SYNCORA HOLDINGS LTD.

Consolidated Financial Statements
December 31, 2019 and 2018

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Auditors

To the Board of Directors of Syncora Holdings Ltd.:

We have audited the accompanying consolidated financial statements of Syncora Holdings Ltd. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and December 31, 2018, and the related consolidated statements of operations and comprehensive income (loss), of changes in shareholders' equity and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Syncora Holdings Ltd. and its subsidiaries as of December 31, 2019 and December 31, 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

March 30, 2020

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SYNCORA HOLDINGS LTD.
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2019 and 2018
(U.S. dollars in thousands, except share and per share amounts)

	Proforma [1] (unaudited)	Actual	
ASSETS	**2019**	**2019**	**2018**
Cash and cash equivalents	$ 43,296	$ 458,296	$ 26,299
Equity investment, at fair value	3,000	3,000	-
Debt securities, available-for-sale, at fair value (amortized cost: $0 and $13,611)	-	-	13,703
Total cash and investments	46,296	461,296	40,002
Definite-lived intangible assets, net	7,382	7,382	8,427
Indefinite-lived intangible assets	449	449	3,210
Receivables, prepaid expenses and other assets	999	999	4,275
Assets of insurance entity held-for-sale	-	-	1,634,468
Total assets	$ 55,126	$ 470,126	$ 1,690,382
LIABILITIES AND SHAREHOLDERS' EQUITY			
Accounts payable, accrued expenses and other liabilities	$ 15,532	$ 15,532	$ 10,258
Liabilities of insurance entity held-for-sale	-	-	1,030,600
Total liabilities	15,532	15,532	1,040,858
Shareholders' equity			
Preferred shares of insurance entity held-for-sale	-	-	13,453
Non-controlling interest in consolidated entity	1,685	1,685	2,247
Common shares (500,000,000 shares authorized; 90,102,159 and 90,013,135 shares issued; 87,057,571 and 86,968,547 shares outstanding, 3,044,588 shares held as treasury; $0.01 par value) and additional paid-in capital	2,303,360	2,718,360	2,717,633
Accumulated deficit	(2,265,451)	(2,265,451)	(2,085,637)
Accumulated other comprehensive income	-	-	1,828
Total Syncora Holdings Ltd. shareholders' equity	37,909	452,909	633,824
Total shareholders' equity	39,594	454,594	649,524
Total liabilities and shareholders' equity	$ 55,126	$ 470,126	$ 1,690,382

[1] Proforma amounts give affect only to the cash distribution of $415 million made to common shareholders on January 31, 2020. Refer to Note 1 for further detail.

See accompanying Notes to Consolidated Financial Statements.

SYNCORA HOLDINGS LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(U.S. dollars in thousands, except share and per share amounts)

		2019		2018
Revenues				
Fee revenue	$	5,561	$	5,297
Net investment income		510		1,445
Net realized gains on investments, including other-than-temporary impairment losses of zero and $(443)		1,694		424
Other income		52		15,992
Total revenues		7,817		23,158
Expenses				
Impairment loss on indefinite-lived intangible assets		2,761		-
Other expenses		24,833		7,596
Total expenses		27,594		7,596
(Loss) income before income tax expense from continuing operations		(19,777)		15,562
Income tax expense		95		36
(Loss) income from continuing operations		(19,872)		15,526
Loss from discontinued insurance operations net of tax expense, including 2019 loss on disposal of $(212,102)		(84,772)		(121,416)
Income from discontinued toll road operations, including gain on disposal of $64,383		-		75,143
Loss from discontinued operations, net of tax		(84,772)		(46,273)
Net loss		(104,644)		(30,747)
Other comprehensive income (loss):				
Other comprehensive income from continuing operations		91		92
Other comprehensive income loss from discontinued operations		(763)		(21,810)
Other comprehensive income loss		(672)		(21,718)
Comprehensive loss	$	(105,316)	$	(52,465)
Net income and comprehensive income attributable to non-controlling interest	$	223	$	505
Net loss and comprehensive loss attributable to controlling interest:				
Net loss	$	(104,867)	$	(31,252)
Comprehensive loss	$	(105,539)	$	(52,970)
Calculation of basic and diluted earnings (loss) per share attributable to Syncora Holdings Ltd. common shareholders:				
(Loss) income from continuing operations	$	(20,095)	$	15,021
Per share	$	*(0.23)*	$	*0.17*
Loss from discontinued operations	$	(84,772)	$	(46,273)
Accounting effect for the purchases of preferred shares of insurance entity held-for-sale		(74,947)		-
Total		(159,719)		(46,273)
Per share	$	*(1.83)*	$	*(0.53)*
Loss	$	(179,814)	$	(31,252)
Per share	$	*(2.06)*	$	*(0.36)*
Weighted average common shares outstanding		87,046,352		86,935,974

See accompanying Notes to Consolidated Financial Statements.

SYNCORA HOLDINGS LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(U.S. dollars in thousands, except share amounts)

	2019	2018
Preferred shares of insurance entity held-for-sale		
Balance—beginning of period	$ 13,453	$ 13,453
Carrying value reduction related to the purchases of preferred shares	(10,033)	-
Transfer of preferred shares related to sale of insurance entity	(3,420)	-
Balance—end of period	-	13,453
Non-controlling interest in consolidated entity		
Balance—beginning of period	2,247	2,578
Net income and comprehensive income attributable to non-controlling interest	223	505
Distributions	(785)	(836)
Balance—end of period	1,685	2,247
Common shares and additional paid-in capital		
Balance—beginning of period	2,717,633	2,716,798
Dividends paid on preferred shares of insurance entity held-for-sale	(1,301)	-
Issuance of 89,024 and 201,512 common shares	348	479
Share-based compensation	1,680	356
Balance—end of period	2,718,360	2,717,633
Accumulated deficit		
Balance—beginning of period	(2,085,637)	(2,061,854)
Net loss attributable to controlling interest	(104,867)	(31,252)
Accounting effect for the purchases of preferred shares of insurance entity held-for-sale	(74,947)	-
Cumulative effect of change in accounting principle for equity securities	-	7,469
Balance—end of period	(2,265,451)	(2,085,637)
Accumulated other comprehensive income		
Balance—beginning of period	1,828	31,015
Other comprehensive income (loss) attributable to controlling interest	(672)	(21,718)
Effects of sale of insurance entity	(1,156)	-
Cumulative effect of change in accounting principle for equity securities	-	(7,469)
Balance—end of period	-	1,828
Total common shareholders' equity—end of period	452,909	633,824
Total shareholders' equity—end of period	$ 454,594	$ 649,524

See accompanying Notes to Consolidated Financial Statements.

