

Syncora Holdings Ltd. Announces Interim GAAP Consolidated Financial Results for the Nine Months Ended September 30, 2018

HAMILTON, Bermuda, November 14, 2018 (GLOBE NEWSWIRE)—Syncora Holdings Ltd. (“Syncora” or the “Company”), a Bermuda holding company whose wholly-owned subsidiary provides financial guarantee insurance and reinsurance, today reported financial results for the nine months ended September 30, 2018.

Syncora Holdings Ltd.		
Summary of Consolidated Financial Results		
Nine Months Ended September 30, 2018 and 2017 (Unaudited)		
(U.S. dollars in millions, except per share amounts)		
	2018	2017
Premiums earned, net of reinsurance ceded	\$ 26.1	\$ 38.6
Net investment income	31.1	34.0
Net unrealized and realized gains (losses) on investments	7.8	(15.8)
Net earnings (loss) on insurance cash flow certificates	21.4	(29.9)
Net (loss) earnings on credit default and other swap contracts	(25.5)	45.6
(Recoveries) losses and loss adjustment expenses, net of reinsurance ceded	(17.9)	120.2
Loss on debt prepayment	91.4	-
Operating expenses	36.1	31.7
Loss from continuing operations	(94.2)	(135.8)
Income from discontinued operations, including gain on disposal	75.1	10.3
Net loss attributable to controlling interest	\$ (19.3)	\$ (125.7)
Basic and diluted income from discontinued operations per common share	\$ 0.87	\$ 0.12
Basic and diluted loss per common share	\$ (0.22)	\$ (1.45)
Non-GAAP operating loss ⁽¹⁾	\$ (11.7)	\$ (123.5)
Non-GAAP basic and diluted operating loss per common share ⁽¹⁾	\$ (0.13)	\$ (1.42)
Basic and diluted weighted average common shares outstanding	86.9	86.7
	As of	As of
	September 30,	December 31,
	2018	2017
Adjusted Book Value ⁽¹⁾	\$ 524.3	\$ 609.3
Common shares outstanding at end of period	87.0	86.8
Adjusted Book Value per common share ⁽¹⁾	\$ 6.03	\$ 7.02

⁽¹⁾ Non-GAAP operating income (loss) and adjusted book value are Non-GAAP financial measures that exclude (or include) amounts that are included in (or excluded from) total Syncora Holdings Ltd. net income (loss) and common shareholders' equity, respectively, which are presented in accordance with GAAP. See below for reconciliations between GAAP and Non-GAAP financial measures.

Financial Results

Consolidated Statements of Operations

Net premiums earned were \$26.1 million for the nine months ended September 30, 2018, as compared to \$38.6 million for the nine months ended September 30, 2017. The decrease was due to higher premiums ceded of \$5.1 million and lower earned premiums from the continued run-off of the Company's book of business. Total premium accelerations decreased slightly to \$15.7 million for the nine months ended September 30, 2018, from \$19.9 million for the nine months ended September 30, 2017.

Net investment income decreased by \$2.9 million from \$34.0 million for the nine months ended September 30, 2017 to \$31.1 million for the nine months ended September 30, 2018. The decrease was primarily due to lower income on remediation bonds as compared to the prior period.

Net unrealized and realized gains on investments increased by \$23.6 million to \$7.8 million for the nine months ended September 30, 2018 from a net realized loss of \$15.8 million for the nine months ended September 30, 2017. The change was primarily due to lower other-than-temporary impairment charges and foreign exchange gains on the sale of certain Euro-denominated remediation bonds in the current period.

Net earnings on insurance cash flow certificates was \$21.4 million for the nine months ended September 30, 2018, as compared to a loss of \$29.9 million for the nine months ended September 30, 2017. The increase was a result of a reduction to reimbursements owed to third party UCF holders as a result of the receipt of cash from the GreenPoint litigation settlement in the first quarter.

