SYNCORA HOLDINGS LTD.
Q4 2016 GAAP FINANCIAL RESULTS

Moderator: Sharon Smith
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8:30 a .m. ET

Operator: This is conference # 85386170.

Good morning. My name is Dan. I will be your conference operator today.

At this time I would like to welcome everyone to Syncora Holdings Ltd. year-end 2016 GAAP financial results conference call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session for analysts. If you are an analyst, and would like to ask a question during this time, simply press star then the number one on your telephone keypad. If you would like to withdraw your question, you may press the pound key. Thank you.

Ms. Sharon Smith, you may begin your conference.

Sharon Smith: Good morning and thank you for joining us today for our year-end 2016 GAAP financial results conference call. I'm Sharon Smith, head of Investor Relations. Participating with me on the call today are Susan Comparato, our Chief Executive Officer; Fred Hnat, our Chief Operating Officer; and David Grande, our Chief Financial Officer.

Before I turn the call over to my colleagues I will remind everyone that during our call and the Q&A session, management will reference certain documents that we posted after the market closed yesterday to the investor relations section of our website www.syncora.com, specifically on the investor events page. These documents, which I hope you have had an opportunity to review, include the Syncora Holdings Ltd. consolidated GAAP financial statements as of December 31, 2016 and 2015 and for the years ended December 31, 2016 and 2015 and the associated earnings release together with a financial highlights deck.

Please note that as in the past while we will not be reviewing the presentation slide by slide during the call, we will make reference to a number of the slides as we discuss our financial results. I would also like to remind everyone that during the call and the Q&A session, we may make projections or other forward-looking statements about future results, plans and events. We caution that these forward-looking statements are not a guarantee of future events and that actual events may differ materially from those in these statements.

These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the Company's control including, but not limited to, the factors described in our historical filings with the New York State Department of Financial Services and in Syncora Holdings Ltd.'s, Syncora Guarantee Inc.'s and Syncora Capital Assurance Inc.'s GAAP and statutory financial statements as applicable which are posted on our website.

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. You are cautioned not to place undue reliance on forward-looking statements which speak only as of the date they are made.

The Company assumes no obligation to update forward-looking statements, information in the press release, the financial highlights deck or as presented on the call to reflect the impact of circumstances or events that arise after the date that the forward-looking statements are made.

References throughout the call to SHL, SGI and SCAI refer to Syncora Holdings Ltd., Syncora Guarantee Inc. and Syncora Capital Assurance Inc. respectively, and the NYDFS refers to the New York State Department of Financial Services.

Finally, references to numbers on the call are generally stated as approximations. Lastly, to the extent possible we have tried to address many of your questions and topics we received since our last earnings call in our prepared remarks. I look forward to receiving your feedback after the call.

With that introduction I would now like to turn the call over to Susan Comparato, Syncora's CEO.

Susan Comparato: Thanks, Sharon. On last quarter's call we discussed the transition of my duties to Fred Hnat. I am happy to report that the transition continues to go smoothly and I'm on track to depart in early June. I believe the new team under Fred's leadership is well-positioned to take Syncora through its next phase successfully.

I'm also pleased to report that we have made significant strides in our key areas of focus including reinsurance which Fred will discuss in greater detail following David Grande's review of our financial performance. Fred will also provide an update on our ongoing strategic efforts and goals since our last call in mid-December.

Among other things, we have reduced our Board size by five director positions, an action we decided to take following our restructuring transaction last August.

We believe our Board as currently constituted is the right size and has the right blend of skills and expertise to lead Syncora through the next phase of its strategic initiatives. In addition, we continue to focus on risk reduction and asset recovery efforts and have made progress.

We have also made great strides in reducing our go-forward operating expenses. By year-end 2017 we expect to complete a phased reduction of our headcount which will result in a 20 percent decrease in personnel from year-end 2016. This headcount reduction will result in a significant decrease in our operating expenses on a run rate basis.

I would now like to turn the call over to David to discuss our strong 2016 financial performance and provide insured portfolio highlights.

David Grande: Thank you, Susan. And thanks to everyone for joining us on today's call.

As Sharon mentioned, last night we posted to our website our year-end 2016 GAAP earnings release and consolidated financial statements. In addition, we have posted a supplement titled year-end 2016 highlights which we refer to as the financial highlights deck. This deck contains various financial and portfolio information including the expanded portfolio disclosures for all credits with par exposure greater than $40 million together with the GAAP loss reserve roll forward.

