Syncora Guarantee Inc.

Statutory Basis Financial Statements
Years Ended December 31, 2016 and 2015
With Report of Independent Auditors

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Report of Independent Auditors

To the Board of Directors of Syncora Guarantee Inc.:

We have audited the accompanying statutory financial statements of Syncora Guarantee Inc., which comprise the statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2016 and 2015, and the related statutory statements of operations and changes in capital and surplus, and of cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting practices prescribed or permitted by the New York State Department of Financial Services. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 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 financial statements are free from material misstatement.

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 4 to the financial statements, the financial statements are prepared by the Company on the basis of the accounting practices prescribed or permitted by the New York State Department of Financial Services, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the statutory basis of accounting described in Note 4 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2016 and 2015, or the results of its operations or its cash flows for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and surplus of the Company as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended, in accordance with the accounting practices prescribed or permitted by the New York State Department of Financial Services described in Note 4.

Emphasis of Matter

As discussed in Note 4 to the financial statements, the Company received permitted practices from the New York State Department of Financial Services to (i) carry certain investment balances in excess of stipulated limitations under Articles 14 and 69 of the New York Insurance Law, (ii) release contingency reserves associated with both terminated policies and policies for which the Company has established case reserves, (iii) de-recognize reserves for unpaid losses, unearned premium reserves and contingency reserves for credits deemed effectively defeased or in-substance commuted, (iv) value surplus notes issued by the Company in settlement of certain policyholder obligations at original face value, (v) continue to account for certain acquired entities as salvage recoverable, and (vi) in connection with the Company's restructuring transaction, to increase earned surplus by allocating the entire balance of gross paid in and contributed surplus to earned surplus. As of December 31, 2016 and 2015, these permitted practices resulted in an increase to statutory capital and surplus of $761 million and $850 million, over what it would have been without these permitted practices. Our opinion is not modified with respect to this matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the statutory-basis financial statements taken as a whole. The supplemental investment risks interrogatories, reinsurance attestation supplement, and reinsurance summary supplemental filing for general interrogatory 9 (Part 2) (collectively, the "supplemental schedules") of the Company as of December 31, 2016 and for the year then ended are presented to comply with the National Association of Insurance Commissioners' Annual Statement Instructions and Accounting Practices and Procedures Manual and for purposes of additional analysis and are not a required part of the statutory-basis financial statements. The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory-basis financial statements. The supplemental schedules have been subjected to the auditing procedures applied in the audit of the statutory-basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory-basis financial statements or to the statutory-basis financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated, in all material respects, in relation to the statutory-basis financial statements taken as a whole.

PricewaterhouseCoopers LLP

April 5, 2017

Syncora Guarantee Inc.
Statements of Admitted Assets, Liabilities and Capital and Surplus
December 31, 2016 and 2015

(U.S. Dollars in thousands, except share amounts)	2016	2015
Admitted Assets		
Bonds, at amortized cost (fair value: $857,148 and $877,633)	$ 850,187	$ 872,250
Common stocks, at fair value (cost: $19,991 and $0)	20,915	-
Investment in subsidiaries:		
Syncora Capital Assurance Inc. common stock	25,758	-
Syncora Capital Assurance Inc. surplus notes	200,000	192,108
Syncora Investment Holdings	46,638	35,808
Cash, cash equivalents and short-term investments (fair value: cash $9,637 and $6,282; cash equivalents $48,992 and $36,985; and short-term investments $36,971 and $94,897)	95,600	138,115
Restricted cash and short-term investments	1,341	432
Other invested assets	1,566	1,178
Derivative instruments	50	521
Total cash and invested assets	1,242,055	1,240,412
Premiums receivable	628	945
Accrued investment income	5,275	2,930
Receivables from parent, subsidiaries and affiliates	7,938	109
Other assets	3,980	5,050
Total admitted assets	$ 1,259,876	$ 1,249,446
Liabilities and Capital and Surplus		
Liabilities		
Unearned premium revenue, net	$ 97,084	$ 111,061
(Loss recoverables) and loss adjustment expenses	(123,047)	(45,407)
Mandatory contingency reserve	88,413	85,147
Accounts payable and accrued expenses	1,135	3,919
Payables to parent, subsidiaries and affiliates	7,814	7,485
Other liabilities	193	284
Total liabilities	71,592	162,489
Capital and surplus		
Common stock (par value $7,500 per share; 8,000 shares authorized; 2,000 shares issued and outstanding)	15,000	15,000
Preferred stock - Series B non-cumulative perpetual (655 shares held as treasury stock)	200,000	200,000
Surplus notes	556,158	584,334
Additional paid-in capital	-	2,046,972
Unassigned funds (deficit)	417,126	(1,759,349)
Total capital and surplus	1,188,284	1,086,957
Total liabilities and capital and surplus	$ 1,259,876	$ 1,249,446

The accompanying notes to statutory basis financial statements are an integral part of these statements.

Syncora Guarantee Inc.
Statements of Operations and Changes in Capital and Surplus
Years Ended December 31, 2016 and 2015

(U.S. Dollars in thousands)	2016	2015
Underwriting		
Net premiums written	$ 8,160	$ 12,771
Change in unearned premium revenue	13,977	30,575
Net premiums earned	22,137	43,346
Deductions (benefit)		
Net (benefit) and loss adjustment expenses	(65,611)	(140,958)
Underwriting expenses	37,130	36,262
Total underwriting deductions (benefit)	(28,481)	(104,696)
Net underwriting gain	50,618	148,042
Investment Income		
Net investment (expense) income, net of surplus notes interest expense of $46,775 and $0, and investment expenses of $1,084 and $940	(3,870)	39,433
Net realized capital gains	1,515	14,382
Net investment (loss) gain	(2,355)	53,815
Other Income		
Fees and other income	14,461	668
Total other income	14,461	668
Income before federal income tax expense (benefit)	62,724	202,525
Current federal and foreign income tax expense (benefit)	1,922	(6,444)
Net income	$ 60,802	$ 208,969
Capital and Surplus		
Capital and surplus, beginning of year	$ 1,086,957	$ 855,996
Net income	60,802	208,969
Change in nonadmitted assets	10,961	(6,563)
Change in provision for reinsurance	133	66
Change in surplus notes - principal discount	(19,951)	-
Change in surplus notes - principal payment	(8,225)	-
Reclassification from additional paid-in capital - pursuant to permitted practice	(2,066,923)	-
Reclassification to unassigned funds - pursuant to permitted practice	2,066,923	-
Change in additional paid-in capital - surplus notes principal discount	19,951	-
Net unrealized gains - Syncora Capital Assurance Inc.	33,650	27,616
Net unrealized gains - Syncora Investment Holdings	8,330	865
Net unrealized losses - other	(587)	(10,639)
Change in mandatory contingency reserve	(3,266)	13,307
Change in unrealized losses on derivative instruments	(471)	(2,660)
Change in capital and surplus for the year	101,327	230,961
Capital and surplus, end of year	$ 1,188,284	$ 1,086,957

The accompanying notes to statutory basis financial statements are an integral part of these statements.

Syncora Guarantee Inc.
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

(U.S. Dollars in thousands)	2016	2015
Cash from Operations		
Premiums collected, net of reinsurance	$ 9,964	$ 14,722
Underwriting expenses paid	(40,046)	(33,529)
Net investment income collected	33,065	33,750
Net investment expenses and interest paid, including		
surplus notes interest of $46,775 and $0	(47,698)	(940)
Loss recovery from Pike Pointe distribution	46,430	-
Benefits and loss related payments, net of other recoveries	(61,609)	(16,359)
Federal income taxes recovered	-	642
Fee income and other, net	14,462	668
Net cash used in operations	(45,432)	(1,046)
Cash from Investments		
Proceeds from bonds sold, matured or repaid	792,156	412,979
Proceeds from stocks sold	-	4,707
Bonds acquired	(761,588)	(335,406)
Common stocks acquired	(16,498)	(627)
Other invested assets	(2,500)	(34,944)
Miscellaneous proceeds (applications)	3	(3,772)
Net cash provided by investments	11,573	42,937
Cash from Financing and Miscellaneous Sources		
Paydown on surplus notes	(8,225)	-
Other cash provided by miscellaneous sources	478	4,509
Other cash (used in) provided by financing and miscellaneous sources	(7,747)	4,509
Net change in cash, cash equivalents and short-term investments	(41,606)	46,400
Cash, cash equivalents and short-term investments, beginning of year	138,547	92,147
Cash, cash equivalents and short-term investments, end of year	$ 96,941	$ 138,547
Supplemental Non-Cash Flow Information		
Reclassification of additional paid-in capital		
to unassigned funds - pursuant to permitted practice	$ 2,046,972	$ -
Bonds transferred to Syncora Guarantee from Syncora Guarantee - UK		
as a result of the Part VII Transfer (See note 6)	$ -	$ 68,275
Contribution of the City of Detroit purchase credits to Pike Pointe	$ -	$ 5,503
Securities distributed to Syncora Guarantee from Pike Pointe (See note 6)	$ 3,570	$ -
Surplus notes principal discount	$ 19,951	$ -

The accompanying notes to statutory basis financial statements are an integral part of these statements.

1. Organization and Business

Syncora Guarantee Inc. ("Syncora Guarantee" or the "Company") is an insurance company domiciled in the State of New York and was licensed to conduct financial guarantee insurance business throughout all 50 of the United States, as well as in the Commonwealth of Puerto Rico, the District of Columbia, and the U.S. Virgin Islands. However, because of the events discussed below, as of December 31, 2016, 28 states have suspended or revoked Syncora Guarantee's license to conduct insurance business in such states or jurisdiction, placed an order of impairment against it, or Syncora Guarantee voluntarily agreed to cease writing business in such states. Syncora Guarantee, however, continues to collect premiums on existing business in such states and management anticipates that it will be able to continue to collect such premiums. Additional states may suspend Syncora Guarantee's license, place an order of impairment against it or, in lieu of a suspension or order, Syncora Guarantee may voluntarily agree to cease writing business in additional jurisdictions. Syncora Guarantee opted not to renew its license in the U.S. Virgin Islands and the Commonwealth of Puerto Rico.

Prior to January 2008, Syncora Guarantee was primarily engaged in the business of providing (i) credit enhancement on fixed and variable rate debt obligations through the issuance of financial guarantee insurance policies, and (ii) credit protection on specific referenced credits or on pools of specific referenced credits through the issuance of financial guarantee insurance policies covering the obligations under credit default swap ("CDS") contracts issued by trusts established to comply with the New York Insurance Law (the "NYIL"). Syncora Guarantee ceased writing substantially all new business in January of 2008.