SYNCORA HOLDINGS LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(U.S. dollars in thousands)

	2019	2018
Cash flows from operating activities:		
Investment income collected	$ 475	$ 884
Fee revenue collected	5,561	5,232
Expenses paid	(18,842)	(10,272)
Income taxes (paid) received	(96)	11
Other cash receipts	6,282	27,320
Net cash (used in) provided by operating activities from continuing operations	(6,620)	23,175
Net cash used in operating activities from discontinued operations	(156,141)	(657,815)
Net cash used in operating activities	(162,761)	(634,640)
Cash flows from investing activities:		
Net proceeds from sale of insurance entity of $425,479, net of cash and cash equivalents transferred in sale of $143,494	281,985	-
Proceeds from sales of investments	2,608	21,711
Proceeds from maturity of investments	2,036	4,068
Net proceeds (purchases) of short-term securities	10,643	(7,055)
Purchases of investments	(1,472)	(4,408)
Net cash provided by investing activities from continuing operations	295,800	14,316
Net cash provided by investing activities from discontinued operations	270,276	549,225
Net cash provided by investing activities	566,076	563,541
Cash flows from financing activities:		
Distributions to non-controlling interest in consolidated entity	(677)	(836)
Net cash used in financing activities from continuing operations	(677)	(836)
Net cash used in financing activities from discontinued operations	(111,210)	(112,631)
Net cash used in financing activities	(111,887)	(113,467)
Increase (decrease) in cash and cash equivalents and restricted cash	291,428	(184,566)
Cash and cash equivalents and restricted cash and cash equivalents—beginning of period	166,868	351,434
Cash and cash equivalents and restricted cash and cash equivalents—end of period	$ 458,296	$ 166,868

Summary of cash and cash equivalents and restricted cash and cash equivalents- end of period:

	2019	2018
Cash and cash equivalents, including restricted cash	$ 458,296	$ 26,299
Cash and cash equivalents included in Assets of insurance entity held-for-sale	-	130,097
Restricted cash included in Assets of insurance entity held-for-sale	-	10,472
Cash and cash equivalents and restricted cash and cash equivalents—end of period	$ 458,296	$ 166,868

Supplemental non-cash transactions:

	2019	2018
Deconsolidation of variable interest entities	$ -	$ 57,564

See accompanying Notes to Consolidated Financial Statements.

SYNCORA HOLDINGS LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(U.S. dollars in thousands)

	2019	2018
Reconciliation of (loss) income from continuing operations to net cash (used in) provided by operating activities from continuing operations:		
(Loss) income from continuing operations	$ (19,872)	$ 15,526
Adjustments to reconcile (loss) income from continuing operations to net cash (used in) provided by operating activities from continuing operations:		
Depreciation and amortization	812	1,045
Net unrealized and realized gains on investments	(1,694)	(424)
Impairment of indefinite-lived intangible assets	2,761	-
Other operating activities	2,824	9,248
Changes in assets and liabilities:		
Other assets	3,276	(833)
Accounts payable, accrued expenses and other liabilities	5,273	(1,387)
Total adjustments	13,252	7,649
Net cash (used in) provided by operating activities from continuing operations	$ (6,620)	$ 23,175

See accompanying Notes to Consolidated Financial Statements.

1. Organization

Syncora Holdings Ltd. (“Syncora Holdings”), a Bermuda holding company which was formed on March 17, 2006, historically provided, through its former wholly-owned subsidiary, financial guarantee insurance and reinsurance. Syncora Holdings’ principal business operating subsidiary was Syncora Guarantee Inc. (“SGI” or “Syncora Guarantee”). Syncora Holdings collectively with its consolidated subsidiaries is hereafter referred to as (the “Company”).

On March 4, 2019, the Company announced that its Board of Directors had commenced a formal review process to explore and evaluate strategic alternatives for the Company focused on optimizing shareholder value and returning capital to the shareholders. These alternatives included, among other things, a sale of part or all of the Company or its indirect, wholly-owned, New York financial guarantee insurance subsidiary, Syncora Guarantee. On August 15, 2019, Syncora Holdings and its direct, wholly-owned subsidiary Syncora Holdings US Inc. (“SHI”) entered into an agreement to sell Syncora Guarantee for $392.5 million in cash to Star Insurance Holdings LLC (“Star Insurance”), an entity organized by GoldenTree Asset Management LP (“GoldenTree”) on behalf of GoldenTree’s managed funds and accounts. On September 5, 2019, Syncora Holdings and SHI entered into an amended agreement with Star Insurance pursuant to which the purchase price for the sale of Syncora Guarantee was increased by $36.5 million to $429 million in cash. The sale of Syncora Guarantee was completed on December 30, 2019. See Note 13 for further discussion.

Following the completion of the sale of Syncora Guarantee, Syncora Holdings’ remaining assets consist of cash and other liquid assets, as well as its 80% interest in Swap Financial Group, LLC (“Swap Financial Group”), its non-controlling interest in an insurance company, real property and an option on real property in Detroit, Michigan, and a certificate that can be presented to the City of Detroit for value when purchasing certain city-owned property in Detroit, Michigan. These remaining assets, other than cash, are held indirectly through SHI and other subsidiaries of Syncora Holdings.

Recent Developments - Plan of Liquidation

Subsequent to the completion of the formal review process to explore and evaluate strategic alternatives and the sale of Syncora Guarantee, the Company’s management and the Board have determined that it was in the best interest of the shareholders to return capital to the shareholders and liquidate the Company. As such, the Company sought shareholder approval to adopt a plan of liquidation of the Company (“Plan of Liquidation”). The Plan of Liquidation was intended to constitute a plan of complete liquidation of the Company within the meaning of the Internal Revenue Code. In addition, as part of the Plan of Liquidation, the Company sought shareholder approval for the merger of SHI with and into Syncora Holdings.

Under the Plan of Liquidation, the Company will cease to be a going concern, will not engage in any new business activities and will otherwise limit its activities to prosecuting and defending civil, criminal or administrative suits by or against the Company, and such other activities as will enable the Company to settle and close its business, to dispose of and convey its property, to discharge its liabilities, to distribute to its shareholders any remaining assets and to wind up its affairs. The Plan of Liquidation provided for an initial distribution of $415 million (or approximately $4.767 per share), comprising the net cash proceeds from the sale of Syncora Guarantee and other available cash and may also provide for subsequent distributions to the shareholders. As part of the Plan of Liquidation and prior to any liquidating distribution, SHL cancelled 3,044,588 treasury shares held by SHI. Once all liabilities have been satisfied and all remaining assets have been distributed to the shareholders, the Company will be dissolved.