Net loss on credit default and other swap contracts was \$25.5 million for the nine months ended September 30, 2018, as compared to earnings of \$45.6 million for the nine months ended September 30, 2017. The decrease was primarily due to the effect of entering into the reinsurance agreement with Assured Guaranty Corp. and lower non-performance risk spreads during the current period.

(Recoveries) losses and loss adjustment expenses were \$(17.9) million for the nine months ended September 30, 2018, as compared to \$120.2 million for the nine months ended September 30, 2017. The change was primarily due to public finance positive developments, including the effect of the sale of a reimbursement claim related to prior payments on Puerto Rico General Obligation bonds, partially offset by RMBS adverse developments and additional loss adjustment expenses related to the sale of American Roads LLC.

Loss on debt prepayment was \$91.4 million for the nine months ended September 30, 2018, as a result of the payment made last quarter on the long-term notes which have not yet been fully accreted to par. On June 27, 2018, Syncora Guarantee Inc. made a net payment of \$400 million on its long-term and short-term notes.

Operating expenses were \$36.1 million for the nine months ended September 30, 2018, as compared to \$31.7 million for the same period last year. The increase was primarily due to expenses incurred in connection with the reinsurance agreement.

Income from discontinued operations represents the total revenues and total expenses and gain on disposal of American Roads LLC, which was \$75.1 million for the nine months ended September 30, 2018 and \$10.3 million for the same period last year. The current period includes a \$64.4 gain on the sale of American Roads LLC which closed on July 16, 2018.

Consolidated Balance Sheets

Total assets decreased by \$406.3 million from \$2,385.5 million as of December 31, 2017 to \$1,979.2 million as of September 30, 2018 primarily as a result of the \$400.0 million note payment during the second quarter.

Total liabilities decreased by \$368.2 million from \$1,683.5 million as of December 31, 2017 to \$1,315.3 million as of September 30, 2018. The decrease was primarily due to lower notes payable and accrued interest balances as a result of the \$400.0 million note payment made, public finance positive developments, lower unearned premium revenue from the continued run-off of the Company's insured portfolio, lower liabilities of variable interest entities as a result of the deconsolidation of two variable interest entities, lower accounts payable, accrued expenses and other liabilities due to lower compensation-related expenses as a result of headcount reductions and the elimination of liabilities of entity held-for-sale as a result of the American Roads LLC sale. These amounts were partially offset by higher mark-to-market fair values on our credit default and other swap contracts due to lower non-performance risk spreads primarily on the ceded book of business.

Subsequent Events

On November 14, 2018, the NYDFS approved the Company's request for a net payment of \$275 million on its long-term and short-term notes (including principal and accrued interest) to be made on December 28, 2018.

After September 30, 2018, but prior to the date of this release, the Company had received other income in the amount of approximately \$38 million, primarily from the settlement of litigation.

Syncora Holdings Ltd.
Consolidated Statements of Operations
Nine Months Ended September 30, 2018 and 2017 (Unaudited)
(U.S. dollars in thousands)

	<u>2018</u>	<u>2017</u>
Revenues		
Premiums earned, net of reinsurance ceded	\$ 26,142	\$ 38,565
Net investment income	31,084	33,993
Net unrealized and realized gains (losses) on investments, including other-than-temporary impairment losses of \$(11,281) and \$(37,940)	7,791	(15,809)
Net earnings (loss) on insurance cash flow certificates, net of amortization of deferred gains of \$2,327 and \$1,616	21,389	(29,932)
Fees and other income	15,354	4,367
Net (loss) earnings on credit default and other swap contracts	(25,536)	45,587
Net change in fair value of consolidated variable interest entities	8,350	5,862
Total revenues	<u>84,574</u>	<u>82,633</u>
Expenses		
(Recoveries) losses and loss adjustment expenses, net of reinsurance ceded	(17,915)	120,190
Amortization of deferred acquisition costs, net	5,051	5,669
Interest expense, including accretion of \$34,151 and \$29,740	63,986	65,909
Loss on debt prepayment	91,416	-
Operating expenses	36,092	31,658
Total expenses	<u>178,630</u>	<u>223,426</u>
Loss before income tax expense from continuing operations	<u>(94,056)</u>	<u>(140,793)</u>
Income tax expense (benefit)	166	(4,950)
Loss from continuing operations	<u>(94,222)</u>	<u>(135,843)</u>
Income from discontinued operations, including gain on disposal of \$64,383	<u>75,143</u>	<u>10,296</u>
Net loss	<u>(19,079)</u>	<u>(125,547)</u>
Net income attributable to non-controlling interest	<u>260</u>	<u>177</u>
Net loss attributable to controlling interest	<u>(19,339)</u>	<u>(125,724)</u>