Financial guarantee insurance policies obligate the insurer to provide an unconditional and irrevocable guarantee to the holder of a debt obligation of full and timely payment of certain principal and interest when due. In the event of a default under the debt obligation, the insurer has recourse against the issuer and/or any related collateral (which is more common in the case of insured asset-backed obligations or other non-municipal debt) for amounts paid under the terms of the policy. CDS contracts are derivative contracts that offer credit protection relating to a particular security or pools of specified securities. Under the terms of a CDS contract, the seller of credit protection makes a specified payment to the buyer of credit protection upon the occurrence of one or more specified credit events with respect to a referenced security. Credit derivatives typically provide protection to a buyer rather than credit enhancement of a debt security as in traditional financial guarantee insurance.

The Company is 100% owner of Syncora Capital Assurance, a New York licensed financial guarantee insurer. On July 10, 2015, Syncora Guarantee-UK, a formerly wholly owned subsidiary, was dissolved following the completion of the Part VII Transfer discussed below.

The Company is also 100% owner of non-insurance holding companies: (i) Pike Pointe Holdings, LLC ("Pike Pointe"), which wholly owns a number of subsidiaries that ultimately own and operate certain toll road facilities located in the United States and Canada and (ii) Syncora Investment Holdings LLC, ("Syncora Investment Holdings"). The Company is also a 99% owner of a non-insurance company, Syncora Securities Holdings LLC, ("Syncora Securities"). See Note 6.

2. Completion of Restructuring Transactions and Description of the Transactions Comprising the 2009 Master Transaction Agreement

Completion of Restructuring Transactions:

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

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

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

- The remaining $30.0 million of discounted long-term and short-term surplus notes were transferred to and cancelled by Syncora Guarantee. The principal component of the $30.0 million discount is considered an equity transaction as it was transacted between related parties, and therefore reported through gross paid in and contributed surplus (prior to the application of the permitted practice as described below).

- Pursuant to an amended and restated tax sharing agreement, Syncora Guarantee reallocated $1.75 billion of excess net operating losses to SHI for its sole use and benefit, where these net operating losses may be used more broadly. In addition, SHI provided contractual protections relating to the preservation and utilization of Syncora Guarantee retained net operating losses. The amendments to the tax sharing agreement did not have any effect on the Company's policyholders' surplus.

- Syncora Guarantee made a net cash payment of $55.0 million on its long-term and short-term externally held surplus notes after receiving approval from the NYDFS. In accordance with statutory accounting principles, interest was not recorded by the Company as an expense until approval for such payment was granted by the NYDFS. This payment was recorded as an $8.2 million reduction to principal of short-term surplus notes and a $46.8 million payment of paid-in-kind and accrued interest on both the long-term and short-term surplus notes. There can be no assurance the NYDFS will grant approval for future payments on the Company's surplus notes.

- The NYDFS granted Syncora Guarantee permission to increase its earned surplus to the greatest extent possible given its current gross paid in and contributed surplus by allocating the entire balance of that account to earned surplus. The Company has reflected this permitted practice as of September 30, 2016.

Description of the Transactions Comprising the 2009 MTA:

On July 15, 2009, Syncora Guarantee consummated a Master Transaction Agreement with certain of its financial counterparties to CDS contracts insured by its financial guaranty insurance policies and certain related transactions (hereafter referred to collectively as the “2009 MTA”) which, along with approval of the New York State Department of Financial Services ("NYDFS") to apply certain accounting practices in connection with the preparation of Syncora Guarantee’s statutory financial statements to certain of the transactions comprising the 2009 MTA, resulted in Syncora Guarantee’s return to compliance with its regulatory minimum capital and surplus.

The 2009 MTA consisted of the following primary components:

(1) the restructure, effective defeasance or, in-substance, commutation (in whole or in part) of substantially all of the Company’s exposure to such CDS contracts, in exchange for which the Company paid the Counterparties consideration comprised of approximately $1.2 billion in cash, issuance of $625.0 million surplus notes of the Company and the transfer of common shares of Syncora Holdings Ltd. (“Syncora Holdings”), a Bermuda-based holding company;

(2) the reinsurance or novation of certain business to a newly formed, wholly-owned insurance subsidiary of the Company, Syncora Capital Assurance, in which the Company also issued back-up guarantees on such novated guarantees, which are also more fully described in Note 6;

(3) the effective defeasance or, in-substance, commutation, of certain of the Company’s exposure to insured residential mortgage backed securities (“RMBS”). See below for further discussion; and

(4) certain other transactions to remediate loss exposure, which primarily consisted of certain commutations of its other guarantees and assumed reinsurance, and the termination of its office lease agreement.

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

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

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

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

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

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

In connection with the 2009 MTA, the Company invested in a fund (the "RMBS Fund") that executed certain transactions designed to effectively defease or, in-substance, commute the Company's exposure on certain of its financial guarantee insurance policies written on RMBS. The RMBS Fund purchased certain of such RMBS in return for a trust certificate of an owner trust representing the uninsured cash flows of such RMBS ("Uninsured Cash Flow Certificate") plus a cash payment. In general, the RMBS Fund contributed any such purchased RMBS (and certain of the Company's reimbursement rights) to separate owner trusts in return for certificates representing the cash flows consisting of insurance payments made on the policies insuring such RMBS ("Insurance Cash Flow Certificates"). In return for such investments, the Insurance Cash Flow Certificates were distributed to the Company. The Company will, should the cash flows from the underlying RMBS transaction be sufficient, receive certain reimbursement payments in respect of insurance payments previously made by the Company on such RMBS. The Company also entered into several alternative transactions effectively replicating the economics of the RMBS Offer.

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

For the years ended December 31, 2016 and 2015, the Company paid gross RMBS claims aggregating $21.1 million and $11.8 million of which $18.3 million and $10.0 million, respectively, were returned to the Company as a result of receipts from Insured Cash Flow Certificates.

See "(c)" to the table in Note 4 for a description of the accounting for such effective defeasances or, in-substance, commutations.

3. Description of Significant Risks and Uncertainties, and Description of Syncora Guarantee's On-Going Strategic Plan

The Company remains exposed to significant risks and uncertainties that may materially affect its financial and liquidity position. These relate to, among other things, (i) a potential liquidity mismatch resulting from the timing of anticipated future claims payments and subsequent cash recoveries related to these claims payments, (ii) the potential for future adverse loss and claims development on its insured obligations, (iii) the resolution of various litigation matters, including recoveries, and (iv) the failure to receive interest or principal payments on Syncora Capital Assurance's surplus note(s). These risks and uncertainties are discussed more fully below and could materially and adversely affect the Company's results of operations, financial condition and liquidity.

Description of Significant Risks and Uncertainties and Other Matters

- The Company faces a potential liquidity mismatch between expected future medium to long-term claims payments and recoveries relating to these claims. As of December 31, 2016, the Company anticipates that it may be requested to make gross claim payments in the period 2017 to 2029 of at least approximately $121.5 million, excluding remediated RMBS claims, followed in later years (in some cases significantly later years) by recoveries of these claims payments. The Company also remains exposed to transactions with refinancing risk through to 2019, including one credit with a heightened risk of material claims payments with an aggregate par outstanding of $798.7 million and a number of other credits with exposure to refinancing risk and the risk of material principal repayments with an aggregate par outstanding of $1.9 billion, in each case as of December 31, 2016. The amount and timing of the recoveries related to future claims payments are subject to greater uncertainty than the amount and timing of such future claims payments themselves. Pursuant to the Company's accounting policy and guidance under SSAP, the net present value of estimated claims and recoveries (including salvage and subrogation) are reflected in the Company's loss reserves (see the Company's accounting policy on reserves in Note 4). Because of the inherent uncertainty in estimating future claim payments and recoveries (including, whether, when and to what extent investment grade and non-investment grade credits may be able to refinance), no assurance can be given that the amount or timing of claims payments, related recoveries, or ultimate losses match the Company's estimates, and such differences could materially and adversely affect the Company's results of operations, financial condition and liquidity. The Company may also experience significant adverse development on its insured obligations that may place further demands on the Company's liquidity and financial position. See Note 11 "*Schedule of Insured Financial Obligations with Credit Deterioration*" caption for further discussion.

- The Company is exposed to significant refinancing risks as mentioned above in its insured and reinsured portfolio. The Company had assumed at origination that certain of the debt issuances insured could be refinanced in the market. The Company is exposed to this risk and, accordingly, may be required to make claims payments and then seek to recover its payments from revenues produced by the transaction. The Company believes it has reserved appropriately to reflect this risk but a more difficult refinancing market at the time of refinancing could lead to the Company facing additional, material claims and losses.

- Syncora Guarantee continues to be materially exposed (directly and indirectly) to risks associated with deterioration in the residential mortgage market through its guarantees of RMBS, as well as other bond sectors to which Syncora Guarantee has material exposure, including the structured single risk, public finance (including Puerto Rico), commercial mortgage, and corporate loan bond sectors. The extent and duration of any deterioration of the credit markets is unknown, as is the effect, if any, on: (i) potential claim payments and the ultimate amount of losses Syncora Guarantee may incur on obligations it has guaranteed and (ii) potential losses Syncora Guarantee may incur on its invested assets.

- As of December 31, 2016, the Company has $141.4 million of gross par exposure (excluding interest outstanding of $45.2 million) to bonds issued by the Puerto Rico Electric Power Authority ("PREPA"), of which $127.1 million (excluding interest outstanding of $39.4 million) is ceded to Syncora Capital Assurance.

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

On June 30, 2016, the President enacted the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"), which provides Puerto Rico and its instrumentalities with both an in-court and out-of-court process to restructure debts and bind holdouts. PROMESA provides for the establishment of an Oversight Board, which the President appointed on August 31, 2016, with the authority to, among other things, approve adjustments of debt of Puerto Rico and its instrumentalities, including PREPA. PROMESA also imposes a temporary stay of litigation and claims against Puerto Rico and its instrumentalities for certain matters, which has been extended to May 1, 2017.

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

On January 27, 2017, Governor Rosselló announced that the Fiscal Agency and Financial Advisory Authority and its advisors would now lead negotiations with PREPA's creditors. On January 28, 2017, Governor Rosselló signed the Puerto Rico Financial Emergency and Fiscal Responsibility Act into law, which prioritizes the payment of essential services over debt payments, while amending and repealing certain parts of the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act enacted on April 6, 2016, which empowered the Governor to declare a moratorium on the payment of certain Puerto Rico credits, including PREPA's power revenue bonds.