On January 28, 2020, Syncora Holdings held a special General Meeting of Shareholders to adopt the Plan of Liquidation and to approve the merger of SHI as discussed above. At the Special General Meeting, over 99% of the shareholders that attended the Special General Meeting in person or by proxy voted in favor of adopting the Company’s Plan of Liquidation and the merger of SHI with and into Syncora Holdings. In addition, on January 28, 2020 SHL cancelled its 3,044,588 treasury shares and announced that a distribution of $415 million or $4.767 per share would be made to shareholders of record as of January 29, 2020. The $415 million distribution to shareholders was made on January 31, 2020.

As a result of shareholder approval of the Company’s Plan of Liquidation on January 28, 2020, the Company has met the requirements for liquidation basis of accounting, which the Company will adopt prospectively effective during the first quarter of 2020.

2. Description of Risks and Uncertainties and Certain Tax Considerations to Ownership of the Company's Common Shares

Risks and Uncertainties

The Company is exposed to the following risks and uncertainties that may materially affect its results of operations and financial and liquidity position.

- The remaining assets include the Company's 80% interest in Swap Financial Group, LLC, its interest non-controlling interest in an insurance company, real property and an option on real property in Detroit, Michigan, and a certificate that can be presented to the City of Detroit for value when purchasing certain city-owned property in Detroit, Michigan. The remaining assets may not have a readily ascertainable value, and the Company may not be able to monetize these assets for what it believes to be the fair market value. The Company may not be able to find a buyer for any of these remaining assets. In addition, the Company is currently involved in disputes related to certain of these assets, which may not be resolved favorably or at all, and which may have a negative effect on the value of these assets. As a result, the Company may not be able to monetize certain of its remaining assets for what it believes is fair market value, or at all.

- The Company intends to retain cash to pay ongoing operating expenses, including management salaries, director fees, liquidator fees, legal fees, other overhead expenses, fees and expenses related to monetizing the remaining assets, and to satisfy any outstanding and contingent liabilities, including ongoing litigation. As a result, this cash will not be available to be paid to the shareholders in a subsequent distribution, except to the extent such cash is not ultimately spent as described above. In addition, The Company may have unknown liabilities that are presented while it is in liquidation, which may require it to satisfy those liabilities with cash on hand or cash generated from the sale of its remaining assets. Any such operating expenditure or unknown liability may reduce the amount of any subsequent distribution, or prevent any subsequent distribution from being paid.

- Given the recent outbreak of the coronavirus, the cascading effects of the coronavirus pandemic could increase expenses, affect the values of the remaining assets and the timing in liquidation process and affect timing of litigation due to court closures.

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

- The Company intends to treat any distributions made by the Company to the shareholders in accordance with the Plan of Liquidation as distributions in complete liquidation of the Company for U.S. federal income tax purposes. There can be no assurance that the Company will be able to complete the liquidation and dissolution of the Company in the manner and within the timeframe required by the IRS. Given the nature of the remaining assets and certain ongoing litigation relating thereto, the Company may not be able to monetize the remaining assets and complete the liquidation under Bermuda Law within three years from the adoption of the Plan of Liquidation. If the liquidation process takes longer than three years, there may be adverse U.S. federal income tax consequences to a U.S. holder of the Company's common shares.

- The Company has not requested a ruling from the IRS with respect to the anticipated U.S. federal income tax consequences of the Plan of Liquidation. The Company intends to accomplish the liquidation and dissolution of the Company in a manner that will qualify as a "complete liquidation" of the Company within the meaning of the Internal Revenue Code, but there can be no assurance that the Company's efforts to do so will be successful. Shareholders are urged to consult their own tax advisors as to the specific tax consequences to them of the Plan of Liquidation in light of each shareholder's particular circumstances.

- Liquidating distributions pursuant to the Plan of Liquidation may occur at various times and in more than one tax year. Shareholders who recognize a loss generally will not be able to recognize that loss for U.S. federal income tax purposes until they receive a final distribution from the Company.

- If the Company is a "passive foreign investment company" ("PFIC") for any taxable year (or portion thereof) that is included in the holding period of a U.S. person treated as a U.S. shareholder of its shares, such U.S. person may be subject to adverse U.S. federal income tax consequences and may be subject to additional reporting requirements. The determination as to whether the Company is a PFIC for any taxable year is based on the application of complex U.S. federal income tax rules. U.S. investors are urged to consult their own tax advisors regarding the possible application of the PFIC rules. While the Company does not intend to become a PFIC, if it were to do so, it could result in adverse U.S. federal income tax consequences for shareholders.

- 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 and recognize certain built-in losses would be subject to an annual limitation in the future. Any such limitation could result in an increased U.S. federal income tax liability, which may not be fully offset by the Company's net operating losses and therefore materially adversely affect the Company's equity 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 and may reduce liquidity of trading in the Company's common shares. These limitations could have a material adverse effect on the Company, financial condition, the amount of any liquidation or the trading price of the Company's common shares. In addition, although the Company has not taken any uncertain tax positions, the IRS may nonetheless disagree with the Company's interpretation of this and other tax related matters.

- 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. These failures could result in additional costs, fines and litigation.

- The Company expects that its common shares will continue to trade for some period of time on the OTC Markets Pink market following the adoption of the Plan of Liquidation and the initial distribution, but may be volatile, experience substantial declines in price and have limited trading volume and any investment in the Company's common shares is speculative.

3. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("U.S. GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may, and likely will, differ from those estimates and such differences may be material.

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. All intercompany accounts and transactions have been eliminated.

Reclassifications

Certain reclassifications were made to prior year consolidated financial statement amounts to conform to the current year presentation. There were no effects on net loss or shareholders' equity as a result of these reclassifications.

Assets and Liabilities Held-for-Sale and Discontinued Operations

On August 14, 2019, management, with Board of Directors approval, committed to a sale of SGI. The Company reports a business as held-for-sale when it has received approval to sell the business and is committed to a formal plan, the business is available for immediate sale, the business is being actively marketed, the sale is anticipated to occur during the next 12 months and other specified criteria are met. Assets and liabilities related to the business classified as held-for-sale are separately reported in the consolidated balance sheets in the period in which the business is classified as held-for-sale. A business classified as held-for-sale is recorded at the lower of carrying amount or estimated fair value less cost to sell. If the carrying amount of the business exceeds its estimated fair value, a loss is recognized. The Company reports a discontinued operation if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results and meets the criteria to be classified as held-for-sale, is disposed of by sale or is disposed of other than by sale.