Syncora Holdings Ltd.
Consolidated Balance Sheets
September 30, 2018 (Unaudited) and December 31, 2017
(U.S. dollars in thousands, except share and per share amounts)

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and invested assets:		
Debt securities, available-for-sale, at fair value (amortized cost: \$697,178 and \$910,858)	\$ 700,044	\$ 928,044
Other invested assets, at fair value (cost: \$107,245 and \$94,232)	130,487	117,110
Cash and cash equivalents	255,830	311,951
Total cash and invested assets	1,086,361	1,357,105
Insurance operating assets, retained business:		
Premiums receivable	17,246	79,903
Salvage and subrogation recoverable	132,004	422,687
Receivables on insurance cash flow certificates, net	129,084	109,869
Deferred acquisition costs, net	2,974	34,930
Assets of consolidated variable interest entities, at fair value	20,041	118,154
Total insurance operating assets, retained business	301,349	765,543
Insurance operating assets, ceded business:		
Premiums receivable	45,442	12,921
Prepaid reinsurance	118,065	15,565
Reinsurance recoverable on unpaid losses and loss adjustment expenses	148,656	-
Credit default and other swap contracts, at fair value	224,276	-
Total insurance operating assets, ceded business	536,439	28,486
Other assets	55,006	38,811
Assets of entity held-for-sale	-	195,540
Total assets	\$ 1,979,155	\$ 2,385,485
LIABILITIES AND SHAREHOLDERS' EQUITY		
Insurance operating liabilities, retained business:		
Unpaid losses and loss adjustment expenses	\$ 414,184	\$ 674,999
Unearned premium revenue	31,136	209,320
Credit default and other swap contracts, at fair value	9,528	104,094
Liabilities of consolidated variable interest entities, at fair value	337	60,708
Total insurance operating liabilities, retained business	455,185	1,049,121
Insurance operating liabilities, ceded business:		
Unpaid losses and loss adjustment expenses	148,656	-
Unearned premium revenue	118,065	15,565
Credit default and other swap contracts, at fair value	224,276	-
Liabilities of consolidated variable interest entities, at fair value	45,442	12,921
Total insurance operating liabilities, ceded business	536,439	28,486
Notes payable (par value: \$389,549 and \$677,117)	265,868	428,887
Accrued interest on notes payable	45,750	127,329
Other liabilities	12,047	29,244
Liabilities of entity held-for-sale	-	20,428
Total liabilities	1,315,289	1,683,495
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; \$134,526 liquidation preference)	13,453	13,453
Non-controlling interest in consolidated entity	2,132	2,578
Common shares (500,000,000 shares authorized; 90,013,135 and 89,811,623 shares issued; 86,968,547 and 86,767,035 shares outstanding, 3,044,588 shares held as treasury; \$0.01 par value) and additional paid-in capital	2,717,537	2,716,798
Accumulated deficit	(2,073,724)	(2,061,854)
Accumulated other comprehensive income	4,468	31,015
Total Syncora Holdings Ltd. shareholders' equity	648,281	685,959
Total shareholders' equity	663,866	701,990
Total liabilities and shareholders' equity	\$ 1,979,155	\$ 2,385,485

