow Syncora Guarantee's claims and damages. Syncora Guarantee's opposition to the motion to dismiss was filed on July 29, 2016 and oral argument was held on October 13, 2016. A decision remains pending. Pretrial discovery is continuing and is anticipated to conclude in the first quarter of 2017.

b. Lease and Other Commitments

The Company has lease commitments for office premises at 135 West 50th Street, New York, New York, Merritt 7 Corporate Park, Norwalk, Connecticut, and 76 South Orange Avenue, South Orange, New Jersey.

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 December 31, 2040. 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 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 $1.4 million for the nine months ended September 30, 2016, and then are expected to be approximately $1.9 million in 2016.

Net minimum aggregate lease commitments are $1.1 million, $1.2 million, $1.0 million, $0 and $0 for the years ended December 31, 2016 through December 31, 2020.

Net rent expense was $0.8 million and $0.9 million for the nine months ended September 30, 2016 and 2015, respectively.

20. Dividend Restrictions and Insurance Regulatory Requirements

Syncora Holdings

Syncora Holdings' Board of Directors did not declare a quarterly dividend with respect to its common shares for the year ended December 31, 2015 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.

SGI and SCAI

The ability of SGI and SCAI to declare and pay a dividend to shareholders is governed by applicable New York law, including the NYIL. Under Section 4105 of the NYIL, each of SGI and SCAI is permitted to pay dividends to shareholders in any 12-month period, without the prior approval of the NYDFS in an amount equal to the lesser of 10% of its policyholders' surplus as of last financial statement filed with the NYDFS (annual or quarterly) or their adjusted net investment income for the 12-month period, as determined in accordance with Statutory Accounting Practices prescribed or permitted by the NYDFS. The NYIL also provides that each of SGI and SCAI may distribute dividends to shareholders in excess of the aforementioned amount only upon approval thereof by the NYDFS. Even if these tests are satisfied, NYIL provides a further test in that SGI and SCAI may not declare or distribute any dividends to shareholders except out of "earned surplus" (an amount equal to "unassigned funds (surplus)" as shown on SGI's and SCAI's respective statutory balance sheets, which as of September 30, 2016 and December 31, 2015 were $402.5 million and ($1.760) billion, respectively, for SGI and $17.0 million and ($229.4) million, respectively, for SCAI, less in each case their respective "unrealized appreciation of assets"). The NYDFS may disapprove such dividends to shareholders if it finds that SGI and SCAI will retain insufficient surplus to support its obligations and writings.

As discussed in Note 1, the NYDFS granted SGI and SCAI permission to increase their earned surplus to the greatest extent possible given their current gross paid in and contributed surplus by allocating the entire balance of that account to earned surplus. As a result of this permitted practice, SGI and SCAI reclassified their gross paid in and contributed surplus balance of $2.0 billion and $219.0 million, respectively, to earned surplus as of September 30, 2016.

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 11) are paid in full.

Pursuant to the terms of the 2009 MTA, SCAI is not permitted to pay any dividend or make any distribution to SGI or any other affiliate unless SCAI's remaining surplus note has been paid in full (the terms of which provide for full repayment on June 27, 2024) 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 September 30, 2016 and December 31, 2015, SGI and SCAI reported policyholders' surplus of $1,173.7 million and $1,087.0 million, respectively and $219.5 million and $192.1 million, respectively. For the nine months ended September 30, 2016 and 2015, SGI and SCAI reported net income (loss) of $56.7 million and $48.2 million, respectively and $(8.4) million and $(11.2) million, respectively.

SGI and SCAI Statutory Insurance Regulatory Requirements

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

Set forth below are reconciliations of the net income (loss) and capital and surplus (deficit) of SGI and SCAI reported in accordance with NAIC SAP to such amounts prepared in accordance with statutory accounting practices prescribed or permitted by the NYDFS for the nine months ended September 30, 2016 and 2015 and as of September 30, 2016 and December 31, 2015:

SGI

(U.S. dollars in thousands)