The RSA was amended on January 30, 2017 to extend to March 31, 2017. Among other conditions precedent, it is now conditioned on the execution by March 31, 2017 of supplements to the RSA to implement the transactions contemplated by the RSA pursuant to PROMESA or another mechanism to be agreed, which will be negotiated with the new advisors. On March 31, 2017, these RSA deadlines were extended until April 5, 2017, amid ongoing negotiations. There is significant risk and uncertainty related to PREPA's ability to implement the recovery plan contemplated by the RSA and the terms of the restructuring of the bonds insured by the Company, as well as risk related to the effect on PREPA of Puerto Rico's weak economy, high debt load and limited liquidity. In the event that Syncora Capital Assurance is unable to meet its obligations under its reinsurance agreement, the Company may experience losses on its exposure to PREPA which could have a material adverse effect on the Company's liquidity and financial position.

- The Company also has $87.6 million of net par exposure (excluding interest outstanding of $28.9 million) through primarily reinsurance of General Obligation bonds and other obligations of Puerto Rico's instrumentalities. If Puerto Rico or any of its instrumentalities were to default on their debt obligations, the Company may experience losses on these insured obligations which could have a material adverse effect on the Company's surplus, liquidity and financial position.

- The Company also continues to have significant exposure to a number of large structured single risk transactions (6 transactions with an aggregate insured net principal outstanding of $1.3

billion) with material risk of adverse development, including event driven risks, such as political, operational, bankruptcy, legal and regulatory actions. Such adverse events could have a material adverse effect on the Company's surplus, liquidity and financial position.

- The Company and its financial position will continue to be subject to risk of global financial and economic conditions that could materially and adversely affect the amount of potential losses (including the timing and amount of potential claims and subsequent recoveries) incurred on transactions it guarantees, the value of its investment portfolio, and otherwise materially and adversely affect the Company. With respect to the Company’s investment portfolio, a prolonged period of low interest rates, along with declining investment balances, may adversely affect the Company’s ability to generate sufficient investment income to fund its future obligations. Issuers or borrowers whose securities or loans the Company insures or holds as well as the Company's counterparties under swaps and other derivative contracts may default on their obligations to the Company due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud or other reasons. Additionally, the underlying assets supporting securities that the Company has guaranteed may deteriorate further, causing these securities to incur losses.

- The Company has direct insurance and reinsurance exposure to certain credits within European countries. Global economic conditions have been negatively affected with concerns about the continued sovereign debt crisis within the European region and the possibility that certain European Union member states will default on their debt obligations or leave the European Union. The continued uncertainty over the outcome of the European Union governments’ efforts to provide financial support for sovereigns and sub-sovereigns and the possibility of further deteriorating conditions in Europe could have a material adverse effect on the Company’s financial and liquidity position. As of December 31, 2016, the Company’s in-force guaranteed principal exposure to the European Union was approximately $3.2 billion of which $2.8 billion of net exposure is to credits in the UK and denominated in British Pound sterling and $225.8 million was specifically related to certain credits in higher risk countries, such as Portugal and Italy. The United Kingdom held a referendum on June 23, 2016, in which a majority of voters voted to exit the European Union (“Brexit”). Negotiations have commenced to determine the future terms of the United Kingdom’s relationship with the European Union. Brexit has caused currency exchange rate fluctuations that resulted in the weakening of the British Pound, in which a portion of our insured portfolio is denominated. In addition, we have indirect exposure to European banks for which Brexit will have unknown consequences. Until there is greater certainty on the terms and conditions of the United Kingdom’s relationship with the European Union, we cannot provide any assurance of its effect on our business, results of operations, liquidity and surplus, which could be material and adverse.

- The Company is materially exposed to foreign exchange risk as the Company's insured debt obligations are denominated in a number of foreign currencies and the U.S. dollar. The principal currencies creating foreign exchange risk are the British Pound sterling, Australian dollar and the European Union euro. At December 31, 2016, approximately 77% of the Company's in-force guaranteed net par outstanding exposure of $5.3 billion was denominated in such currencies. The Company translates foreign currencies into U.S. dollars at the current market exchange rates. Changes in the exchange rates between foreign currencies and U.S. dollars may have an adverse effect on the settlement of potential claims or the value of salvage/recoveries and therefore could have a material adverse effect on the Company's liquidity and surplus position. In addition, the Company is materially exposed to risks associated with its financial guarantees covering foreign denominated inflation indexed-linked bonds in connection with the bonds issued by UK and European utility and project finance issuers.

- Syncora Guarantee also holds 100% of the common shares issued by Syncora Capital Assurance. Syncora Capital Assurance's ability to pay dividends on such common shares is subject to risks and uncertainties, including, without limitation, prior regulatory approval by the NYDFS and compliance with certain contractual restrictions. See Note14 for further discussion. No assurance can be given as to whether or when Syncora Guarantee or Syncora Capital Assurance may be able to pay any dividends on its preferred and/or common shares. As discussed in Note 14, Syncora Guarantee's ability to pay dividends is subject to regulatory constraints. Accordingly, any investment in Syncora Guarantee's preferred shares should be considered speculative.

- The Company's subsidiary, Syncora Capital Assurance has significant exposure to public finance transactions (including Puerto Rico), structured single risk and collateralized debt obligations. These exposures continue to pose a risk of material adverse development. Reductions in the carrying value of the Company's investment in Syncora Capital Assurance could, directly or indirectly, have a material adverse effect on the Company's surplus and liquidity position.

- Any payment of principal or interest on the long-term surplus note issued by Syncora Capital Assurance, which is held by Syncora Guarantee, is subject to the satisfaction of conditions precedent, including, without limitation, prior regulatory approval by the NYDFS and compliance with contractual restrictions in the 2009 MTA. To date, the NYDFS has permitted Syncora Capital Assurance to make payments to Syncora Guarantee on its long-term surplus note. On December 23, 2016, the NYDFS approved the semi-annual payment of $6.1 million of interest on its long-term note from Syncora Capital Assurance to Syncora Guarantee. No assurance can be given as to whether and when the NYDFS will approve future payments of interest or principal on Syncora Capital Assurance's $200 million long-term surplus note (the "Existing Surplus Note"). The failure of Syncora Guarantee to (i) receive all future principal and interest payments of $257.8 million due from Syncora Capital Assurance under the Existing Surplus Note or any surplus notes to be issued by Syncora Capital Assurance to the Company (pursuant to the capital support agreement or otherwise) ("Future SCAI Surplus Notes") or (ii) monetize or realize value from the Existing Surplus Note or any Future SCAI Surplus Notes could have a material adverse effect on Syncora Guarantee's anticipated liquidity position.

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

- Any payment of principal or interest on the short-term and long-term surplus notes issued by Syncora Guarantee is subject to the satisfaction of conditions precedent, including, without limitation, prior regulatory approval by the NYDFS. Syncora Guarantee remains exposed to significant risks and uncertainties that may materially and adversely affect its financial condition, liquidity position and ability to make future payments on its surplus notes. Consequently, there is significant uncertainty and there can be no assurance as to whether and when the NYDFS will approve any future payments on the short-term or long-term surplus notes, which should be considered speculative investments. Any payment by Syncora Guarantee of principal or interest on its short-term or long-term surplus notes could have a potential material adverse effect on Syncora Guarantee's prospective policyholders' surplus and liquidity position.

- As discussed in more detail in Note 11, the Company has exercised rights available to it in connection with certain RMBS it insures and has issued put-back notices to sponsors of such securities to require the repurchase of mortgage loans which back the securities and has recorded a reduction in its reserves for losses at December 31, 2016, which reflects its estimate of its ultimate recovery from such repurchases. Sponsors have disputed the Company's right to require them to repurchase the aforementioned mortgages and the Company is involved to enforce these rights. If the Company is unsuccessful in enforcing its rights and does not realize the benefit it recorded through the aforementioned reduction in its reserves as and when expected, it may have a material effect on the Company's anticipated liquidity position and policyholders' surplus. Likewise, if the Company is successful in enforcing its rights in an amount greater than the benefit it recorded through the aforementioned reduction in reserves, it may have a materially positive effect on the Company's liquidity position and policyholders' surplus. The Company periodically engages in discussions attempting to resolve these claims. While a negotiated resolution could result in an amount below that recorded in the aforementioned reserve reductions, it could also result in an amount greater than such reductions.

- Establishment of case basis reserves for unpaid losses and loss adjustment expenses on the Company's in-force business requires the use and exercise of significant judgment and is based on certain assumptions by management, including estimates regarding the likelihood of occurrence, timing and amount of a loss on a guaranteed obligation. Changes in such assumptions could materially adversely affect such reserve estimates, including the amount and timing of any claims. Under certain conditions, many of which are event-driven and outside the control of the Company, these exposures may result in significant increases in claims beyond those assumed in the Company's reserve estimate (that may or may not result in an increase in such loss reserves) in the near to medium term. A material portion of the Company's case basis reserves reflect certain assumptions with respect to recoveries on rights available to the Company in connection with certain RMBS it insures that require the sponsors of such securities to repurchase mortgage loans that breached certain representations and warranties (see Note 11). Similarly, a material portion of the Company's case basis reserves reflects certain assumptions that affect reimbursements in the remainder of its insured and reinsured portfolio. Actual experience may, and likely will, differ from those estimates and such difference may be material due to the fact that the ultimate dispositions of claims are subject to the outcome of events that have not yet occurred and, in certain cases, will occur over many years in the future. Examples of these events include changes in the level of interest rates, credit deterioration of guaranteed obligations, recoveries in bankruptcy proceedings, changes in the value of specific assets supporting guaranteed obligations, changes in the level of investment yield and changes in the timing, level of success and collectability of the aforementioned mortgage loan repurchases. Both qualitative and quantitative factors are used in making such estimates. From time to time the Company reevaluates all such estimates. Changes in these estimates may be material and may result in material changes in the Company's policyholders' surplus. Any estimate of future costs is subject to the inherent limitation on management's ability to predict the aggregate course of future events. It should, therefore, be expected that the actual emergence of losses and claims will vary, perhaps materially, from any estimate. The risk of loss under the Company's guarantees extends to the full amount of unpaid principal and interest on all debt obligations it has guaranteed.

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

- In addition to exposure to general economic factors including stress in the energy sector, Syncora Guarantee is exposed to the specific risks faced by the particular businesses, municipalities or pools of assets covered by its financial guarantee products. In light of the continuing economic and financial stresses in the United States and Europe, various businesses and municipalities are facing financial difficulties. In addition, catastrophic events or terrorist acts could adversely affect the ability of public sector issuers to meet their obligations with respect to securities insured by Syncora Guarantee and Syncora Guarantee may incur material losses due to these exposures if the economic stress caused by these or other events is more severe than Syncora Guarantee currently foresees. Other events, such as interest rate changes or volatility, could, in certain instances, also materially affect Syncora Guarantee or its insured obligations.

- Changes in laws and regulations affecting insurance companies, the municipal and structured securities markets, the financial guarantee insurance and reinsurance markets and the credit derivatives markets, as well as other governmental regulations, or acts may subject Syncora Guarantee, its affiliates and subsidiaries to additional legal liability and regulatory requirements, affect the credit performance of the securities that Syncora Guarantee insures and otherwise affect the Company's financial condition.