With respect to our earnings highlights for the year, our overall performance continues to be driven by our active remediation, loss recovery efforts and positive loss developments, primarily in the RMBS sector. For the year ended December 31, 2016, GAAP net income attributable to SHL was $32.7 million, or $2.18 per common share as compared to GAAP net income attributable to SHL of $216.7 million, or $5.33 per common share for the same period last year. For purposes of our earnings per share calculation, we include the benefit of the extinguishment of the Series A perpetual non-cumulative preference shares of $115.2 million and $83.4 million for 2016 and 2015 respectively.

I'd like to just spend a minute now discussing one change that we made to our non-GAAP financial measures in response to the SEC's recent public views relating to the release of updated compliance and disclosure interpretations on non-GAAP measures. The Company had previously excluded the effects of consolidating variable interest entities in its calculation of non-GAAP operating income or loss and adjusted book value. Beginning in the fourth quarter of 2016, the Company will no longer eliminate the effects of variable interest entities as a result of the SEC's updated guidance.

In addition, the prior year's non-GAAP financial measures have been updated to reflect the revised calculation. The Company will separately disclose, however, the effects of consolidating variable interest entities such that the users of our consolidated financial statements can make the same adjustments that we used to make to our non-GAAP financial measures.

Non-GAAP operating income was $164 million, or $2.41 per common share for the year ended December 31 as compared to $119 million, or $2.11 per common share for the same period last year. A full description of the limitations in using non-GAAP financial measures and the adjustments made to derive our non-GAAP operating income and Adjusted Book Value is included in the earnings release.

Turning to the drivers of our results, GAAP net income attributable to SHL for the year ended December 31 was primarily due to four factors.

First, $77.2 million of net premiums earned, which increased as a result of premium accelerations from remediation activities and refundings. Total premium accelerations were $43.2 million for the year ended December 31, 2016 as compared to $29 million for the same period in 2015.

Second, the successful remediation of our insured obligations related to American Roads in the third quarter, which resulted in a net benefit of $65 million as previously reported. As a result of this transaction, our American Roads insured obligations have been fully remediated.

Third, two settlements, which also took place during the third quarter, the first of which settled a dispute with an RMBS originator and resulted in a $40 million benefit and the other settlement related to the Lehman Brothers proof of claim for $14.1 million.

Lastly, during the fourth quarter we continued to experience positive reserve developments on our RMBS exposures.

These drivers were partially offset by higher mark-to-market losses on our CDS contracts, primarily as a result of yield curve and non-performance spread tightening as well as from collateral spread widening, losses on our insurance cash flow certificates as a result of expecting to pay fewer claims on remediated policies due to the positive RMBS developments I just mentioned, higher operating expenses primarily as a result of restructuring-related expenses, including severance, incurred during the year and from the continued accrual of interest on our surplus notes.

In addition, as shown on slide 9 of the financial highlights deck, SHL's common shareholders' equity increased from year-end 2015 by $189.2 million to $524.7 million or $4.66 of GAAP book value per common share as of December 31, 2016. This was primarily driven by the $115.2 million gain on the extinguishment of the Series A preferred shares, other positive effects in connection with the August restructuring transactions and net unrealized gains on investments. Similarly, SHL's adjusted book value increased by $270.7 million to $484.1 million, or $5.59 per common share.

I'd like to now cover some highlights of our insured portfolio. As outlined on slides 11 and 12 of the financial highlights deck, for the year ended December 31, SHL reduced its total net par exposure by 28 percent to $20.4 billion which included a total net par reduction of $2.4 billion for the fourth quarter alone. The reduction in total net par exposure was driven mainly by $3.7 billion in public finance refundings, $2.1 billion in amortizations, $1.3 billion in terminations and commutations and $902 million in foreign currency exchange adjustments.

The average internal rating of our portfolio was unchanged from year-end 2015 at BBB+ and total credit count decreased 31.6 percent from 1,197 credits as of December 31, 2015 to 819 credits as of December 31, 2016.

Our below investment grade credits, or BIG exposures, decreased to $2.8 billion or 14 percent of Syncora's total insured portfolio as of December 31, 2016. In addition, our BIG flag list leverage ratio, as shown on slide 15 of the deck, and defined as our BIG exposure divided by our claims paying resources, decreased by 8 percent in total which was driven by decreases at SGI and SCAI.

With that let me turn the call over to Fred to provide you with an update on the Company's strategy.

Fred Hnat: Thank you, David. And thank you to those joining the call today.

This marks Susan's last call as an officer of Syncora and I would like to take this time to thank her for her leadership and strategic guidance of Syncora through some of its most challenging years.

Under Susan's leadership Syncora's financial condition has significantly improved and the Company is now on solid footing for its next phase. We wish Susan well in her future endeavors.