Since the accounting criteria for held-for-sale and discontinued operations were met during the third quarter of 2019, the Company has reflected these classifications in the accompanying consolidated financial statements and prior periods have been reclassified to conform to this presentation. The consolidated balance sheets as of December 31, 2019 and 2018 present the total assets and total liabilities of SGI in the line items "assets of entity held-for-sale" and "liabilities of entity held-for-sale", respectively. The consolidated statements of operations and comprehensive income for the years ended December 31, 2019 and 2018 present the total revenues and total expenses of SGI in the line item "Loss from discontinued operations". The consolidated statements of cash flows for the years ended December 31, 2019 and 2018 present the cash flows of SGI in the line items "net cash provided by (used in) operating and investing activities from discontinued operations", respectively.

On August 8, 2017, management, with Board of Directors approval, committed to a formal plan to sell American Roads LLC. Since the accounting criteria for discontinued operations were met on August 8, 2017, the Company has reflected this classification in the accompanying consolidated financial statements through July 16, 2018 (sale date of American Roads LLC). The consolidated statement of operations and comprehensive income for the year ended December 31, 2018 presents the total revenues and total expenses of American Roads LLC in the line item "Income from discontinued toll road operations". The consolidated statement of cash flows for the year ended December 31, 2018 presents the cash flows of American Roads LLC in the line items "net cash provided by (used in) operating and investing activities from discontinued operations", respectively.

Fee Revenue

Fee revenue consists of consulting and advisory fees earned by SHI's wholly-owned subsidiary, Swap Financial Group, LLC. To determine the amount and timing of fee revenue recognition, the Company must (1) identify the contract with the client, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize fee revenue when the Company satisfies a performance obligation. Services are either rendered as part of a retainer agreement or a single transaction where the Company is contacted by a potential customer to provide a specific service. Fees are recognized at the time services are performed and/or performance obligations are satisfied.

Other Income

Other income includes proceeds from the sale of infrastructure properties and other miscellaneous sources of income.

Other Expenses

Other expenses primarily include compensation and employee benefits, professional and legal fees, computer related costs, rent and occupancy costs, depreciation and amortization expense, and other general and administrative expenses, including those incurred in connection with the sale of SGI.

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 year, 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 year plus additional shares potentially issued from all dilutive securities. There were no dilutive securities outstanding for the years ended December 31, 2019 and 2018, respectively.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In March 2017, the FASB issued "Receivables-Nonrefundable Fees and Other Costs - Premium Amortization on Purchased Callable Debt Securities". This standard shortens the amortization period for the premium on callable debt securities to the earliest call date. Previously under GAAP, a reporting entity generally amortized the premium as yield adjustment over the contractual or maturity life of the debt security and if such debt security was called, the entity would record a loss equal to the unamortized premium. This standard does not change the accounting for callable debt securities held at a discount, which will continue to be amortized to maturity. The Company adopted this standard as of January 1, 2019 and the adoption of this standard did not have a material effect on the Company's consolidated financial statements.

In January 2017, the FASB issued "Intangibles – Goodwill and Other: Simplifying the Accounting for Goodwill Impairment". This standard removed the second step of the goodwill impairment test, which required a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. This standard is effective for fiscal years beginning after December 15, 2020 and earlier application is permitted. The Company early adopted this standard effective January 1, 2018.

4. Cash and Investments

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.

Equity investment

Equity investment consists of a non-controlling interest in an insurance company, which is carried at fair value.

Other Investments

The Company owns real property and an option on real property in Detroit, Michigan, and a certificate that can be presented to the City of Detroit for value when purchasing certain city-owned property in Detroit, Michigan. The real property option includes certain requirements; including that the real property option be exercised before December 10, 2021 and that construction begin on such property within 15 months of exercising the option. In addition, the real property interest owned by the Company requires that construction begin on such property within 15 months of December 10, 2019, the date when the Company took ownership. This condition may make this real property option and this real property less marketable and less valuable, and subjects them to the risk of repossession by the City of Detroit. These assets were recorded at their initial cost basis of zero and had a zero carrying value as of December 31, 2019 and 2018, respectively.

Debt securities

As of December 31, 2019, the Company had no debt securities. As of December 31, 2018, the Company determined the appropriate classification of its debt securities at the time of purchase. These debt securities were recorded on the trade date, considered available-for-sale, and reported at fair value. Fair value was 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. Net unrealized gains or losses on debt securities, net of deferred income taxes, were included in accumulated other comprehensive income. Effective January 1, 2018, net unrealized gains or losses on equity investments were included in the consolidated statement of operations and comprehensive loss. Any unrealized loss in value on debt securities considered by management to be other-than-temporary was charged to income in the period that such determination was made.

Bond premiums were amortized on a level-yield basis to the earliest call date of securities acquired. Bond discounts were amortized on a level-yield basis over the remaining terms of securities acquired. For pre-refunded bonds, the remaining term was 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 were evaluated periodically and revised as necessary. Any adjustments required due to the resulting change in effective yields were recognized in income in the period such change was made.

The amortized cost and fair value of investments as of December 31, 2019 and 2018 are as follows:

(U.S. dollars in thousands)	Cost or Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value	
	2019	2018	2019	2018	2019	2018	2019	2018
Debt securities								
Mortgage-backed securities:								
RMBS……	$ -	$ 171	$ -	$ 6	$ -	$ -	$ -	$ 177
U.S. Government and government agencies………	-	11,586	-	1	-	(5)	-	11,582
Corporate and Other……	-	1,854	-	90	-	-	-	1,944
Total debt securities……	$ -	$ 13,611	$ -	$ 97	$ -	$ (5)	$ -	$ 13,703
Equity investment……	$ 3,000	$ -	$ -	$ -	$ -	$ -	$ 3,000	$ -

Proceeds from sales of debt securities including short-term investments, net of receivables, for the years ended December 31, 2019 and 2018 were $5.0 million and $58.3 million, respectively.

The gross realized gains and (losses), excluding other-than-temporary impairment losses, for the years ended December 31, 2019 and 2018 were $2.1 million and $1.5 million and $(0.4) million and $(0.7) million, respectively. Realized investment gains and losses on the sale of investments are determined on the basis of the first-in first-out method and are included in net income.

The amortized cost and fair value of bonds at December 31, 2018 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.