- The Company has sought, and may in the future seek, the NYDFS's approval of permitted accounting practices and other regulatory relief which have, and if granted may have, a material effect on the Company's policyholders' surplus. Once granted, these permitted accounting practices have been subject to an annual approval or confirmation. No assurance can be given that the NYDFS will continue to grant approval of the Company's past or any future permitted accounting practices or requested regulatory relief. Failure to obtain continuing approval of the past or future permitted accounting practices or requested regulatory relief could have a material adverse effect on the Company's policyholders' surplus. See Note 4 for discussion of permitted accounting practices.

- Should the Company experience an "ownership change" for purposes of Section 382 of the Internal Revenue Code, the Company's ability to utilize its net operating loss carryforwards could be subject to an annual limitation in the future, which would be expected to result in a material increase in the Company's U.S. federal income tax liability, reduce reimbursements from profitable affiliates under its tax sharing agreement and therefore materially adversely affect the Company's surplus and liquidity position. While the Syncora Holdings Ltd. bye-laws contain restrictions intended to reduce the likelihood of such an "ownership change," it remains possible that an "ownership change" could nonetheless occur. These limitations may prevent Syncora Holdings Ltd. from taking certain strategic actions or may make it more difficult for Syncora Holdings Ltd. to attract additional capital. See Note 12 for more information.

- Notwithstanding the amendments to the 2009 MTA obtained by the Company on August 24, 2015, as discussed in Note 2., and the Restructuring Transactions completed on August 12, 2016, the Company remains subject to certain contractual and regulatory restrictions that limit its financial and operating flexibility and may materially and adversely impair its ability to execute on its strategic plan. See below Description of the Company's On-Going Strategic Plan and associated risks.

- Syncora Guarantee's business could be negatively affected as a result of actions of activist stockholders of its parent, and responding to any such actions could be costly and timeconsuming, disrupting operations and diverting the attention of management and employees. Such activities could interfere with Syncora Guarantee's ability to execute on its Strategic Actions.

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

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

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

Description of the Company's On-Going Strategic Plan

Following the completion of the Restructuring Transactions, Syncora Guarantee, together with its affiliates, is undertaking a comprehensive review of its strategic plan and continues to seek to enhance stakeholder value. Management continues to actively seek to (i) remediate insured exposures (through their purchase on the open market or otherwise, commutation, defeasance or other restructuring) to minimize potential claim payments, maximize recoveries and mitigate potential losses, (ii) increase the Company's capital, financial position, liquidity, claims paying resources, manage its expenses and reduce its liabilities and (iii) realize maximum value, and/or monetize its assets, investments in subsidiaries and various legal proceedings described in Note 13 and from any other rights and remedies the Company may have, whether through litigation, settlement, sale or other monetization. In addition, management is actively reviewing other alternatives to enhance stakeholder value by, among other things, (i) entering into a potential reinsurance transaction with a third party, and (ii) utilizing NOLs that have been reallocated to Syncora Holdings US Inc. as part of the restructuring transaction.

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

4. Summary of Significant Accounting Policies

Accounting Practices

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

Set forth below is a reconciliation of the net income (loss) and capital and surplus (deficit) reported in accordance with NAIC SAP to such amounts reported in the accompanying financial statements prepared in accordance with statutory accounting practices prescribed or permitted by the NYDFS as of and for the years ended December 31, 2016 and 2015:

(U.S. Dollars in thousands)

Description	Net Income 2016	Net Income 2015	Capital and Surplus 2016	Capital and Surplus 2015
NAIC SAP Basis	$ 141,276	$ 1,930,021	$ 427,056	$ 236,911
Effect of NY prescribed practices				
(a)	-	-	-	-
Effect of NY permitted practices				
(b)	-	-	401,844	398,638
(c)	(78,241)	(1,761,627)	297,019	375,261
(d)	-	-	-	-
(e)	(2,233)	40,575	62,365	76,147
(f)	-	-	-	-
NY Basis	$ 60,802	$ 208,969	$ 1,188,284	$ 1,086,957

Permitted or Prescribed Practices

(a) Pursuant to certain prescribed accounting practices under Articles 14 and 69 of the NYIL that differ with those found in NAIC SAP, the admissible carrying value of a share of an insurer is limited to a stipulated percentage of policyholders' surplus, and investments in certain securities (including the Uninsured Cash Flow Certificates (see Note 2)) are also subject to limitations. In connection with the 2009 MTA discussed in Note 2, the NYDFS permitted the Company to admit these assets notwithstanding the otherwise applicable limitations, which resulted in no difference between NAIC SAP and NY basis.

(b) Pursuant to approval granted by the NYDFS in accordance with section 6903 of the NYIL, as of December 31, 2016 and December 31, 2015, the Company has de-recognized $401.8 million and $398.6 million, respectively, in the aggregate, of contingency reserves on terminated policies, and policies on which the Company has established case reserves, whereas under NAIC SAP the Company would still be required to carry such reserves. The Company applies the permitted practice described above to release contingency reserves on an obligation by obligation basis under policies insuring multiple obligations rather than on a policy by policy basis.

(c) The NYDFS granted the Company a permitted practice to de-recognize reserves for unpaid losses, unearned premium reserve and contingency reserves relating to, and expense payments (which are reflected in "Net losses and loss adjustment expenses " on the Statements of Operations and Changes in Capital and Surplus ("Statements of Operations")) made to effect, certain transactions executed in connection with its continued remediation efforts described in Note 2 which effectively defeased or, in-substance, commuted, in whole or in part, the policies relating thereto, whereas under NAIC SAP such reserves would continue to be carried until such time the underlying contracts were legally extinguished and the payments made to effect the transactions would have resulted in the recording of an asset, as such payments were made in exchange for the assignment to the Company or an affiliate of the Company of all rights under the aforementioned policies. As of December 31, 2016, such de-recognized reserves for unpaid losses, unearned premium reserve and contingency reserves (as of the date of the effective defeasance or, in-substance commutations) aggregated $6.1 billion, $4.2 million and $3.1 million, respectively. As of December 31, 2015, such de-recognized reserves for unpaid losses, unearned premium reserve and contingency reserves (as of the date of the effective defeasance or, in-substance commutations) aggregated $6.1 billion, $4.2 million and $3.1 million, respectively. As of December 31, 2016, the Company no longer sought approval for the de-recognition of unpaid losses, unearned premium reserves and contingency reserves relating to, and expense payments made which effectively defeased or, in-substance, commuted certain CDS contracts executed in connection with the consummation of the 2009 MTA and that were previously disclosed on an aggregate basis. As such CDS contracts were legally extinguished as of December 31, 2016, the associated reserves were released under NAIC SAP resulting in no difference between NAIC SAP and NY basis, and therefore the permitted practice is no longer required.

(d) The NYDFS granted the Company a permitted practice to value the surplus notes issued by the Company in settlement of certain policy obligations in connection with the 2009 MTA (see Note 2) at original face value of $625.0 million in the aggregate, as compared to the estimated fair value thereof, that the Company would otherwise have been required to reflect such surplus notes in accordance with NAIC SAP. Any adjustment to the carrying value of surplus notes would result in an equal and offsetting adjustment to unassigned funds. As both surplus notes and unassigned funds are elements of policyholders' surplus, a change in the value of the surplus notes would not affect policyholders' surplus.

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

(f) In connection with the Restructuring Transactions (as defined in Note 2) completed on August 12, 2016, the NYDFS granted the Company permission to increase its earned surplus to the greatest extent possible given its current gross paid in and contributed surplus by allocating the entire balance of that account to earned surplus. As both earned surplus and gross paid in and contributed surplus are elements of policyholders' surplus, this permitted practice has no effect on total policyholders' surplus.

The Company has obtained confirmation of these permitted practices as of December 31, 2016 and 2015 and plans to seek annual confirmation of these permitted practices for the year ended December 31, 2017.

Use of Estimates

The preparation of financial statements in conformity with accounting practices prescribed or permitted by the NYDFS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results may differ from estimates and those differences may be material.

In addition to the permitted practices described above, Syncora Guarantee utilizes the following accounting policies in the preparation of the accompanying financial statements:

Investments

Bonds

Bonds (which consist of bonds and loan-backed securities) with an NAIC designation of 1 or 2 (highest-quality and high-quality) are stated at cost, adjusted for amortization of premium and accretion of discount, which is calculated using the constant yield method. Bonds with an NAIC designation of 3 through 6 (medium quality, low quality, lowest quality and in or near default) are stated at the lower of amortized cost, adjusted for amortization of premium and accretion of discount calculated using the constant yield method, or fair value. The prospective method is used to value loan-backed securities.

Syncora Guarantee employs a third party investment accounting service provider. Prepayment assumptions for loan-backed securities are obtained from a third party pricing service or determined using Syncora Guarantee's internal estimates.

The following table presents the carrying value of Syncora Guarantee's securities by NAIC designation at December 31, 2016:

(U.S. Dollars in thousands)

	Bonds	Short-term investments	Cash equivalents	Total
NAIC designation 1	$ 509,529	$ 38,311	$ 43,580	$ 591,420
NAIC designation 2	229,882	-	5,412	235,294
NAIC designation 3	40,357	-	-	40,357
NAIC designation 4	2,507	-	-	2,507
NAIC designation 5	10,604	-	-	10,604
NAIC designation 6	57,308	-	-	57,308
	$ 850,187	$ 38,311	$ 48,992	$ 937,490

Cash, Cash Equivalents and Short-Term Investments

Cash, cash equivalents and short-term investments include cash on hand, amounts due from banks, money market instruments and commercial paper. Cash equivalents include investments owned whose maturities at the time of acquisition were three months or less. Short-term investments are stated at amortized cost and consist primarily of investments having maturities greater than three months from the date of purchase, but less than one year to maturity. Fair values for such investments approximate carrying value.

Investment in Subsidiaries

Syncora Guarantee's investment in the common stocks of its wholly owned insurance subsidiaries are accounted and reported under the equity method as described in SSAP No. 97, "Investments in Subsidiary, Controlled and Affiliated Entities", and valued in accordance with section 3(ii)(D) of the NAIC Valuations Securities manual. Changes in the carrying value of such investments are reflected as unrealized gains or losses in capital and surplus.

Syncora Guarantee recorded its initial investment in the surplus notes of Syncora Capital Assurance at the principal or face amount of such notes. The remaining amount of capitalization of $191.5 million ($541.5 million less $350.0 million) was initially attributed to the carrying value of Syncora Guarantee's investment in the common shares of Syncora Capital Assurance. Additionally, on November 13, 2014, the Company made a $30.0 million capital contribution to Syncora Capital Assurance.