	Net Income		Capital and Surplus	
Description	**Nine Months September 30, 2016**	**Nine Months September 30, 2015**	**September 30, 2016**	**December 31, 2015**
NAIC SAP Basis	$ 123,118	$ (3,502)	$ 398,278	$ 236,911
Effect of NY prescribed practices				
(a)	-	-	-	-
Effect of NY permitted practices				
(b)	-	-	400,617	398,638
(c)	(58,300)	44,392	316,960	375,261
(d)	-	-	-	-
(e)	(8,109)	7,277	57,827	76,147
(f)	-	-	-	-
NY Basis	$ 56,709	$ 48,167	$ 1,173,682	$ 1,086,957

Permitted or Prescribed Practices

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

(b) Pursuant to approval granted by the NYDFS in accordance with section 6903 of the NYIL, as of September 30, 2016 and December 31, 2015, SGI has de-recognized $400.6 million and $398.6 million, respectively, in the aggregate, of contingency reserves on terminated policies, and policies on which the Company has established case reserves, whereas under NAIC SAP the Company would still be required to carry such reserves. The Company applies the permitted practice described above to release contingency reserves on an obligation by obligation basis under policies insuring multiple obligations rather than on a policy by policy basis.

(c) The NYDFS granted the SGI a permitted practice to de-recognize reserves for unpaid losses, unearned premium reserve and contingency reserves relating to, and expense payments (which are reflected in "Net losses and loss adjustment expenses " on the Statements of Operations and Changes in Capital and Surplus ("Statements of Operations")) made to effect, certain transactions executed in connection with its continued remediation efforts which effectively defeased or, in-substance, commuted, in whole or in part, the policies relating thereto, whereas under NAIC SAP such reserves would continue to be carried until such time the underlying contracts were legally extinguished and the payments made to effect the transactions would have resulted in the recording of an asset, as such payments were made in exchange for the assignment to the Company or an affiliate of the Company of all rights under the aforementioned policies. As of September 30, 2016, such de-recognized reserves for unpaid losses, unearned premium reserve and contingency reserves (as of the date of the effective defeasance or, in-substance commutations) aggregated $6.1 billion, $11.7 million and $3.1 million, respectively. As of December 31, 2015, such de-recognized reserves for unpaid losses, unearned premium reserve and contingency reserves (as of the date of the effective defeasance or, in-substance commutations) aggregated $6.1 billion, $4.2 million and $3.1 million, respectively. As of December 31, 2015, the Company no longer sought approval for the de-recognition of unpaid losses, unearned premium reserves and contingency reserves relating to, and expense payments made which effectively defeased or, in-substance, commuted certain CDS contracts executed in connection with the consummation of the 2009 MTA and that were previously disclosed on an aggregate basis. As such CDS contracts were legally extinguished as of December 31, 2015, the associated reserves were released under NAIC SAP resulting in no difference between NAIC SAP and NY basis, and therefore the permitted practice is no longer required.

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

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

(f) In connection with the Restructuring Transactions (as defined in Note 1) completed on August 12, 2016, the NYDFS granted the Company permission to increase its earned surplus to the greatest extent possible given its current gross paid in and contributed surplus by allocating the entire balance of that account to earned surplus. As both earned surplus and gross paid in and contributed surplus are elements of policyholders' surplus, this permitted practice has no effect on total policyholders'surplus.

SCAI

(U.S. dollars in thousands)

	Net Income (Loss)		Capital and Surplus (Deficit)	
Description	**Nine Months September 30, 2016**	**Nine Months September 30, 2015**	**September 30, 2016**	**December 31, 2015**
NAIC SAP Basis	$ (10,086)	$ (14,953)	$ (334,562)	$ (315,995)
Effect of NY prescribed practices				
(a)	-	-	-	-
Effect of NY permitted practices				
(b)	-	-	396,919	352,657
(c)	-	-	-	-
(d)	1,691	3,775	157,137	155,446
(e)				
NY Basis	$ (8,395)	$ (11,178)	$ 219,494	$ 192,108

Permitted or Prescribed Practices

(a) Pursuant to certain prescribed accounting practices under Articles 14 and 69 of the New York Insurance Law ("NYIL") that differ with those found in NAIC SAP, the admissible carrying value of investments in certain securities including Uninsured Cash Flow Certificates are subject to limitations. In connection with remediation efforts, the NYDFS permitted the Company to admit the Uninsured Cash Flow Certificates notwithstanding the otherwise applicable limitations, which resulted in no difference between NAIC SAP and NY Basis.