	2019		2018	
(U.S. dollars in thousands)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due within one year	$ -	$ -	$ 13,255	$ 13,251
Due after five through ten years	-	-	186	276
Subtotal	-	-	13,441	13,527
Mortgage- and asset-backed securities	-	-	170	176
Total	$ -	$ -	$ 13,611	$ 13,703

Net investment income for the years ended December 31, 2019 and 2018 is derived from the following sources:

(U.S. dollars in thousands)	**2019**	**2018**
Debt securities and cash and cash equivalents	$ 529	$ 1,149
Equity securities	-	327
Less: Investment expenses	(19)	(31)
Net investment income	$ 510	$ 1,445

The Company had 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.

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 amortized 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 years ended December 31, 2019 and 2018, the Company recorded other-than-temporary impairment charges of zero and $0.4 million, respectively, on its debt securities. The other-than-temporary impairment charges recorded by the Company during the year ended December 31, 2018 were primarily due to the present value of projected cash flows expected to be collected being less than the carrying value of the securities.

The following tables present the aggregate gross unrealized losses and fair value by investment category at December 31, 2019 and 2018, respectively. There were no securities in a gross unrealized loss position for greater than 12 months at December 31, 2019 and 2018.

(U.S. dollars in thousands)

Less than 12 Months	**Unrealized loss**		**Fair value**		**Number of securities**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
US Government and government agency..	$ -	$ (5)	$ -	$ 6,625	-	8
Total debt securities………………	$ -	$ (5)	$ -	$ 6,625	-	8

5. Intangible Assets

Intangible assets are the result of the 2013 purchase of an 80% interest in Swap Financial Group and include both definite-lived intangible assets and indefinite-lived intangible assets.

Definite-lived intangible assets include covenants not to compete and customer relationships. Definite-lived intangible assets are amortized over their respective useful lives, which are from 5-6 years (non-compete agreements) to 15 years (customer relationships). As the pattern of economic benefit for these definite-lived intangible assets cannot be determined, a straight-line amortization method is used. 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 asset is impaired, the related assets are written down to fair value. There was no impairment of definite-lived intangibles for the years ended December 31, 2019 and 2018.

Indefinite-lived intangible assets include trademark and goodwill. Management performs its annual impairment test as of December 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 their carrying amount. If the fair value of the indefinite-lived intangible asset is less than the carrying amount, an 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. See below for discussion of impairment losses related to goodwill and trademark for the year ended December 31, 2019. For the year ended December 31, 2018, management's test determined that goodwill and trademark were not impaired.

Goodwill reflects the excess of the purchase price paid for Swap Financial Group over the fair value of tangible and identifiable intangible assets, net of liabilities. Swap Financial Group does not amortize this goodwill; however, management performs its annual impairment test as of December 31, or more frequently if facts and circumstances indicate that an impairment has occurred. A qualitative assessment 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 quantitative assessment is not necessary. If the carrying value exceeds the fair value, the goodwill impairment will be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. To derive the fair value of the reporting units, the Company generally 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 the Company. See below for discussion of impairment losses related to goodwill and trademark for the year ended December 31, 2019. For the year ended December 31, 2018, management's test determined that goodwill and trademark were not impaired.

Definite-lived intangible assets subject to amortization consist of the following at December 31, 2019 and 2018:

(U.S. dollars in thousands)

Asset Class	Amortization Life	Gross		Net	
		2019	2018	2019	2018
Customer relationships	15 years	$ 10,777	$ 10,777	$ 7,200	$ 7,919
Covenants not to compete	5-6 years	1,805	1,805	182	508
Total		12,582	12,582	$ 7,382	$ 8,427
Less accumulated amortization		(5,200)	(4,155)		
Definite-lived intangible assets, net		$ 7,382	$ 8,427		

Amortization expense for the years ended December 31, 2019 and 2018 was $1.0 million and $1.0 million, respectively.

The following table represents estimated future amortization expense related to the definite-lived intangible assets based on the straight-line method over the estimated useful lives at December 31, 2019 and 2018:

(U.S. dollars in thousands)

Customer relationships			Covenants not to compete		
	2019	2018		2019	2018
2019	$ -	$ 718	2019	$ -	$ 326
2020	718	718	2020	178	178
2021	718	718	2021	4	4
2022	718	718	2022	-	-
2023	718	718	2023	-	-
2024	718	-	2024	-	-
thereafter	3,610	4,329	thereafter	-	-
Total	$ 7,200	$ 7,919	Total	$ 182	$ 508

Indefinite-lived intangible assets not subject to amortization consist of the following at December 31, 2019 and 2018:

(U.S. dollars in thousands)	Gross		Net	
	2019	2018	2019	2018
Trademark	$ 1,302	$ 1,302	$ 449	$ 1,302
Goodwill	1,908	1,908	-	1,908
Total	$ 3,210	$ 3,210	$ 449	$ 3,210
Less impairment losses	(2,761)	-		
Indefinite-lived intangible assets, net	$ 449	$ 3,210		

In March 2019, Syncora Holdings Ltd.'s Board of Directors commenced a formal review process to explore and evaluate strategic alternatives, which included a sale of part or all of Syncora Holdings Ltd. or its wholly owned, subsidiary, SGI. During the third quarter of 2019, Syncora Holdings Ltd. received bids for the purchase of both SGI and SHL from third parties. As a result of these bids, management believed that it was more likely than not that its goodwill and trademark are impaired. As a result, management did not perform a qualitative impairment assessment but rather performed a quantitative impairment assessment. Based on the results of the impairment analysis, the Company recorded impairment losses of $1.9 million and $0.9 million on goodwill and trademark, respectively.

6. Accumulated Other Comprehensive Income

Changes in accumulated other comprehensive income for the years ended December 31, 2019 and 2018 by component are as follows:

	Total		Available-for-sale securities		Unrecognized pension and post-retirement costs	
(U.S. dollars in thousands)	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Other comprehensive income (loss) before reclassifications	$ (2,774)	$ (3,952)	$ (2,774)	$ (3,972)	$ -	$ 20
Amounts reclassified from accumulated other comprehensive income:						
Realized losses (gains) on sale of securities	2,109	(14,763)	2,109	(14,763)	-	-
Cumulative effect of change in accounting principle for equity securities	-	(7,469)	-	(7,469)	-	-
Other-than-temporary impairments	(7)	(2,631)	(7)	(2,631)	-	-
Effects of sale of insurance entity	(1,156)	-	(1,156)	-		-
Effects of sale of American Roads LLC	-	(372)	-	-	-	(372)
Current period other comprehensive (loss) income, net	(1,828)	(29,187)	(1,828)	(28,835)	-	(352)
Balance, Beginning	1,828	31,015	1,828	30,663	-	352
Balance, Ending	$ -	$ 1,828	$ -	$ 1,828	$ -	$ -

7. 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. 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 U.S. net operating losses available to the Company to offset future taxable income.