The Company carries its investment in the common shares of Syncora Capital Assurance at an amount equal to its proportionate share of Syncora Capital Assurance's policyholders' surplus excluding the statutory carrying value of its surplus notes as required pursuant to SSAP 97. To the extent that Syncora Capital Assurance reports a policyholders' deficit excluding the statutory carrying value of its surplus notes, the Company will reduce the carrying value of its investment in Syncora Capital Assurance's common shares to zero. Any excess deficit will then serve to reduce the carrying value of Syncora Capital Assurance's surplus notes owned by the Company, but in no event by more than the par value or face amount of such surplus notes. Any such remaining deficit will be attributed to, and recorded as the carrying value of, the common shares of Syncora Capital Assurance owned by the Company to the extent of any capital support commitments the Company has to Syncora Capital Assurance (none as of December 31, 2016 and December 31, 2015). Syncora Capital Assurance prepares its statutory financial statements in accordance with accounting permitted practices granted by the NYDFS. Without such accounting permitted practices, Syncora Capital Assurance's policyholders' surplus (deficit) would have been $(198.4) million and $(316.0) million at December 31, 2016 and December 31, 2015, respectively and net income (loss) would have been $128.7 million and $(27.1) thousand for the years ended December 31, 2016 and 2015, respectively. At December 31, 2016 and December 31, 2015, Syncora Guarantee recorded $200.0 million and $192.1 million, respectively, of surplus notes. At December 31, 2016 and December 31, 2015, Syncora Guarantee recorded $25.8 million and zero, respectively, of common shares.

Derivative Instruments

Derivative instruments are recorded at an estimated fair value with changes in fair value recorded as unrealized gains and losses which are included in "Capital and surplus" on the Statements of Admitted Assets, Liabilities and Capital and Surplus.

Net Investment Income

Net investment income includes interest and dividends received or accrued on investments, as well as interest expense on the Company's surplus notes. It also includes amortization or accretion of any purchase premium or accretion of discount using the constant yield method, adjusted prospectively for any change in estimated yield to maturity. Investment income is recognized when earned. Investment income due and accrued that is deemed uncollectible is charged against net investment income in the period such determination is made. Net investment income is reduced by investment expenses. In addition, investment income due and accrued that is greater than 90 days past due is non-admitted and charged directly to capital and surplus.

Realized Investment Gains and Losses and Impairments

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 Company conducts a review to identify and evaluate investments that have indications of possible other-than- temporary impairment. An impairment of an investment shall be considered to have occurred if it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the security. If the fair value of the investment is less than the carrying value and the Company determines that the decline in the value of the investment is other-than-temporary, the investment is written down to its fair value and a realized loss is recorded in the Statements of Operations. In addition, for securities that the Company has the intent to sell or the inability or the lack of intent to retain the securities for a period of time sufficient to recover the amortized cost, the securities are written down to fair value and the other-than-temporary impairment charge is recorded as a realized loss in the Statements of Operations.

Premium Revenue Recognition

Premiums are received either upfront or in installments and are recognized as written when due. Accordingly, future installment premiums are not recognized as receivable until they are due. Once due, installment premiums written are earned ratably over the installment period, generally one to six months, which is consistent with the expiration of the underlying risk or amortization of the underlying insured principal. Upfront premiums written are earned based on the proportion of principal and interest paid during the period, as compared to the total amount of principal and interest to be paid over the contractual life of the insured debt obligation.

In addition, when an insured issue is retired early, is called by the issuer or is in substance paid in advance through a refunding accomplished by placing U.S. Government securities in escrow, any remaining unearned premium revenue is earned at that time, since there is no longer risk to the Company. Also, premiums earned may be accelerated as a result of the Company's remediation transactions, which result in the Company no longer being at risk. Premiums earned by Syncora Guarantee for the years ended December 31, 2016 and 2015 include $38.0 million ($6.7 million net of reinsurance) and $53.3 million ($18.7 million net of reinsurance), respectively, related to accelerations. As premium revenue is recognized there is a corresponding decrease in the unearned premium reserve.

Fees and Other Income

In connection with certain of its insured transactions, Syncora Guarantee may collect waiver, consent, termination and other fees. Depending upon the type of fee received, the fee is either earned when services are rendered and the fee is due, or deferred and earned over a stipulated period or the life of the related transaction.

Underwriting Expenses

Underwriting 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.

Mandatory Contingency Reserve

In accordance with NAIC SAP, a statutorily mandated contingency reserve is established net of reinsurance by an appropriation of unassigned surplus and is reflected in the Statements of Admitted Assets, Liabilities and Capital and Surplus. This reserve is calculated as the greater of a prescribed percentage applied to insured original principal or 50% of premiums written, net of ceded reinsurance. The prescribed percentage varies by the type of business. Once the reserve is calculated, as described above, it is incrementally recognized in the financial statement over a prescribed time period based on type of business. Reductions in the contingency reserve may be recognized under certain stipulated conditions, subject to the approval of the NYDFS. As discussed above, pursuant to approval granted by the NYDFS, in accordance with section 6903 of the NYIL, Syncora Guarantee has de-recognized contingency reserves on terminated policies, as well as on policies on which it has established case reserves.

Losses and Loss Adjustment Expenses

Reserves for losses and loss adjustment expenses on insured business are established by Syncora Guarantee with respect to a specific policy or contract upon, (i) receipt of a claim notice or when management determines that a claim is probable in the future based on specific credit events that have occurred, and (ii) the amount of the ultimate loss that Syncora Guarantee will incur can be reasonably estimated. The amount of such case basis reserve is based on the net present value of the expected future net cash outflows for loss and loss adjustment expense payments that Syncora Guarantee expects to make, net of expected recoveries under salvage and subrogation rights and the net present value of installment premiums due from the counterparties to such guarantees subsequent to the balance sheet date. The future expected cash outflows are determined using cash flow models to estimate the net present value of the anticipated shortfall between (i) scheduled payments on the insured obligation plus anticipated loss adjustment expenses, and (ii) anticipated cash flow from the collateral supporting the obligation and other anticipated recoveries or cash flows.

A number of quantitative and qualitative factors are considered when determining or assessing the need for a case basis reserve. These factors may include the creditworthiness of the underlying issuer of the insured obligation, whether the obligation is secured or unsecured, the projected cash flow or market value of any assets that collateralize or secure the insured obligation, and the historical and projected loss rates on such assets. Other factors that may affect the actual ultimate loss include the state of the economy, changes in interest rates, rates of inflation and the salvage values of specific collateral, as well as the Company's rights, remedies and defenses. Such factors and management's assessment thereof will be subject to the specific facts and circumstances associated with the specific insured transaction being considered for case reserve establishment. Case basis reserves are generally discounted at a rate reflecting the duration weighted average return on Syncora Guarantee's invested assets at year end. Establishment of such reserves requires the use and exercise of significant judgment by management, including estimates regarding the occurrence, amount, and timing of a loss on an insured obligation. Actual experience may differ from estimates and such difference may be material, due to the fact that the ultimate dispositions of claims are subject to the outcome of events that have not yet occurred. Examples of these events include changes in the level of interest rates, credit deterioration of insured obligations, and changes in the value of specific assets supporting insured obligations. Any estimate of future costs is subject to the inherent limitation on Syncora Guarantee's ability to predict the aggregate course of future events. It should therefore be expected that the actual emergence of losses and loss adjustment expenses will vary, perhaps materially, from any estimate.

Reserves for unpaid losses and loss adjustment expenses in the accompanying Statements of Admitted Assets, Liabilities and Capital and Surplus are reflected net of reinsurance.

See also the discussion of the permitted or prescribed practices in Note 4.(c) to the table above.

CDS Contracts

Syncora Guarantee accounted for its insurance of CDS contracts issued by the affiliated trusts as insurance under NAIC SAP. As of December 31, 2015 the Company no longer has any CDS contracts.

Reinsurance

Reinsurance premiums ceded are earned on a basis consistent with premiums written on a direct basis as discussed above, respectively. Syncora Guarantee is allowed a ceding commission on ceded premiums written under the terms of its reinsurance agreements. To the extent such ceding commission exceeds acquisition costs, amounts are deferred and amortized to income over the life of the policy.

Liability for Unauthorized Reinsurance

The Company must recognize as a liability in its financial statements for any credit recorded therein for ceded reinsurance liabilities to authorized and unauthorized reinsurance companies, unless such reinsurance companies have secured such obligations through funds on deposit with the ceding company, a letter of credit or by some other means generally recognized under NAIC SAP or by the NYDFS irrespective of whether the Company believes such amounts are ultimately collectible from the reinsurer.

Income Taxes

Syncora Guarantee files a consolidated tax return with its parent company, Syncora Holdings US Inc., and certain other affiliates. The entities included in the consolidated tax return maintain a tax sharing agreement, whereby the consolidated tax liability is allocated among such entities based on the ratio of their separate return liability to the sum of the separate return liabilities of all such entities. In addition, a complementary method is used which results in reimbursement by profitable entities to loss entities for tax benefits generated by loss entities. Accordingly, the provision for federal income taxes represents Syncora Guarantee's allocated share of tax expense based on income from operations currently taxable and estimated to be payable to the Internal Revenue Service by Syncora Holdings US Inc. Increases or decreases in certain federal income tax liabilities established in prior years are reflected as adjustments to surplus. Federal tax amounts payable and/or receivable in the accompanying financial statements represent amounts due to and/or from Syncora Holdings US Inc.

Syncora Guarantee records deferred federal income taxes for temporary differences between the statutory basis and tax basis of assets and liabilities. A net deferred tax asset is recorded only to the extent it is expected to be realized in accordance with the applicable statutory accounting for income taxes. Amounts in excess of such limit are recorded as non-admitted assets. Changes in the admitted deferred tax asset or liability are recorded directly to unassigned surplus. In addition, a valuation allowance is recorded when it is more likely than not that all, or some portion, of the benefits related to deferred tax assets will not be realized. As of December 31, 2016 and 2015, Syncora Guarantee's net deferred tax assets were subject to a full valuation allowance (see Note 12).

Admitted Assets

The assets included in the accompanying Statements of Admitted Assets, Liabilities and Capital and Surplus are stated at values that are prescribed or permitted by the NYDFS. Assets designated as non-admitted are charged directly to unassigned surplus. There were $14.1 million and $25.1 million of non-admitted assets charged to unassigned surplus at December 31, 2016 and 2015, respectively. Non-admitted assets as of December 31, 2016 and 2015, were primarily comprised of receivables from parent, subsidiaries and affiliates of $13.7 million and $22.9 million, respectively.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation. There were no effects on net income (loss) or capital and surplus as a result of these reclassifications.

5. Investments

In accordance with the NYIL, financial guarantee insurance companies are restricted as to the types of investments they may purchase for their minimum capital and surplus and as to concentration of risk they may accept in one issuer or group of issuers.