(b) Pursuant to approval granted by the NYDFS, in accordance with section 6903 of the NYIL, as of September 30, 2016 and December 31, 2015, SCAI has de-recognized $396.9 million and $352.7 million, respectively, in the aggregate, of contingency reserves on terminated policies, and policies on which the Company has established case basis reserves, whereas under NAIC SAP the Company would still be required to carry such reserves. The Company applies the permitted practice described above to release contingency reserves on an obligation by obligation basis under policies insuring multiple obligations rather than on a policy by policy basis. In addition to the foregoing, the Company releases contingency reserves based on a methodology pursuant to a permitted practice granted by the NYDFS.

(c) The NYDFS granted the SCAI a permitted practice to value the surplus notes issued by the Company in connection with its initial capitalization at face value, as compared to the estimated fair value thereof, that the Company would otherwise have been required to reflect such surplus notes at in accordance with NAIC SAP. In accordance with NAIC SAP, the capitalization of the Company must be attributed to the instruments issued by the Company for such capital based on their relative fair values. Any adjustment to the carrying value of surplus notes would result in an equal and offsetting adjustment to accumulated deficit. As both surplus notes and unassigned funds are elements of policyholders' surplus, a change in the value of the surplus notes would not affect policyholders' surplus.

(d) The NYDFS granted the Company a permitted practice to de-recognize reserves for unpaid losses, unearned premium reserves and contingency reserves relating to, and expense payments (which are reflected in "Net losses and loss adjustment expenses incurred" on Statements of Operations and Changes in Capital and Surplus ("Statements of Operations")) made to effect, certain transactions which effectively defeased or, in-substance, commuted, in whole or in part, the policies relating thereto, whereas under NAIC SAP such reserves would continue to be carried until such time the underlying contracts were legally extinguished and the payments made to effect the transactions would have resulted in the recording of an asset, as such payments were made in exchange for the assignment to the Company of all rights under the aforementioned policies. As of September 30, 2016, such de-recognized reserves for unpaid losses, unearned premium reserves and contingency reserves (as of the date of the effective defeasance or, in-substance commutations) aggregated $142.2 million, $13.2 million and $1.8 million, respectively. As of December 31, 2015, such de-recognized reserves for unpaid losses, unearned premium reserves and contingency reserves (as of the date of the effective defeasance or, in-substance commutations) aggregated $140.5 million, $13.2 million and $1.8 million, respectively.

(e) On August 12, 2016, the NYDFS granted the Company permission to increase its earned surplus to the greatest extent possible given its current gross paid in and contributed surplus by allocating the entire balance of that account to earned surplus. As both earned surplus and gross paid in and contributed surplus are elements of policyholders' surplus, this permitted practice has no effect on total policyholders' surplus.

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

As of September 30, 2016 and December 31, 2015, the Company had, in the aggregate, approximately $83.0 million and $90.9 million, respectively, on deposit to collateralize its contractual obligations under certain agreements, including reinsurance, lease, and letter of credit agreements. Of such deposits, $1.4 million and $26.1 million, $15.2 million and $15.3 million and $66.3 million and $49.5 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. In addition, debt securities with an amortized cost and fair value of $6.3 million and $6.6 million at September 30, 2016 and $6.2 million and $6.7 million at December 31, 2015, respectively, were on deposit with various regulatory authorities as required by insurance laws.

22. Business Segments

The Company's reportable business segments are based upon the Company's internal organizational structure, the manner in which the Company's operations are managed and performance is evaluated, the availability of separate financial information and overall materiality considerations.

The Company's two reportable operating business segments are Financial Guarantee Insurance and Other. The financial guarantee insurance business segment provides financial guarantee insurance and reinsurance on public finance, structured single risk, collateralized debt and asset-backed securities obligations. The other business segment relates to the Company's non-insurance business and primarily includes the operations of Pike Pointe, the owner and operator of certain toll road facilities located in the United States and Canada.