SGI files 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 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.

The Company's income tax provision for the years ended December 31, 2019 and 2018 was approximately $1.1 million and $0.2 million, respectively. The income tax provision for discontinued operations for the years ended December 31, 2019 and 2018 was $1.0 million and $0.1 million, respectively. In accordance with U.S. GAAP, for the years ended December 31, 2019 and 2018, the Company recorded income tax based on the estimated effective tax rate for the full year 2019 and 2018.

The provision for income taxes incurred is different from that which would be obtained by applying the U.S. Federal income tax rate to income before income tax expense. The difference between the expected and actual tax benefit or expense for the years ended December 31, 2019 and 2018 is primarily attributable to the following items discussed below:

(U.S. dollars in thousands)

	2019	2018
Theoretical Federal income tax expense at		
U.S. statutory rate of 21%	$ (21,736)	$ (6,414)
Change in valuation allowance	(26,056)	(4,326)
Non tax deductible selling costs	2,117	-
Disallowed loss on affiliate disposal	44,541	-
Capital loss carryforward expired	-	10,022
Non-taxable income of disregarded LLC	-	(2,260)
Other	2,273	3,181
Consolidated income tax expense	$ 1,139	$ 203
Continuing operations tax provision	95	36
Discontinued operations tax provision	1,044	167
Consolidated income tax expense	$ 1,139	$ 203

As of December 31, 2019 and 2018, 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 years ended December 31, 2019 and 2018. Tax years 2017 through 2019 are subject to examination by U.S. federal authorities. There are currently no state or local tax audits underway for the Company as of December 31, 2019.

At December 31, 2019, the Company had net operating loss carryforwards expiring from 2027 through 2039 of approximately $290 million. At December 31, 2019, the Company had no capital loss carryforwards.

The most significant item giving rise to deferred tax assets as of December 31, 2019 is the Company's net operating loss carryforward which is offset by a full valuation allowance.

The sale of 100% of SGI's common stock on December 30, 2019 resulted in a tax capital loss of $274 million for SHI. However, U.S. Treasury Regulation Section 1.1502-36 allows the Company to reattribute the tax capital loss of $274 million as net operating losses that can be carried forward. These net operating losses retain both their IRC Sec. 382 limitation, as well as their original expiry dates.

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 December 31, 2019 and 2018. 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. Given the Company's plan of liquidation, 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.

The Company's net deferred tax assets and liabilities as of December 31, 2019 and 2018 consist of the following:

(U.S. dollars in thousands)	2019	2018
Deferred Tax Assets:		
Net operating loss	$ 60,994	$ 2,935
Other	793	109
Total gross deferred tax assets	61,787	3,044
Valuation allowance	(61,787)	(3,044)
Total net deferred tax assets	-	-
Deferred Tax Liabilities:		
Other	-	-
Total deferred tax liabilities	-	-
Net deferred tax assets/(liabilities)	-	-

At December 31, 2019, the Company's cumulative net operating losses, which may be carried forward to offset future taxable income, are approximately $290 million. The Company's ability to utilize its net operating losses at December 31, 2019 expires from 2027 through 2039. Approximately $161.3 million of the Company's net operating losses 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 net operating losses, on October 21, 2008, Syncora Holdings' Board of Directors approved changes to Syncora Holdings' Bye-laws which were subsequently approved by the shareholders on February 9, 2009 to limit the transfer of shares prior to the expiration of certain time periods specified in such Bye-laws.

The Company's significant net operating losses may reduce future U.S. tax liabilities that otherwise would be payable by the Company. The ability to utilize these net operating losses 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 net operating losses 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 net operating losses) 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.

8. Financial Instruments and Fair Value Measurements and Disclosures

The Company has certain financial instruments that 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 — 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. If external prices or significant inputs are unobservable, the Company will determine fair value using its own internal model estimates. In such cases, these corporate securities are categorized in Level 3 of the fair value hierarchy.

Valuation Techniques — Cash and Cash Equivalents and Restricted 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, for 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.

Fair Value Hierarchy Tables

The following fair value hierarchy table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2019 and 2018:

(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)		Total Assets / Liabilities at Fair Value	
ASSETS	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Debt securities available for sale:								
Mortgage and asset-backed securities								
RMBS	$ -	$ -	$ -	$ 176	$ -	$ -	$ -	$ 176
U.S. Government and government agencies	-	11,582	-	-	-	-	-	11,582
Corporate and other	-	-	-	1,945	-	-	-	1,945
Total debt securities available for sale	-	11,582	-	2,121	-	-	-	13,703
Equity investment	-	-	-	-	3,000	-	3,000	-
Cash and cash equivalents	452,723	20,291	-	-	-	-	452,723	20,291
Restricted cash and cash equivalents	5,573	6,008	-	-	-	-	5,573	6,008
Total assets	$ 458,296	$ 37,881	$ -	$ 2,121	$ 3,000	$ -	$ 461,296	$ 40,002

Level 3 Assets and Liabilities Reconciliation Tables

Level 3 Assets

The following table provides a reconciliation of the Company's assets measured at fair value on a recurring basis using unobservable inputs (Level 3) as of December 31, 2019 and 2018:

(U.S. dollars in thousands)	Equity investment and other	
LEVEL 3 ASSETS	**2019**	**2018**
Balance, beginning of period	$ -	$ 3,007
Realized gains (losses)	-	(3,007)
Purchases	3,000	-
Balance, end of period	$ 3,000	$ -

There were no transfers into or out of Level 3 during the years ended December 31, 2019 and 2018.

Level 3 Liabilities

The following table provides a reconciliation for the Company's liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3) for the years ended December 31, 2019 and 2018:

(U.S. dollars in thousands)	Contingent Consideration	
LEVEL 3 LIABILITIES	**2019**	**2018**
Balance, beginning of period	$ -	$ 2,043
Payment of contingent consideration	-	(2,043)
Balance, end of period	$ -	$ -

9. Commitments and Contingencies

Legal Matters

In September 2018, a service provider whose relationship with Swap Financial had been terminated filed a complaint in Federal Court claiming, in part, inaccurate payments by Swap Financial for services provided by the service provider. Swap Financial denied all of the service provider's claims. In September 2019, the Federal Court granted Swap Financial's motion to dismiss the complaint. The plaintiff has re-filed their lawsuit in State Court, adding vicarious liability and direct claims against Syncora Holdings and certain of its former subsidiaries.