Non-GAAP Financial Measures

This earnings release references Non-GAAP operating income (loss) and Adjusted Book Value, financial measures that are not calculated in accordance with GAAP. A Non-GAAP financial measure is a numerical measure of financial performance or financial position that excludes (or includes) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP. While the Company does not manage its business or measure its performance using Non-GAAP measures, we are presenting these Non-GAAP financial measures because they provide greater transparency and enhanced visibility into the underlying performance of our business and, with respect to Adjusted Book Value, the effect of certain items that the Company believes will reverse from GAAP book value over time. In addition, we have included these measures because we believe they provide investors with important additional information to compare the Company to other financial guarantors. Non-GAAP operating income (loss) and Adjusted Book Value as calculated do not consider timing or amounts, if any, of payment on SGI's surplus notes, which would require NYDFS approval, dividend restrictions under New York Insurance Law applicable to the insurance subsidiaries and contractual constraints with respect to any dividend payment. Reference should be made to Note 13 in the most recently issued consolidated GAAP financial statements. In addition, because other financial guarantors may calculate Non-GAAP operating income (loss) and Adjusted Book Value or similarly titled measures differently, or may not be subject to the restrictions noted above, Non-GAAP operating income (loss) and Adjusted Book Value may not necessarily be comparable to similarly titled measures reported by other financial guarantors. Non-GAAP operating income (loss) and Adjusted Book Value are not substitutes for the most directly comparable GAAP measures, should not be viewed in isolation and may be subject to change.

The following table reconciles GAAP net loss attributable to common shareholders of Syncora Holdings Ltd. to Non-GAAP operating loss attributable to common shareholders of Syncora Holdings Ltd.:

Syncora Holdings Ltd.		
Reconciliation of GAAP Net Loss to Non-GAAP Operating Loss		
(in millions, except per share amounts)		
	Nine Months Ended	
	September 30,	
	2018	2017
GAAP net loss attributable to controlling interest	(19.3)	(125.7)
Pre-tax adjustments:		
Non-credit impairment of net realized and unrealized fair value (gains) and losses on credit derivatives ⁽¹⁾	43.5	(39.6)
Surplus note accretion ⁽²⁾	34.2	29.7
Net unrealized and realized (gains) losses on investments ⁽³⁾	(3.5)	22.4
Non-recurring transaction related expenses ⁽⁴⁾	8.6	-
Income from discontinued operations ⁽⁵⁾	(75.1)	(10.3)
Total pre-tax adjustments	<u>7.6</u>	<u>2.2</u>
Less tax effect on pre-tax adjustments ⁽⁶⁾	-	-
Non-GAAP operating loss	<u>\$ (11.7)</u>	<u>\$ (123.5)</u>
Basic and diluted weighted average common shares	86.9	86.7
GAAP basic and diluted loss per common share	\$ (0.22)	\$ (1.45)
Non-GAAP basic and diluted operating loss per common share	\$ (0.13)	\$ (1.42)

Non-GAAP operating income adjustments:

- (1) Elimination of non-credit impairment net realized and unrealized fair value (gains) and losses on credit derivatives in excess of the present value of the expected estimated economic credit losses, and non-economic payments. The fair value adjustments on derivative financial instruments are heavily influenced by, and fluctuate, in part according to, market interest rates, credit spreads and other factors that management cannot control or predict and that are not expected to result in an economic gain or loss. In addition, this adjustment presents all financial guaranty contracts on a more consistent basis of accounting, whether or not they are subject to derivative accounting rules.
- (2) Elimination of surplus note accretion as the full face amount of the surplus notes (including interest paid-in-kind) is included in the Adjusted Book Value calculation.
- (3) Elimination of realized gains (losses) on the Company's investments, except for gains and losses on investments for which the fair value option of accounting was elected and changes in net unrealized gains (losses) on equity securities. The timing of realized gains and losses, which depends largely on market credit cycles, can vary considerably across periods. The timing of sales is largely subject to the Company's discretion and influenced by market opportunities, as well as the Company's tax and capital profile.
- (4) Elimination of expenses associated with the reinsurance transaction completed on June 30, 2018 with Assured Guaranty Corp. pursuant to which Assured Guaranty Corp. agreed to provide reinsurance, generally on a 100% quota share basis, to SGI.
- (5) Elimination of the results from discontinued operations, including the gain on sale related to American Roads LLC. On July 16, 2018, the Company closed the sale of American Roads LLC.
- (6) Elimination of the tax effects related to the above adjustments. SHI has a significant tax NOL that is offset by a full valuation allowance in the GAAP consolidated financial statements. As a result, for purposes of Non-GAAP measures, the Company utilizes a 0% effective tax rate until the expiration of these NOLs.