I know that many of you are interested in the Company's go-forward strategy and our progress since the last earnings call. Management and the Board are committed to delivering the most value to all of our stakeholders in a timely manner through the execution of certain key strategic initiatives.

The first of these initiatives may include the execution of a reinsurance transaction on terms mutually acceptable to the Company and its regulators. Since our last call in December we have engaged Moelis to analyze various reinsurance options potentially available to Syncora. Our analysis considers whether a reinsurance transaction would be economically feasible for Syncora and return value to all of our stakeholders by capping our future liabilities.

Working with Moelis we are currently engaged in preliminary discussions with a number of potential reinsurance counterparties to gauge the level of interest, consider economic terms and assess whether a reinsurance or other similar transaction is viable at this time. Whether we ultimately move forward with a reinsurance transaction will be dependent on several factors including the terms available to us and whether doing so will deliver value to all of our stakeholders.

We are also keenly aware of the continued accretion of interest on SGI's surplus notes and are exploring ways to minimize this interest as doing so would benefit all stakeholders, including our common shareholders. If we are able to execute a reinsurance or other similar transaction that is mutually acceptable to Syncora and its regulators, this could transfer or cap the Company's insured exposure.

In addition, we are also considering various asset monetization initiatives which will allow us to continue to build on the progress we made last year. The combination of these efforts will further strengthen our financial condition which will enable us to advance our goal of delevering Syncora's platform, subject to NYDFS approval. However, if we are unable to reach satisfactory terms for a reinsurance transaction we are committed to the ongoing runoff of the insurance platform and the execution of other available options to continue to deliver value to all of our stakeholders.

A second key element of our strategy relates to the near-term payments on the surplus notes issued by SGI assuming certain conditions are met to facilitate such payments including regulatory approval for them. We continue to have constructive dialogue with the NYDFS and have shared with them the progress that we are making in further stabilizing our platform and strengthening our financial condition.

As we have disclosed, approximately $813 million is currently outstanding on the surplus notes held by third parties which represents par and accrued and unapproved interest. In August 2016 the NYDFS approved a net payment of

$55 million in connection with our restructuring transaction. We will review our updated financial condition with the NYDFS prior to the upcoming surplus note payment date on June 2017.

We hope the NYDFS will approve at least one half of this $55 million amount for the payment in June 2017. As we have done previously, we will provide an update on the NYDFS' response to our payment request as we get closer to the June payment date.

A third element of our strategy is our ongoing focus on risk reduction and remediation. Reliance Rail is one of several credits that constitute our liquidity mismatch, which all face refinancing risks due to a variety of factors including the underlying credit, market conditions or the structure of the deal. We continue to aggressively pursue our remediation plan for Reliance Rail with a goal of facilitating a successful refinancing while credit markets are strong.

That said, this is a complicated credit with potential execution risk and uncertainty remains as to the timing for completion of refinancing. Financial advisors and legal counsel in Australia have advised that should the company fail to refinance Syncora would retain the ability to proactively remediate the exposure.

Regarding Puerto Rico, one of our other credits with the most headline risk, we have modest exposure with total insured exposure of $338.8 million as of December 31, 2016 and continue to believe that we are appropriately reserved. Most of our exposure is to the GOs and to PREPA with a small amount of exposure to the highway bonds and to the Municipal Financing Authority bonds. We still think we are well-positioned to handle any adverse events in Puerto Rico, including any Title III proceedings. However, we will have to manage our liquidity position at SCAI based on the large amount of claims that SCAI will face in 2017 with approximately $120 million of potential claims on July 1 for GO and PREPA bonds.

The fourth element of our strategy is the pursuit of asset monetization transactions including litigation recoveries and the sale of illiquid assets. To this end, we are working to enhance the value of American Roads, a non-core asset, while we continue to evaluate strategic options for this platform.

On the litigation front, as you might expect, we continue to aggressively pursue our litigation claims and I will give a brief update on the status of our two litigation matters, U.S. Bank versus GreenPoint and Syncora Guarantee versus Macquarie. Recall that on GreenPoint, U.S. Bank as indenture trustee is the plaintiff in this case and we are the controlling insurer. Initial document discovery between the parties is complete on this case and depositions are scheduled to conclude at the end of July with plaintiff's first expert reports due at the end of August.

GreenPoint's appeal of U.S. Bank's successful summary judgment on whether U.S. Bank has standing is now fully briefed and oral argument before the Appellate Division is currently expected to be heard in April or May. No trial date has been set.

On Macquarie, Macquarie's motion to dismiss Syncora's claims was largely denied and Syncora Guarantee's claims for fraud and negligent misrepresentation continue. Document discovery and depositions are now complete and the parties are in the process of exchanging expert reports. No trial date has been set. We provide some information on these cases on slide 20 of the financial highlights back.