Lease

The Company entered into a two year lease commitment for office premises at 555 Madison Avenue, New York, New York commencing on December 15, 2018. Previously, the Company had a lease commitment for office premises at 135 West 50th Street, New York, New York, which terminated on January 31, 2019.

Net minimum aggregate lease commitments are $0.5 million and $19.5 thousand for the years ended December 31, 2020 through December 31, 2021.

Net rent expense was $0.6 million and $1.2 million for the years ended December 31, 2019 and 2018, respectively.

10. Dividends

As discussed in Note 1, the Company announced that a distribution of $415 million or $4.767 per share would be made to shareholders of record as of January 29, 2020 and such $415 million distribution to shareholders was made on January 31, 2020.

Syncora Holdings' Board of Directors did not declare a quarterly dividend other than discussed above with respect to its common shares for the year ended December 31, 2019. Any future dividends will be subject to the discretion and approval of the Syncora Holdings' Board of Directors, appointed liquidator and applicable law.

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

As of December 31, 2019 and 2018, the Company had, in the aggregate, approximately $5.7 million and $8.7 million, respectively, on deposit to collateralize its contractual obligations under certain agreements, including lease and letter of credit agreements. Of such deposits, $0.1 million and $0.9 million, $5.6 million and $6.0 million and zero and $1.8 million are recorded on the accompanying consolidated balance sheet in "Other assets", "Cash and cash equivalents" and "Debt securities, available-for-sale, at fair value", respectively.

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

The condensed balance sheets, statements of operations and shareholders' equity, and statements of cash flows of Syncora Holdings as of December 31, 2019 and 2018 and for the years ended December 31, 2019 and 2018 are set forth below:

(U.S. dollars in thousands)	2019	2018
Assets		
Cash and cash equivalents	$ 23	$ 908
Debt securities available for sale, at fair value (amortized cost: zero and $4,026)	-	4,118
Accrued investment income	-	17
Investment in insurance operations held-for-sale	-	603,868
Other subsidiary investments.	452,972	24,834
Other assets	-	467
Total assets	$ 452,995	$ 634,212
Liabilities and Shareholders' Equity		
Liabilities— accounts payable, accrued expenses, and other liabilities	$ 86	$ 388
Shareholders' equity		
Common shares and additional paid-in capital	2,718,360	2,717,633
Accumulated deficit	(2,265,451)	(2,085,637)
Accumulated other comprehensive income	-	1,828
Total shareholders' equity	452,909	633,824
Total liabilities and shareholders' equity	$ 452,995	$ 634,212

(U.S. dollars in thousands)	2019	2018
Revenues		
Net investment income	$ 51	$ 99
Net realized gain on investments	114	-
Total revenues	165	99
Operating expenses	6,573	2,726
Loss before equity in net loss of subsidiaries	(6,408)	(2,627)
Equity in net loss of discontinued operations.	(84,772)	(46,273)
Equity in net (loss) income of continuing operations	(13,687)	17,648
Equity in net loss of subsidiaries	(98,459)	(28,625)
Net loss attributable to Syncora Holdings Ltd	(104,867)	(31,252)
Other comprehensive income (loss):		
Net unrealized losses on investments	91	92
Equity in other comprehensive loss of discontinued operations	(763)	(21,810)
Other comprehensive loss	(672)	(21,718)
Comprehensive loss	$ (105,539)	$ (52,970)

	2019	2018
Cash flows from operating activities:		
Operating expenses paid	$ (4,312)	$ (2,023)
Investment income collected	56	80
Other cash (disbursements) receipts	(70)	657
Net cash used in operating activities	(4,326)	(1,286)
Cash flows from investing activities:		
Proceeds from sale of debt securities	2,608	572
Proceeds from maturity of debt securities	2,036	310
Contribution to subsidiary	(714)	-
Purchases of debt securities	(489)	-
Net cash provided by investing activities	3,441	882
Decrease in cash and cash equivalents	(885)	(404)
Cash and cash equivalents—beginning of period	908	1,312
Cash and cash equivalents—end of period	$ 23	$ 908

13. Assets and Liabilities Held-for-Sale of SGI and Discontinued Operations

On August 15, 2019, Syncora Holdings and its direct, wholly-owned subsidiary SHI entered into an agreement to sell Syncora Guarantee to Star Insurance, an entity organized by GoldenTree on behalf of GoldenTree's managed funds and accounts, for $392.5 million in cash. On September 5, 2019, Syncora Holdings and SHI entered into an amended agreement with Star Insurance pursuant to which the purchase price for the sale of Syncora Guarantee was increased by $36.5 million to $429 million in cash. The sale of Syncora Guarantee was completed on December 30, 2019. Since the carrying amount of SGI exceeded the sales price, a loss on disposal of $212.1 million was recognized as of December 30, 2019 (sale date).

On July 16, 2018, the Company announced that Pike Pointe closed the sale of American Roads LLC to American Roads AcquireCo LLC, a wholly owned subsidiary of DIF Infrastructure V for net cash proceeds of approximately $220 million, before payment of related expenses, with provisions that provide for payment of additional amounts if specified conditions are met within 12 months of the date of the agreement. American Roads is involved in the following operations: management and operational rights to the Detroit Windsor Tunnel ("DWT"), owner and operator of four toll bridges in Alabama (between the mainland and resort communities of Orange Beach and Gulf Shores, between Montgomery and Elmore Counties, between towns in Elmore and Autauga Counties, and on a portion of the western bypass of Tuscaloosa), and the development of tolling and transportation software and technology for third parties.

The following table summarizes the components of assets and liabilities held-for-sale of SGI on the consolidated balance sheets as of December 31, 2019 and 2018.