Bonds with an amortized cost of $5.7 million and a fair value of $5.9 million at December 31, 2016 were on deposit with twelve states and the Commonwealth of Puerto Rico as required by the respective insurance regulatory departments.

The amortized cost and fair value for bonds as of December 31, 2016 and 2015 are as follows:

(U.S. Dollars in thousands)

	Cost or Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value	
	2016	2015	2016	2015	2016	2015	2016	2015
U.S. Government and government agencies and authorities	$114,378	$117,909	$ 699	$ 1,325	$ -	$ -	$115,077	$119,234
Non-U.S. Government obligations	1,291	-	-	-	-	-	1,291	-
Obligations of states, territories and possessions	204	204	12	16	-	-	216	220
Obligations of political subdivisions	261	262	48	50	-	-	309	312
Special revenue and assessment obligations of agencies and authorities of government and political subdivisions	114,291	187,162	1,329	1,280	-	-	115,620	188,442
Industrial and miscellaneous obligations	619,762	566,713	4,873	2,712	-	-	624,635	569,425
Total	$850,187	$872,250	$ 6,961	$ 5,383	$ -	$ -	$857,148	$877,633

The amortized cost and fair value of bonds at December 31, 2016, 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 bonds. As the stated maturities of such securities may not be indicative of actual maturities, the totals for mortgage-backed securities are shown separately.

	2016	
(U.S. Dollars in thousands)	Amortized Cost	Fair Value
Within one year	$ 58,397	$ 58,532
Due after one year through five years	546,443	548,800
Due after five years through ten years	57,127	57,746
Due after ten years	70,981	73,572
Subtotal	732,948	738,650
Mortgage-backed securities	117,239	118,498
Total	$ 850,187	$ 857,148

Proceeds from sales, maturities and redemptions of bonds for the years ended December 31, 2016 and 2015 were $792.2 million and $413.0 million, respectively.

Net investment (expense) income for the years ended December 31, 2016 and 2015 consisted of the following:

(U.S. Dollars in thousands)	2016	2015
U.S. Government and government agencies and authorities	$ 2,031	$ 2,184
Non-U.S. Government obligations	6	-
Obligations of states, territories and possessions	11	43
Obligations of political subdivisions	14	7
Special revenue and assessment obligations of agencies and authorities of government and political subdivisions	2,095	2,018
Industrial and miscellaneous obligations	27,110	23,529
Cash, cash equivalents and short-term investments	244	419
Syncora Capital Assurance surplus notes	12,200	12,167
Other	278	6
Subtotals	43,989	40,373
Less:		
Surplus notes interest expense	(46,775)	-
Investment expenses	(1,084)	(940)
Net investment (expense) income	$ (3,870)	$ 39,433

The gross realized gains and gross realized losses for the years ended December 31, 2016 and 2015 are as follows:

(U.S. Dollars in thousands)	Gains		Losses	
	2016	2015	2016	2015
Bonds	$ 9,624	$ 4,330	$ (7,809)	$ (7,347)
Short-term investments	4	2	-	
Preferred Stocks (Unaffiliated)	-	-	-	(20)
Common Stocks (Unaffiliated)	-	-	(304)	-
Common Stocks of Affiliates	-	17,417	-	-
Total gross realized gains (losses), before tax	$ 9,628	$ 21,749	$ (8,113)	$ (7,367)
Income tax expense			-	-
Net realized capital gains			$ 1,515	$ 14,382

For the years ended December 31, 2016 and 2015, Syncora Guarantee recorded other-than-temporary impairment charges on bonds of $7.8 million and $7.0 million, respectively, which are included in net realized capital gains/losses on the Statements of Operations.

For the years ended December 31, 2016 and 2015, Syncora Guarantee recorded other-than-temporary impairment charges on loan-backed securities of $0.8 million and $5.1 million, respectively, which were still held at December 31, 2016 and 2015.

The following table summarizes other-than-temporary impairments for loan-backed and structured securities held at December 31, 2016, recorded based on the fact that the present value of projected cash flows expected to be collected was less than the amortized cost of these securities:

CUSIP	Amortized Cost Before Other-Than-Temporary Impairment	Present Value of Projected Cash Flows	Other-Than-Temporary Impairment	Amortized Cost After Other-Than-Temporary Impairment	Fair Value at Time of Other-Than-Temporary Impairment	Date of Financial Statement Where Reported
03064LAC4	$ 1,381,315	$ 1,380,385	$ 930	$ 1,380,385	$ 1,380,385	3/31/2016
03065EAD7	1,645,349	1,644,884	465	1,644,884	1,644,884	3/31/2016
05947UR91	45,927	45,390	537	45,390	45,390	3/31/2016
059513AE1	199,406	199,299	107	199,299	199,299	3/31/2016
059513AE1	198,350	197,458	892	197,458	197,458	6/30/2016
059513AE1	193,194	190,929	2,265	190,929	190,929	9/30/2016
059513AE1	174,334	173,639	695	173,639	173,639	12/31/2016
07384M4C3	368,076	367,707	369	367,707	367,707	3/31/2016
07388LAE0	1,955,485	1,954,042	1,443	1,954,042	1,954,042	3/31/2016
07388NAE6	2,084,034	2,083,767	267	2,083,767	2,083,767	6/30/2016
07388PAE1	328,213	327,493	720	327,493	327,493	3/31/2016
07388PAE1	291,701	291,688	13	291,688	291,688	6/30/2016
07388PAE1	1,467,926	1,467,000	926	1,467,000	1,467,000	9/30/2016
07388RAE7	4,240,429	4,217,926	22,503	4,217,926	4,217,926	3/31/2016
07388RAE7	3,834,161	3,815,500	18,661	3,815,500	3,815,500	6/30/2016
07388RAE7	3,074,460	3,052,509	21,951	3,052,509	3,052,509	9/30/2016
07388RAE7	1,117,390	1,110,765	6,625	1,110,765	1,110,765	12/31/2016
07388YAE2	1,665,130	1,660,510	4,620	1,660,510	1,660,510	12/31/2016
12514AAE1	3,137,567	3,118,129	19,438	3,118,129	3,118,129	6/30/2016
12514AAE1	3,088,527	3,079,073	9,454	3,079,073	3,079,073	9/30/2016
12514AAE1	2,973,556	2,941,506	32,050	2,941,506	2,941,506	12/31/2016
12615SAQ3	1,538,701	1,538,013	688	1,538,013	1,538,013	3/31/2016
12622DAC8	149,120	148,961	159	148,961	148,961	9/30/2016
12622DAC8	148,720	146,327	2,393	146,327	146,327	12/31/2016
12624VAA0	19,585	19,532	53	19,532	19,532	3/31/2016
12631BAA5	356,750	356,084	666	356,084	356,084	3/31/2016
12667FB46	250,510	227,570	22,940	227,570	227,570	9/30/2016
12667FB46	251,343	235,855	15,488	235,855	235,855	12/31/2016
126802CU9	1,017,973	1,017,950	23	1,017,950	1,017,950	3/31/2016
14313NAC6	761,350	761,263	87	761,263	761,263	3/31/2016
17119RAC6	148,484	148,457	27	148,457	148,457	3/31/2016
17119XAC3	729,459	729,004	455	729,004	729,004	3/31/2016
17305EFW0	3,749,788	3,733,500	16,288	3,733,500	3,733,500	12/31/2016
17309RAA0	204,513	203,808	705	203,808	203,808	6/30/2016
17309RAA0	192,911	184,972	7,939	184,972	184,972	9/30/2016
17309RAA0	177,903	175,955	1,948	175,955	175,955	12/31/2016
20047QAE5	867,392	866,200	1,192	866,200	866,200	3/31/2016
20173QAE1	3,367,971	3,362,005	5,966	3,362,005	3,362,005	6/30/2016
20173QAE1	2,441,316	2,429,567	11,749	2,429,567	2,429,567	9/30/2016
22545MAD9	216,742	216,424	318	216,424	216,424	3/31/2016
29372EBB3	1,395,353	1,395,202	151	1,395,202	1,395,202	3/31/2016

CUSIP	Amortized Cost Before Other-Than-Temporary Impairment	Present Value of Projected Cash Flows	Other-Than-Temporary Impairment	Amortized Cost After Other-Than-Temporary Impairment	Fair Value at Time of Other-Than-Temporary Impairment	Date of Financial Statement Where Reported
30261TAQ0	119,541	119,328	213	119,328	119,328	9/30/2016
30263BAL8	1,428,398	1,421,706	6,692	1,421,706	1,421,706	12/31/2016
30290KAN1	154,053	152,955	1,098	152,955	152,955	12/31/2016
3128MMUW1	23,283,989	23,145,479	138,510	23,145,479	23,145,479	12/31/2016
31292MDY6	1,162,689	1,161,660	1,029	1,161,660	1,161,660	12/31/2016
31292SA42	683,802	683,218	584	683,218	683,218	12/31/2016
31292SAN0	1,143,366	1,142,360	1,006	1,142,360	1,142,360	12/31/2016
3137A7JV3	7,871	7,004	867	7,004	7,004	3/31/2016
3137A7JV3	6,052	5,525	527	5,525	5,525	6/30/2016
3137A7JV3	4,526	4,062	464	4,062	4,062	9/30/2016
3137A7JV3	3,455	2,673	782	2,673	2,673	12/31/2016
3138M7PV1	2,904,859	2,890,006	14,853	2,890,006	2,890,006	12/31/2016
3138WAQP5	852,353	851,046	1,307	851,046	851,046	12/31/2016
3138WEAN9	3,668,571	3,660,423	8,148	3,660,423	3,660,423	12/31/2016
31410LFR8	144,643	144,642	1	144,642	144,642	12/31/2016
31679GAC3	380,818	380,812	6	380,812	380,812	3/31/2016
36163LAC4	2,217,399	2,216,532	867	2,216,532	2,216,532	3/31/2016
362332AE8	2,141,489	2,139,406	2,083	2,139,406	2,139,406	3/31/2016
362334GR9	7,680	7,018	662	7,018	7,018	3/31/2016
362334GR9	7,073	6,979	94	6,979	6,979	6/30/2016
362334GR9	7,080	6,649	431	6,649	6,649	9/30/2016
362334GR9	6,673	6,612	61	6,612	6,612	12/31/2016
39154TAB4	3,544,942	3,540,392	4,550	3,540,392	3,540,392	3/31/2016
44614TAF9	69,997	69,934	63	69,934	69,934	6/30/2016
46628FAF8	1,019,769	1,018,847	922	1,018,847	1,018,847	3/31/2016
46629GAE8	160,629	159,307	1,322	159,307	159,307	3/31/2016
46629GAE8	31,274	31,178	96	31,178	31,178	6/30/2016
46634NAA4	16,187	16,173	14	16,173	16,173	3/31/2016
50116PAC4	1,888,568	1,888,002	566	1,888,002	1,888,002	3/31/2016
50179MAE1	1,723,035	1,712,847	10,188	1,712,847	1,712,847	3/31/2016
50179MAE1	564,223	561,042	3,181	561,042	561,042	6/30/2016
50180CAD2	3,256,444	3,239,212	17,232	3,239,212	3,239,212	3/31/2016
50180CAD2	2,043,433	2,027,808	15,625	2,027,808	2,027,808	6/30/2016
50180JAD7	4,159,803	4,141,518	18,285	4,141,518	4,141,518	3/31/2016
50180JAD7	4,133,212	4,100,179	33,033	4,100,179	4,100,179	6/30/2016
50180JAD7	996,733	987,241	9,492	987,241	987,241	12/31/2016
50180LAC4	4,788,747	4,748,966	39,781	4,748,966	4,748,966	6/30/2016
50180LAC4	49,318	48,814	504	48,814	48,814	9/30/2016
50180LAC4	3,967,422	3,965,316	2,106	3,965,316	3,965,316	12/31/2016
52108RAE2	1,664,196	1,653,318	10,878	1,653,318	1,653,318	3/31/2016
52109PAE5	2,442,336	2,435,896	6,440	2,435,896	2,435,896	6/30/2016
52109PAE5	2,397,580	2,386,433	11,147	2,386,433	2,386,433	9/30/2016
52109PAE5	1,481,714	1,478,132	3,582	1,478,132	1,478,132	12/31/2016
55292LAC8	37,344	37,341	3	37,341	37,341	6/30/2016
576339AK1	2,654,779	2,651,655	3,124	2,651,655	2,651,655	3/31/2016