Fifth, in addition to the reduction in operating expenses that Susan discussed earlier, we are also keenly focused on improving our operating efficiencies and creating additional liquidity at SGI. Accordingly, we are considering a potential consolidation of the operating insurance entities, assuming we are able to obtain the necessary consent to do so.

Sixth and lastly, we are working with our advisors as we continue to examine the range of available options to utilize the $1.75 billion of NOLs that were reallocated to Syncora Holdings US Inc., the US tax parent, as part of the restructuring transactions being mindful of the IRS rules that affect such utilization.

There is a lot to be done and many of our initiatives are complex and require time to complete. We are working diligently to progress each initiative expeditiously in order to return value to our stakeholders in a timely manner, being mindful of making prudent economic decisions.

We look forward to our ongoing dialogue with our stakeholders and to providing you with additional updates on our next earnings call.

Sharon Smith: Thank you, Fred. With that, operator, let's open the call to questions. Operator, would you please provide instructions for those analysts on the call?

Operator: And at this time, to ask a question please press the star followed by the number one on your telephone keypad. We’ll pause for just a moment to compile the Q&A roster. Your first question comes from the line of Rob Halder, with NatAlliance. Please go ahead.

Rob Halder: Good morning, guys. I appreciate the comments you all made on the plan moving forward. I guess a couple of quick questions related to that.

I know it's been reported that you guys have been looking at doing something with the Detroit real estate that you got through the Detroit bankruptcy. I was wondering if you could make some comments on where that stands?

And then also if you could make a couple of comments, you may be tied up and not able to say much on Puerto Rico, but just how you think Puerto Rico is going to play out from here? I appreciate it.

Fred Hnat: Thank you, Rob. We do hold options to certain real estate properties in Detroit that we received in connection with the Detroit bankruptcy. The options expire between 2018 and 2021.

There is a subsidiary in the Syncora group called Pike Pointe. It's a subsidiary of Syncora Guarantee Inc., and that entity holds those options which include two parcels on the riverfront in Detroit. So we are actively working with the city along with various local entities and stakeholders to develop the best solution for each property.

We've had substantial interest on the riverfront properties. We are engaging an open process to identify developers that will properly develop and steward the land to complement current community-driven plans for development.

I should note that while we are excited about the progress in Detroit and the resurgence there, and we are trying to get the most value we can, the overall value of those options is not material to Syncora's financial condition. So that covers your first question on Detroit.

With respect to Puerto Rico, I think it's important to note that our exposure there is very small relative to the other monolines. Our total Puerto Rico exposure is $338 million which is net of bonds that we purchased back, so our gross exposure with those bonds that we purchased is $436 million. That's only 2 percent of total par outstanding.

Our PREPA exposure is around $127 million net of bond purchases. And you've got that information in detail in the financial highlights deck.

PREPA is ongoing. The RSA has been extended by five days. We're within that extension period so there's not much we can say or comment on due to nondisclosure agreements. But we do feel very appropriately reserved on our Puerto Rico exposures, especially relative to other monoline insurance companies.

We set reserves based on weighted averages of various scenarios which include restructuring and downside cases among others. So we continually monitor and update those reserves as appropriate. But we do feel very well-positioned to address what's happening in Puerto Rico.

Rob Halder: Thank you.

Operator: Your next question comes from the line of Chas Tyson, KBW. Please go ahead.

Chas Tyson: Hey guys, good morning. I just want to ask on the initiatives, the strategic initiatives that you talked about in terms of the reinsurance and the asset monetizations, what are you guys thinking of in terms of the timing there? I know you have a lot of refundings coming in 2017, so there's, obviously, some implications to the reinsurance deal from that and what would you think about doing with the freed-up capital?

Fred Hnat: I'll address the timing of the reinsurance –

David Grande: Then I can say a few words about refundings.

Fred Hnat: So we are on schedule Chas. We have conducted some initial market outreach with reinsurers as we mentioned in the comments. That followed from analysis that we had done on the merits of various reinsurance structures and reinsuring different stratifications of the portfolio.

We have gotten positive feedback from reinsurers. They have been granted access to a data room, are doing due diligence and we are very pleased with how that process is going.

I don't think we want to put a time frame on a reinsurance transaction. It is a priority for 2017 and we are moving ahead expeditiously on that. And as I said, we feel that we are on schedule based on indicative timetables we've set for this project.

David Grande: So I'll maybe put some color around our refunding activity. I think last quarter I had reported that 2015 was actually the highest level of refunding activity that we've had in the Company's history. In 2015 $6.5 billion of par refunded.