(U.S. dollars in thousands)

ASSETS	2019	2018
Cash and invested assets:		
Debt securities, available-for-sale, at fair value (amortized cost: zero and $599,556)	$ -	$ 599,786
Other invested assets, at fair value (cost: zero and $91,364)	-	87,504
Cash and cash equivalents	-	130,097
Total cash and invested assets	-	817,387
Insurance operating assets, retained business:		
Premiums receivable	-	14,260
Salvage and subrogation recoverable	-	147,866
Receivables on insurance cash flow certificates, net of deferred gains of zero and $113,433	-	91,905
Deferred acquisition costs and deferred loss on reinsurance, net	-	18,423
Assets of consolidated variable interest entities, at fair value	-	20,843
Total insurance operating assets, retained business	-	293,297
Insurance operating assets, ceded business:		
Premiums receivable	-	42,458
Prepaid reinsurance premiums	-	112,011
Reinsurance recoverable on unpaid losses and loss adjustment expenses	-	120,011
Credit default and other swap contracts, at fair value	-	227,052
Total insurance operating assets, ceded business	-	501,532
Other assets	-	22,252
Total assets of insurance entity held-for-sale	$ -	$ 1,634,468
LIABILITIES		
Insurance operating liabilities, retained business:		
Unpaid losses and loss adjustment expenses	$ -	$ 365,774
Unearned premium revenue	-	28,500
Credit default and other swap contracts, at fair value	-	8,489
Liabilities of consolidated variable interest entities, at fair value	-	340
Total insurance operating liabilities, retained business	-	403,103
Insurance operating liabilities, ceded business:		
Reinsurance premiums payable	-	42,458
Unearned premium revenue	-	112,011
Unpaid losses and loss adjustment expenses	-	120,011
Credit default and other swap contracts, at fair value	-	227,052
Total insurance operating liabilities, ceded business	-	501,532
Notes payable (par value: zero and $150,137)	-	104,206
Accrued interest on notes payable	-	16,472
Other liabilities	-	5,287
Total liabilities of insurance entity held-for-sale	$ -	$ 1,030,600

The following table summarizes the components of income (loss) from discontinued operations for the period January 1, 2019 through December 30, 2019 and for the year ended December 31, 2018 (SGI), and for the period January 1, 2018 through July 16, 2018 (American Roads LLC).

(U.S. dollars in thousands)	2019	2018
Revenues		
Net premiums earned	$ 3,367	$ 26,735
Net investment income	26,469	40,353
Net unrealized and realized gains on investments, including other-than-temporary impairment losses of $(7,499) and $(10,972)	1,437	(4,902)
Net (loss) earnings on insurance cash flow certificates	(23,558)	(15,649)
Net loss on credit default and other swap contracts	(89)	(24,621)
Net change in fair value of consolidated variable interest entities	2,715	20,861
Toll revenue	-	13,252
Other income and fees	4,788	40,992
Total revenues	15,129	97,021
Expenses		
Net (recoveries) losses and loss adjustment expenses	(198,088)	(82,541)
Amortization of deferred acquisition costs, including deferred loss on reinsurance	2,574	6,251
Interest expense, including accretion of $4,220 and $40,039	7,517	76,184
Loss on debt prepayment	41,711	163,279
Operating expenses	33,041	44,337
Total (recoveries) expenses	(113,245)	207,510
Loss on disposal of discontinued insurance operations	(212,102)	-
Gain on disposal of discontinued toll road operations	-	64,383
Loss from discontinued operations before income tax expense	(83,728)	(46,106)
Income tax expense	1,044	167
Loss from discontinued operations, net of tax	(84,772)	(46,273)
Other comprehensive income (loss) from discontinued operations	(763)	(21,810)
Comprehensive loss from discontinued operations	$ (85,535)	$ (68,083)

The following table summarizes the components of cash flow information from discontinued operations for the period January 1, 2019 through December 30, 2019 and for the year ended December 31, 2018 (SGI), and for the period January 1, 2018 through July 16, 2018 (American Roads LLC).

(U.S. dollars in thousands)	2019	2018
Cash flows from operating activities:		
Premiums collected	$ 9,616	$ 9,134
Investment income collected	30,932	40,094
Fees received on credit default swaps	432	634
Claims paid to policyholders and loss adjustment expenses paid	(17,613)	(97,378)
Cash received from settlement	-	339,406
Cash paid to reinsurer upon closing of reinsurance agreement	-	(362,262)
Operating expenses paid	(48,373)	(62,867)
Interest paid on notes payable	(143,677)	(573,222)
Income taxes paid	(711)	(237)
Tolls collected	-	14,072
Other cash receipts	7,558	9,299
Cash paid for insurance cash flow certificates	-	(77)
Cash received on insurance cash flow certificates	-	563
Investment income collected by variable interest entities	5,848	28,399
Interest and other expenses paid by variable interest entities	(153)	(3,373)
Net cash used in operating activities of discontinued operations	(156,141)	(657,815)
Cash flows from investing activities:		
Proceeds from sales of investments	353,288	315,443
Proceeds from maturity of investments	51,892	46,519
Net proceeds from sale of American Roads LLC, including $55,000 intercompany distribution from Pike Pointe Holdings LLC	-	262,966
Net proceeds of short-term securities	2,639	19,000
Purchases of investments	(138,713)	(81,466)
Purchases of property and equipment	-	(1,853)
Net proceeds from consolidated variable interest entities' assets	1,170	43,616
Net cash provided by investing activities of discontinued operations	270,276	604,225
Cash flows from financing activities:		
Net paydowns of consolidated variable interest entities' liabilities	-	(10,854)
Purchases of Series B perpetual non-cumulative preference shares	(84,981)	-
Paydowns on notes payable	(26,229)	(101,777)
Net cash used in financing activities of discontinued operations	(111,210)	(112,631)
Cash transferred to buyer of insurance entity	(143,494)	-
Decrease in cash and cash equivalents and restricted cash	(140,569)	(166,221)
Cash and cash equivalents and restricted cash and cash equivalents—beginning of period	140,569	306,790
Cash and cash equivalents and restricted cash and cash equivalents—end of period	$ -	$ 140,569
Summary of cash and cash equivalents and restricted cash and cash equivalents- end of period:		
Cash and cash equivalents—end of period	$ -	$ 130,097
Restricted cash and cash equivalents—end of period	-	10,472
Cash and cash equivalents and restricted cash and cash equivalents—end of period	-	140,569

14. Subsequent Events

On January 28, 2020, Syncora Holdings held a Special General Meeting of Shareholders. At the Special General Meeting, over 99% of the shareholders that attended the Special General Meeting in person or by proxy voted in favor of adopting the Company's Plan of Liquidation and the merger of SHI with and into Syncora Holdings. In addition, the Company announced that a distribution of $415 million or $4.767 per share would be made to shareholders of record as of January 29, 2020 and such $415 million distribution to shareholders was made on January 31, 2020. Also, pursuant to the Plan of Liquidation, on January 28, 2020, SHL cancelled its 3,044,588 treasury shares. See Note 1 for further discussion.

As a result of shareholder approval of the Company's Plan of Liquidation on January 28, 2020, the Company has met the requirements for liquidation basis of accounting, which the Company will adopt prospectively effective during the first quarter of 2020.

The Company has evaluated all subsequent events through March 30, 2020, the date the consolidated financial statements were available to be issued.