CUSIP	Amortized Cost Before Other-Than-Temporary Impairment	Present Value of Projected Cash Flows	Other-Than-Temporary Impairment	Amortized Cost After Other-Than-Temporary Impairment	Fair Value at Time of Other-Than-Temporary Impairment	Date of Financial Statement Where Reported
59025WAE6	855,409	854,653	756	854,653	854,653	9/30/2016
61750WAX1	4,369,321	4,347,287	22,034	4,347,287	4,347,287	3/31/2016
61750WAX1	2,371,373	2,365,075	6,298	2,365,075	2,365,075	6/30/2016
61751XAE0	1,468,624	1,461,691	6,933	1,461,691	1,461,691	3/31/2016
61751XAE0	1,169,624	1,161,650	7,974	1,161,650	1,161,650	6/30/2016
61759LAA6	207,963	206,823	1,140	206,823	206,823	3/31/2016
61759LAA6	203,363	202,815	548	202,815	202,815	9/30/2016
61759LAA6	188,733	187,010	1,723	187,010	187,010	12/31/2016
74928HAA4	119,515	118,411	1,104	118,411	118,411	3/31/2016
80283DAD3	150,803	150,798	5	150,798	150,798	3/31/2016
863579XK9	355,282	352,408	2,874	352,408	352,408	9/30/2016
86359BLS8	14,052	8,266	5,786	8,266	8,266	3/31/2016
86359BLS8	12,985	2,031	10,954	2,031	2,031	6/30/2016
92347XAA4	4,002,419	3,972,160	30,259	3,972,160	3,972,160	12/31/2016
92887DAC0	196,288	196,282	6	196,282	196,282	3/31/2016
92935JAE5	36,211	29,671	6,540	29,671	29,671	3/31/2016
92935JAE5	28,371	28,079	292	28,079	28,079	6/30/2016
92935JAE5	26,828	25,646	1,182	25,646	25,646	9/30/2016
92935JAE5	24,880	23,662	1,218	23,662	23,662	12/31/2016
92936QAC2	3,622,083	3,619,561	2,522	3,619,561	3,619,561	6/30/2016
92936YAK7	111,679	110,951	728	110,951	110,951	3/31/2016
92936YAK7	105,872	96,030	9,842	96,030	96,030	9/30/2016
92936YAK7	92,139	88,039	4,100	88,039	88,039	12/31/2016
96328DAT1	334,976	333,526	1,450	333,526	333,526	12/31/2016
999999AA3	1,156,401	1,146,228	10,173	1,146,228	1,146,228	9/30/2016
999999AA3	2,643,856	2,629,131	14,725	2,629,131	2,629,131	12/31/2016
Total			$ 757,751			

There were no gross unrealized losses at December 31, 2016 or December 31, 2015 since Syncora Guarantee was not able to assert that it had the ability to hold securities in unrealized loss positions due to its near term anticipated cash needs resulting in other-than-temporary impairment charges.

Syncora Guarantee has exposure to the U.S. subprime mortgage market through investments in RMBS as a result of its remediation activities. As of December 31, 2016, Syncora Guarantee has investments in residential mortgage-backed securities with a carrying value and fair value of 22.2 million and $23.2 million, respectively.

Investment in Subsidiary, Controlled and Affiliated

Syncora Guarantee owns 100% of Syncora Capital Assurance, Pike Pointe and Syncora Investment Holdings. Syncora Guarantee's equity basis in Syncora Capital Assurance exceeds 10% of its admitted assets. Syncora Guarantee was granted a permitted practice by the NYDFS to account for its ownership in Pike Pointe as salvage recoverable rather than using GAAP equity value. If Pike Pointe were to be accounted based on GAAP equity value, the investment would exceed 10% of admitted assets (See Note 4 for further discussion). Summarized financial information for Syncora Capital Assurance, Pike Pointe and Syncora Investment Holdings as of and for the years ended December 31, 2016 and 2015 are as follows:

(U.S. Dollars in thousands)	Syncora Capital Assurance		Pike Pointe		Syncora Investment Holdings	
	2016	2015	2016	2015	2016	2015
Assets	$ 427,232	$ 468,905	$ 207,090	$ 243,298	$ 53,368	$ 44,155
Liabilities	201,474	276,797	20,911	18,668	6,730	8,347
Capital and surplus/Equity	225,758	192,108	186,179	224,630	46,638	35,808
Net income (loss)	(15,545)	4,573	7,483	7,348	5,267	865

On August 12, 2016, Pike Pointe made a distribution of $50.0 million to the Company. See Note 6 below for further discussion.

6. Information Concerning Parent, Subsidiaries and Affiliates

Ownership of the Company

All outstanding shares of the Company are owned by Syncora Holdings US Inc., a Delaware corporation and all of the outstanding shares of Syncora Holdings US Inc. are owned by Syncora Holdings.

Capital Transactions

Syncora Guarantee has 2,000 Series B Preferred shares authorized, all of which are issued and outstanding. These shares have a par value of $120 per share and a liquidation preference of $100,000 per share. Holders of these preferred shares are entitled to receive, in preference to the holders of common shares, non-cumulative cash dividends at a variable rate equal to one-month LIBOR plus 1.00% per annum for periods prior to December 9, 2009 and at LIBOR plus 2.00% per annum thereafter, in each case calculated on an actual/360 day basis, when and if declared by the Board of Directors of Syncora Guarantee.

The holders of the preferred shares are not entitled to any voting rights and their consent is not required for taking any corporate action. Subject to certain requirements, the preferred shares may be redeemed, in whole or in part, at the option of Syncora Guarantee at any time or from time to time for cash at a redemption price equal to the liquidation preference per share plus any accrued and unpaid dividends thereon to the date of redemption without interest on such unpaid dividends.

General Services Agreements

The Company and its affiliates are parties to a Second Amended and Restated General Services Agreement, whereby Syncora Guarantee Services Inc. ("Syncora Guarantee Services") provides the Company and its affiliates with general services, including substantially all personnel support, certain office overhead and expenses, rent, information technology services and other items. Under the terms of such agreement, the costs of the aforementioned services are charged to the Company and its affiliates in accordance with the requirements of Regulation 30 of the NYDFS. For the years ended December 31, 2016 and 2015, the Company incurred costs under this agreement in the amount of $21.9 million and $19.4 million, respectively. As of December 31, 2016 and December 31, 2015, the Company had a receivable of approximately $5.8 million and $5.9 million, respectively from Syncora Guarantee Services that was recorded in "Receivables from parent, subsidiaries, and affiliates" on the Statements of Admitted Assets, Liabilities and Capital and Surplus; and was non-admitted as of December 31, 2016 and December 31, 2015.

Related Party Transactions

Net amounts due from/to related parties as of December 31, 2016 and 2015 were:

(U.S. Dollars in thousands)	**Due from**		**Due to**	
	2016	**2015**	**2016**	**2015**
Syncora Holdings US Inc.	$ 7,938	$ -	$ -	$ -
Syncora Capital Assurance	-	109	296	-
Syncora Guarantee Services	-	-	7,301	7,302
Syncora Holdings	-	-	217	183
	$ 7,938	$ 109	$ 7,814	$ 7,485

Excluded in the above are $13.7 million and $22.9 million of amounts due from related parties, which were non-admitted as of December 31, 2016 and 2015, respectively.

Employee Benefit Plans

Employees of Syncora Guarantee Services, who provide services to Syncora Guarantee, may participate in a qualified defined contribution pension plan for the benefit of all eligible employees and a non-qualified deferred compensation plan for the benefit of certain employees. These plans are maintained by Syncora Holdings US Inc., which owns 100% of both Syncora Guarantee Services and Syncora Guarantee. Employer contributions to both plans are based on a fixed percentage of employee contributions and compensation as defined by the plans. Such contributions are ultimately funded by charges to Syncora Guarantee and its affiliates for services rendered by Syncora Guarantee Services. For the years ended December 31, 2016 and 2015, Syncora Guarantee incurred expense of $0.7 million and $0.6 million, respectively, relating to employer contributions made to the aforementioned plans.

Reinsurance Agreements with Affiliates and other Guarantees

Set forth below is a discussion of Syncora Guarantee's reinsurance and other agreements with affiliates and former affiliates.

Agreements with or in respect of Syncora Capital Assurance

On July 15, 2009, Syncora Guarantee and Syncora Capital Assurance entered into a quota share reinsurance agreement pursuant to which Syncora Guarantee ceded and Syncora Capital Assurance assumed certain of Syncora Guarantee's public finance business and certain of its global infrastructure business (the "Public Finance Reinsurance Agreement"). For the years ended December 31, 2016 and 2015, such ceded premiums aggregated $5.6 million and $6.0 million, respectively, which resulted in the recognition by Syncora Guarantee of ceding commission revenue of $1.0 million and $1.1 million for the same periods. The Public Finance Reinsurance Agreement contains certain provisions (known as "cut-through provisions"), which require policyholders of such reinsured policies to remit premiums due under such reinsured policies directly to Syncora Capital Assurance and provides such policyholders the ability to submit claims under such policies directly to Syncora Capital Assurance for payment.