The following tables contain financial information for each reportable business segment for the nine months ended September 30, 2016 and 2015 and as of September 30, 2016 and December 31, 2015:

	Financial Guarantee Insurance		Other		Eliminations		Consolidated	
(U.S. dollars in thousands)	2016	2015	2016	2015	2016	2015	2016	2015
Revenues								
Net premiums earned	$ 52,224	$ 47,839	$ -	$ -	$ -	$ -	$ 52,224	$ 47,839
Net investment income	35,036	30,763	1,244	725	–	–	36,280	31,488
Net realized losses on investments	(13,677)	(3,695)	4,291	–	–	–	(9,386)	(3,695)
Net losses on insurance cash flow certificates	(43,238)	(49,777)	–	–	–	–	(43,238)	(49,777)
Toll revenue	–	–	21,195	19,486	–	–	21,195	19,486
Fees and other income	16,345	1,169	5,410	8,750	–	–	21,755	9,919
Net (loss) earnings on credit default and other swap contracts	(52,270)	114,287	–	–	–	–	(52,270)	114,287
Net change in fair value of consolidated VIEs	18,699	9,117	–	–	–	–	18,699	9,117
Total Revenues	13,119	149,703	32,140	28,961	–	–	45,259	178,664
Expenses								
Net (recoveries) losses and loss adjustment expenses	(101,416)	(128,090)	–	–	–	–	(101,416)	(128,090)
Amortization of deferred acquisition costs, net	5,414	6,454	–	–	–	–	5,414	6,454
Realized loss on interest rate derivative instrument	501	2,678	–	–	–	–	501	2,678
Interest expense	53,571	53,918	–	–	–	–	53,571	53,918
Operating expenses	51,514	44,304	18,508	18,144	–	–	70,022	62,448
Total Expenses	9,584	(20,736)	18,508	18,144	–	–	28,092	(2,592)
Income before income taxes	3,535	170,439	13,632	10,817	–	–	17,167	181,256
Income tax expense	558	(1,502)	5,209	2,693	(1,630)	576	4,137	1,767
Net income	$ 2,977	$ 171,941	$ 8,423	$ 8,124	$1,630	$ (576)	$ 13,030	$ 179,489
Total assets	$2,213,967	$2,337,100	$256,727	$288,612	$ -	$ -	$2,470,694	$2,625,712

The summarized consolidated balance sheets, statements of operations and statements of cash flows of Pike Pointe Holdings LLC as of September 30, 2016 and December 31, 2015 and for the nine months ended September 30, 2016 and 2015 are set forth below:

(U.S. dollars in thousands)	2016	2015
ASSETS		
Debt securities, available-for-sale, at fair value	$ 17,023	$ 40,469
Other invested assets, at fair value	8,623	12,205
Cash and cash equivalents	17,382	25,961
Total cash and invested assets	43,028	78,635
Restricted cash and bank time deposits	2,142	2,022
Property and equipment, net	49,142	50,781
Leasehold rights and other definite-lived intangible assets, net	8,235	9,984
Toll rights and other indefinite-lived intangible assets	94,516	94,516
Other assets	8,125	7,360
Total assets	$ 205,188	$ 243,298
LIABILITIES AND MEMBER'S EQUITY		
Liabilities		
Accounts payable, accrued expenses and other liabilities	9,020	7,468
Pension and other postretirement liabilities	11,327	11,200
Total liabilities	20,347	18,668
Member's equity		
Members' contribution	167,008	214,209
Retained earnings	16,687	9,908
Accumulated other comprehensive income	1,146	513
Total member's equity	184,841	224,630
Total liabilities and member's equity	$ 205,188	$ 243,298

	2016	2015
Revenues		
Toll revenue	$ 21,195	$ 19,486
Net investment income	1,002	637
Fees and other income	3,160	3,133
Total revenues	25,357	23,256
Expenses		
Foreign currency exchange gain	(125)	(104)
Operating expenses	15,072	13,774
Total expenses	14,947	13,670
Income before income tax expense	10,410	9,586
Income tax expense	3,578	3,268
Net income	6,832	6,318
Other comprehensive income (loss):		
Change in pension and other postretirement benefits	(51)	(82)
Net unrealized gains on investments	643	(588)
Comprehensive income	$ 7,424	$ 5,648