For 2016 that high pace continued but not quite at such a high level. In 2016, we had approximately $3.7 billion of par refunded and $1.6 billion of that was in the fourth quarter alone.

As you guys are probably aware the level of refunding activity is really being driven by the low interest rate environment. But another factor for Syncora is our age of the book of business. And a lot of our public finance business was written between 2005 and 2007 and a typical muni bond has a call date starting usually 10 years out from issuance.

So we are at the tail end of what I like to call the red zone for refundings for Syncora. While we can't necessarily disclose the amount that we expect to refund in 2017, for the reasons I just laid out, we do expect refunding levels to remain elevated for 2017 but then to taper off significantly in 2018 and beyond.

Fred Hnat: Just following up on your other question about what we do with the money, that's all going to be part of a dialogue that we have with the NYDFS. We are hopeful to be able to pay down surplus notes sooner. That is one of our strategic priorities that we mentioned in our prepared comments.

If we don't to a reinsurance transaction, we are fine. We are still stable. We feel that we can deliver value back to stakeholders.

But by doing a reinsurance transaction we may have the ability to return that value back sooner. So that is the main objective that we are trying to accomplish through reinsurance.

Chas Tyson: Got it. Then just on PREPA, can you talk about your agreement there because I know it was a little bit different from some of the others? And where we are in the negotiations, if you think that agreement has any give or if you think we are set on what you have done previously?

Fred Hnat: The agreement we signed last year, it's been amended multiple times, is public. But the current status of the negotiations is very private and we're in the midst, as I mentioned, this extension period where all parties are trying to come to a resolution. So I can't really comment more than that on where that stands.

Chas Tyson: OK, thanks very much.

Operator: And your next question comes from the line of Andrew Gadlin, with Odeon Capital Group. Please go ahead.

Andrew Gadlin: Thanks very much, guys. In the back of the annual report that came out yesterday there's some detail on Pike Pointe, and its financials. Looks like basically there's 10 percent increase in tolls collected, about $25 million to $27.5 million.

It looks like free cash flow went from about $14 million to $17.5 million from 2015 to 2016. So could you talk about whether some of that is sustainable, what drove it and whether you expect those trends to continue going forward? Thanks.

David Grande: Sure, I can talk to you about - put some color around what drove it. In terms of sustainability and our expectations for that I'm not going to comment on that. But as you just mentioned, toll revenues for Pike did increase by over $2 million as compared to 2015.

And really it was driven by higher traffic volume and revenue in almost all of our toll road facilities. As you are aware, Pike Pointe owns and operates toll road facilities in both the United States and Canada.

But more specifically, some of the factors that were driving this increase in traffic are because of foreign exchange for one. The lower value of the Canadian dollar is leading to more traffic as people are going to Canada and are doing more discretionary spending over there. And that particular driver is affecting the tunnel in Detroit.

Another driver that we are seeing is an increase in tourism in one of our key locations in Alabama. And that's really due to strong economic growth in the local economy over there.

We are also just seeing higher commercial traffic at some of our locations, as well. But I think more generally on a macro level more people just tend to drive when the overall economy is doing better. And so we are really feeling the effects of that.

Andrew Gadlin: On the expense side, expenses were down over $1 million. Is there something structural you took out? Do you expect- is this kind of a good level to be modeling out expenses going forward?

David Grande: So if you look at the comparatives, in 2015 expenses were higher. But that was really due to certain bankruptcy expenses that we incurred -- that were paid and occurred in 2015 that related to the bankruptcy from back in 2013.

Andrew Gadlin: And then, Fred, in your comment you talked about it being a non-core asset. Is there a process being undergone on these, on American Roads assets or is that just a longer-term project?

Fred Hnat: We are evaluating strategic options for American Roads. We are working to enhance the value of that asset now.

There is a large CapEx project at the Detroit-Windsor Tunnel that some of you may have read about scheduled for this fall. So we are evaluating our options and we'll see what that evaluation yields.

Andrew Gadlin: Got it. All right, thank you very much.

Operator: We have no further questions at this time. I will now turn the call back to Ms. Smith.

Sharon Smith: Thank you operator and thanks everyone for joining us on the call. I hope you found it helpful. We look forward to talking with you again next quarter.

In the meantime, if you have any questions at all and as a means of continuing our dialogue please feel free to reach out to me directly at 212-478-3413 or through our dedicated investor relations e-mail, investorrelations@SCAFG.com. A transcript and replay of this call will be available on our website later today. Thank you all for listening.

Operator: Thank you to everyone. This will conclude today's conference call. You may now disconnect.

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