The following table reconciles GAAP common shareholders' equity to Adjusted Book Value:

Syncora Holdings Ltd.
Reconciliation of GAAP Common Shareholders' Equity to
Adjusted Book Value
(in millions, except per share amounts)

	<u>As of September 30,</u> <u>2018</u>	<u>As of December 31,</u> <u>2017</u>
GAAP common shareholders' equity	\$ 648.3	\$ 686.0
Series B preferred stock ⁽¹⁾	(121.0)	(121.0)
Adjusted GAAP common shareholders' equity	\$ 527.3	\$ 565.0
Pre-tax adjustments:		
Deferred acquisition costs ⁽²⁾	(3.0)	(34.9)
Net credit derivative liability ⁽³⁾	7.5	84.2
Net present value of estimated net future credit derivative revenue ⁽⁴⁾	2.0	65.8
Net unearned premium reserve on financial guaranty contracts in excess of expected loss to be expensed ⁽⁵⁾	21.0	208.9
Deferred gain on insurance cash flow certificates ⁽⁶⁾	114.1	-
Deferred loss on reinsurance ⁽⁷⁾	(16.6)	-
Notes payable ⁽⁸⁾	(123.6)	(248.2)
Unrealized gains on investments ⁽⁹⁾	(4.5)	(24.4)
Taxes ⁽¹⁰⁾	-	(7.1)
Adjusted Book Value	\$ 524.3	\$ 609.3
Common shares outstanding at end of the period	87.0	86.8
Book value per common share	\$ 6.06	\$ 6.51
Adjusted book value per common share	\$ 6.03	\$ 7.02

Notes:

- The decrease in Adjusted Book Value was primarily driven by the reinsurance agreement with Assured Guaranty which closed on June 1, 2018. First, in addition to the cash consideration paid, SGI assigned over all future installment premiums for the reinsured policies. As these future installment premiums previously represented positive reconciliation adjustments, this benefit is no longer included in our Adjusted Book Value. Second, since a portion of the consideration paid for reinsurance was for the cession of substantially all of our CDS policies, the Company has effectively realized an economic loss on those policies where we previously expected these mark-to-market losses to reverse over time.

- GAAP common shareholders' equity and Adjusted Book Value includes zero and zero, \$175.1 million and \$175.1 million as of September 30, 2018 and December 31, 2017, respectively, related to American Roads LLC.

- Had the deferred gain on insurance cash flow certificates adjustment been included as of December 31, 2017, the adjusted book value and adjusted book value per common share would have been \$725.7 million and \$8.36, respectively.

Adjusted Book Value adjustments:

- (1) Addition of the excess of the outstanding liquidation preference of the SGI Series B non-cumulative preferred shares over their carrying values. Including the SGI Series B non-cumulative preferred shares at their outstanding liquidation value (which is net of the shares received in connection with our 2012 settlement with Countrywide, Bank of America Corp.) instead of their carrying value is more in line with the residual value to common shareholders.
- (2) Elimination of pre-tax deferred acquisition costs as these amounts represent net deferred expenses that have already been paid and will be expensed in future accounting periods.
- (3) Elimination of the consolidated net credit derivative liability which represents an estimate of the fair value of the Company's guarantees issued as CDS contracts in excess of the present value of the expected losses. By excluding the net credit derivative liability, this metric eliminates the benefit to our shareholders' equity embedded therein from the Company's non-performance risk, which reflects the market's view of the risk that the Company will not be able to financially honor its obligations as they become due. The fair value adjustments on derivative financial instruments are heavily influenced by, and fluctuate, in part according to, market interest rates, credit spreads and other factors that management cannot control or predict and that are not expected to result in an economic gain or loss. In addition, by including our best estimate of losses we expect to incur on our CDS contracts if we were to hold such CDS contracts to maturity and pay claims as they arise over the remaining life of such contracts, the metric presents our guarantees of insurance and derivatives on a consistent basis, which results in a more meaningful measure of our value.
- (4) Addition of the pre-tax net present value of estimated net future credit derivative revenues. Including the net present value of estimated net future credit derivative revenues enables an evaluation of the value of future estimated credit derivative revenue for which there is no corresponding GAAP financial measure.
- (5) Addition of the pre-tax value of the unearned premium reserve on financial guaranty contracts in excess of expected losses to be expensed on an individual policy level, net of reinsurance as the unearned premium reserve on financial guaranty contracts represents revenues that are expected to be earned in the future.
- (6) Addition of the deferred gain on insurance cash flow certificates which represent the excess of amounts paid to directly or effectively defease or, in substance, commute the Company's exposure on certain of its financial guarantee insurance policies over the amount of future expected claim payments on those policies. As these remediation costs have already been paid, the effect of these deferred gains is deemed to be economic.

- (7) Elimination of the deferred loss on reinsurance which is amortized over the life of the underlying reinsured contracts and which represents the difference between amounts paid for the reinsurance and the amount of liabilities for policy benefits relating to those underlying reinsured contracts. The effect of this deferred loss is considered economic as the reinsurance premium has already been paid.
- (8) Addition to the full face amount, in excess of the carrying amount, of the surplus notes payable held by third parties (including interest paid-in-kind), as including the full face amount of the surplus notes is consistent with the treatment of these instruments as debt.
- (9) Elimination of the pre-tax unrealized gains on the Company's investments that are recorded as a component of accumulated other comprehensive income ("AOCI"), excluding the effects of foreign exchange. The effects of the AOCI component of the fair value adjustment on investments are not deemed economic until the Company sells such investments.
- (10) Elimination of the tax effects related to the above adjustments. SHI has a significant tax NOL that is offset by a full valuation allowance in the GAAP consolidated financial statements. As a result, for purposes of Non-GAAP measures, the Company utilizes a 0% effective tax rate until the expiration of these NOLs.

Conference Call Details

The Company plans to host a conference call at 8:30 a.m. on Thursday, November 15, 2018, to discuss its financial results for the nine months ended September 30, 2018. The earnings call will be webcast via the Investor Events page of the Investor Relations section of the Company's website, or by dialing (877) 512-9165 (U.S. toll free), or (706) 679-5795 outside the U.S., Puerto Rico and Canada, approximately 10 minutes prior to the scheduled start time and providing conference ID# 708-5199. Following conclusion of the call, the Company will post a transcript on its website alongside a replay of the webcast. The replay will also be available via telephone by dialing (855) 859-2056 (U.S. toll free), or (404) 537-3406 outside the U.S., Puerto Rico and Canada, and providing conference ID# 708-5199.

Important Information

This press release contains statements about future results, plans and events that may constitute "forward-looking" statements within the meaning of the U.S. federal securities laws. The Company cautions you that the forward-looking information presented in this press release is not a guarantee of future events, and that actual events may differ materially from those made in or suggested by the forward-looking information contained in this press release. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "plan," "seek," "comfortable with," "will," "expect," "intend," "estimate," "anticipate," "believe" or "continue" or the negative thereof or variations thereon or similar terminology. Forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the Company's control. These risks and uncertainties include, but are not limited to, the factors described in the Company's historical filings with the New York State Department of Financial Services, and in the Company's and Syncora Guarantee Inc.'s GAAP and statutory financial statements, as applicable, posted on its website at www.syncora.com. Readers are cautioned not to place undue reliance on forward-looking statements which speak only as of the date they are made. The Company does not undertake to update forward-looking statements to reflect the impact of circumstances or events that arise after the date the forward-looking statements are made.