	2016	2015
Cash flows from operating activities:		
Cash received from tolls	$ 20,625	$ 20,138
Management fees received	527	486
Other operating cash receipts	2,731	2,765
Cash paid for operating expenses	(10,927)	(11,591)
Interest and dividend income collected	1,385	1,055
Net cash provided by operating activities	14,341	12,853
Cash flows from investing activities:		
Proceeds from sale of investments	26,411	17,605
Proceeds from maturity of investments	5,747	2,950
Proceeds of bank time deposits	392	—
Purchases of investments	(8,505)	(11,794)
Purchases of bank time deposits	—	(394)
Purchases of fixed assets	(535)	(689)
Net cash provided by investing activities	23,510	7,678
Cash flows from financing activities:		
Distribution to parent company	(46,430)	—
Net cash used in financing activities	(46,430)	—
(Decrease) increase in cash and cash equivalents	(8,579)	20,531
Cash and cash equivalents- beginning of period	25,961	7,289
Cash and cash equivalents- end of period	$ 17,382	$ 27,820
Supplemental non- cash transactions:		
Securities distributed to parent company	3,570	—

23. Financial Information of Syncora Holdings (Parent Company Only)

The balance sheets, statements of operations and shareholders' equity, and statements of cash flows of Syncora Holdings as of September 30, 2016 and December 31, 2015 and for the nine months ended September 30, 2016 and 2015 are set forth below:

(U.S. dollars in thousands)	2016	2015
Assets		
Debt securities available for sale, at fair value (amortized cost: $2,100 and $3,883)	$ 2,234	$ 3,996
Cash and cash equivalents.	970	1,221
Accrued investment income	6	11
Investment in subsidiaries on an equity basis:		
Syncora Guarantee	493,480	468,118
Other subsidiaries.	19,572	19,530
Other assets	5,887	5,822
Total assets	$ 522,149	$ 498,698
Liabilities and Shareholders' Equity		
Liabilities— accounts payable, accrued expenses, and other liabilities	$ —	$ —
Shareholders' equity		
Series A perpetual non-cumulative preferred shares and additional paid-in capital	—	163,162
Common shares and additional paid-in capital	2,716,220	2,678,346
Accumulated deficit	(2,215,369)	(2,343,216)
Accumulated other comprehensive income	21,298	406
Total common shareholders' equity	522,149	335,536
Total shareholders' equity	522,149	498,698
Total liabilities and shareholders' equity	$ 522,149	$ 498,698

	2016	2015
Revenues		
Net investment income	$ 28	$ 37
Net realized gains on investments	—	—
Total revenues	28	37
Operating expenses	2,003	1,983
Loss before equity in net income of subsidiaries	(1,975)	(1,946)
Equity in net income of Syncora Guarantee	14,585	180,437
Equity in net income of other subsidiaries	27	197
Equity in net income of subsidiaries	14,612	180,634
Net income attributable to Syncora Holdings Ltd	12,637	178,688
Other comprehensive income:		
Net unrealized gains on investments	37	(4)
Equity in other comprehensive income (loss) of Syncora Guarantee	20,855	(12,001)
Total other comprehensive income (loss)	20,892	(12,005)
Total comprehensive income	33,529	166,683
Effects of restructuring transactions	(47,952)	—
Change in common shares and additional paid-in-capital	37,874	29
Change in shareholders' equity	23,451	166,712
Total shareholders' equity- beginning of period	498,698	304,117
Total shareholders' equity- end of period	$ 522,149	$ 470,829

	2016	2015
Cash flows from operating activities:		
Operating expenses paid	$ (2,145)	$ (1,660)
Investment income collected	37	53
Other cash receipts (disbursements)	76	(227)
Net cash used in operating activities	(2,032)	(1,834)
Cash flows from investing activities:		
Proceeds from sale of debt securities	—	727
Proceeds from maturity of debt securities	2,183	2,719
Purchases of debt securities	(402)	(1,619)
Capital contribution to subsidiary	—	(70)
Net cash provided by investing activities	1,781	1,757
Decrease in cash and cash equivalents	(251)	(77)
Cash and cash equivalents—beginning of period	1,221	1,406
Cash and cash equivalents—end of period	$ 970	$ 1,329

24. Subsequent Events

The Company has evaluated all subsequent events through December 19, 2016, the date the consolidated financial statements were available to be issued.