On July 15, 2009, Syncora Guarantee and Syncora Capital Assurance entered into an assumption reinsurance and novation agreement (the "CDS Novation Agreement") pursuant to which Syncora Guarantee ceded and Syncora Capital Assurance assumed, through novation, certain of Syncora Guarantee's non-public finance and non-commuted policies on CDS contracts (the "Novated CDS Policies").

In addition, Syncora Guarantee issued back-up guarantees on the Novated CDS Policies (the "Back-Up Guarantees"), which would cover claims on such policies to the extent not satisfied by Syncora Capital Assurance, subject to certain limitations. No premium is required to be paid to Syncora Guarantee with respect to its Back-Up Guarantees.

In connection with the Public Finance Reinsurance Agreement and the CDS Novation Agreement, Syncora Capital Assurance replaced Syncora Guarantee as ceding insurer under certain reinsurance protection Syncora Guarantee had purchased prior to the effective date of the aforementioned agreements, which covered the business transferred under such agreements.

On August 24, 2015, the Company and Syncora Capital Assurance entered into an intercompany capital support agreement whereby, if Syncora Capital Assurance's surplus at the end of the prior quarter is below $100 million, or is projected to be below $100 million at the end of the coming quarter, the Company has agreed to purchase up to $100 million of additional Syncora Capital Assurance surplus notes; provided, that the Company's surplus as of the prior quarter shall not be less than $100 million. These notes can be transferred to a third party. As of December 31, 2016, Syncora Capital Assurance's policyholders surplus was $225.8 million.

Agreements with or in respect of Syncora Guarantee-UK

Syncora Guarantee-UK was formerly a wholly owned subsidiary of the Company and was domiciled and licensed as a financial guarantee insurance company in England. On July 1, 2015, the High Court of England and Wales approved the transfer of all Syncora Guarantee-UK's assets and liabilities, including its policies and the right to receive premiums therefrom, to the Company pursuant to Part VII of the UK Financial Services and Markets Act (the "Part VII Transfer"). The Part VII Transfer became effective on July 2, 2015 and Syncora Guarantee-UK was dissolved on July 10, 2015.

As of the Part VII Transfer on July 2, 2015 (the "Part VII Effective Date"), all property of Syncora Guarantee-UK, including all rights and powers under or by virtue of the transferred financial guarantee policies issued by Syncora Guarantee-UK (including rights to premium, consent rights and rights of enforcement), were transferred to the Company.

Following the completion of the Part VII Effective Date, all of the below agreements were terminated.

- The Company had a quota share reinsurance agreement with Syncora Guarantee-UK pursuant to which the Company reinsured 97% of the financial guarantee policies issued by Syncora Guarantee-UK. Syncora Guarantee-UK retained up to a 30% ceding commission (or such other percentage determined on an arm's length basis) on ceded premiums written under the reinsurance agreement.
- The Company had, under a surplus maintenance agreement, agreed to provide Syncora Guarantee-UK with funds sufficient to maintain a minimum solvency margin equal to the greater of (i) $12.5 million or (ii) 200% of the required minimum margin of solvency mandated by Syncora Guarantee-UK's regulator in the United Kingdom, the PRA.
- The Company also, under an excess of loss reinsurance agreement, reinsured from Syncora Guarantee-UK, 100% of net incurred losses arising during the term of the agreement in excess of 10% of Syncora Guarantee-UK's capital and surplus. The Company's maximum liability under the excess of loss agreement was $50.0 million.

Other Subsidiaries

Pike Pointe

Pike Pointe is a wholly owned subsidiary of the Company, a Delaware limited liability company, which holds 100% of the equity ownership of a number of subsidiaries that ultimately own and operate certain toll road facilities located in the United States and Canada (collectively, "American Roads").

On July 25, 2013, American Roads LLC and certain of its affiliates filed "pre-packaged" bankruptcy cases under Chapter 11 of the United Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. The Company insured approximately $830 million of bonds and interest rate swap liabilities issued by American Roads LLC. On September 3, 2013, the approved bankruptcy plan went effective and the Company as an indirect owner of the American Roads LLC interest rate swaps and issuer of related insurance policies received 100% equity ownership of the reorganized American Roads.

In connection with the Restructuring Transactions, the Board of Managers of Pike Pointe approved a distribution of $50.0 million to the Company conditioned upon the successful closing of the Restructuring Transactions which took place on August 12, 2016. As Pike Pointe is a wholly-owned subsidiary of the Company, this distribution did not have an effect on policyholders' surplus, but increased the Company's liquidity position by such amount. This distribution was completed on August 12, 2016.

Syncora Investment Holdings

Syncora Investment Holdings, a Delaware limited liability company and wholly owned subsidiary of the Company, was established to enhance asset and liability management for longer dated liabilities and create long-term value for the Company. The Company has commenced investing in 2015, and plans to invest an aggregate amount up to $43 million in debt and equity investments in positions in small-to mid-market private companies within the financial services and related sectors.

Syncora Securities

Syncora Securities a Delaware limited liability company and a newly formed, jointly held, non-insurance subsidiary of the Company, was established in 2015 to hold the transferred securities received by the Company in connection with its previously reported 2012 settlement with Countrywide, Bank of America

Corp. and affiliates ("BAC"). Such securities consist of 84,584 perpetual non-cumulative preferred shares and 3,044,588 common shares of Syncora Holdings Ltd.. Syncora Capital Assurance holds a minority interest in Syncora Securities. As a result of the completed Restructuring Transactions, the 84,584 perpetual non-cumulative preferred shares were cancelled and no Syncora Holdings Ltd. preferred shares remain outstanding.

See Note 12 for information regarding a tax sharing agreement, which Syncora Guarantee is a party to along with certain of its affiliates.

7. Net Premiums Earned

Premiums earned comprise:

(U.S. Dollars in thousands)	Premiums Written		Change in Unearned Premium Revenue		Premiums Earned	
	2016	2015	2016	2015	2016	2015
Direct	$ 11,879	$ 72,626	$ 52,407	$ 334	$ 64,286	$ 72,960
Assumed						
Syncora Guarantee - UK	-	(56,052)	-	60,536	-	4,484
Other	2,897	3,891	3,736	21,580	6,633	25,471
Ceded						
Syncora Capital Assurance	(5,556)	(6,037)	(41,956)	(53,282)	(47,512)	(59,319)
Other	(1,060)	(1,657)	(210)	1,407	(1,270)	(250)
Net	$ 8,160	$ 12,771	$ 13,977	$ 30,575	$ 22,137	$ 43,346

8. Reinsurance

In connection with the 2009 MTA, Syncora Guarantee entered into the Public Finance Reinsurance Agreement as discussed in Note 6. Syncora Guarantee's current use for reinsurance is principally for risk management purposes. Prior to Syncora Guarantee's suspension of new business production in January 2008, it also used reinsurance to increase its capacity to write business. Syncora Guarantee's reinsurance arrangements included facultative quota share reinsurance treaties with affiliates and former affiliates, as well as other facultative reinsurance with non-affiliated reinsurers. Reinsurance does not relieve Syncora Guarantee of its obligations under its policies of insurance. Accordingly, Syncora Guarantee is still liable under such policies even if any or all of the reinsuring companies are unable to meet their obligations to Syncora Guarantee or contest such obligations. Syncora Guarantee regularly monitors the financial condition of its reinsurers and believes that all reinsurance receivables and recoverables are fully collectible at December 31, 2016 and 2015.

The following tables set forth certain amounts ceded to reinsurers as of and for the years ended December 31, 2016 and 2015.

(U.S. Dollars in thousands)	2016	2015
Year ended December 31,		
Ceded premiums written	$ 6,616	$ 7,694
Ceded premiums earned	48,782	59,569
Ceding commission earned	997	1,087
At December 31,		
Par exposure ceded (millions)	12,151	16,791
Contingency reserve ceded	95,357	104,270

The maximum amount of return commission which would be due to (from) reinsurers if all reinsurance were cancelled with the return of the unearned premium revenue as of December 31, 2016 and 2015 is as follows:

	Affiliate		Non-affiliate		Total	
(U.S. Dollars in thousands)	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Assumed unearned premium revenue	$ -	$ -	$ 23,456	$ 27,193	$ 23,456	$ 27,193
Ceded unearned premium revenue	(122,815)	(164,770)	(2,068)	(2,278)	(124,883)	(167,048)
Net unearned premium revenue	$ (122,815)	$ (164,770)	$ 21,388	$ 24,915	$ (101,427)	$ (139,855)
Assumed commission equity	$ -	$ -	$ (7,037)	$ (8,158)	$ (7,037)	$ (8,158)
Ceded commission equity	21,493	28,835	205	238	21,698	29,073
Net commission equity	$ 21,493	$ 28,835	$ (6,832)	$ (7,920)	$ 14,661	$ 20,915

The following table sets forth unsecured reinsurance recoverables by individual reinsurer as of December 31, 2016 and 2015:

(U.S. Dollars in thousands)	**2016**	**2015**
Syncora Capital Assurance	$ 180,400	$ 205,406
Assured Guaranty Muni Corp.	1,227	1,294
Assured Guaranty Corp.	707	404
CIFG Assurance North America Inc.	-	592
American Overseas Reinsurance Co. Ltd.	-	52
Total	$ 182,334	$ 207,748

9. Outstanding Exposure and Collateral

While the Company establishes reserves for losses and loss adjustment expenses on obligations it has guaranteed or reinsured based on its best estimate of its liabilities, the risk of loss under the Company's guarantees extends to the full amount of unpaid principal and interest on all debt obligations it has guaranteed. At December 31, 2016 and 2015, the Company's in force net principal and interest exposure was $8.5 billion and $10.6 billion, respectively. The tables below reflect certain information regarding the Company's in-force principal and interest exposure at December 31, 2016. References in the tables below to "Gross" mean that the amounts are before the effect of ceded reinsurance and references to "Net" mean that the amounts are after the effect of ceded reinsurance. The tables below exclude the Company's gross principal and interest exposure of $3.5 billion and $3.4 billion, respectively, at December 31, 2016, (net principal and interest exposure of $3.5 billion and $3.3 billion, respectively, at December 31, 2016) under the Back-Up Guarantees, which relate to policies novated by the Company to Syncora Capital Assurance.

The following table sets forth Syncora Guarantee's in-force guaranteed principal exposure by bond sector as of December 31, 2016 and 2015:

Bond Exposure
(U.S. Dollars in millions)

	GPO[1]		NPO[1]	
	2016	**2015**	**2016**	**2015**
Public Finance				
General Obligation	$ 2,756	$ 4,379	$ 106	$ 161
Utility	1,713	2,659	53	61
Special Revenue	3,689	5,056	37	108
Other	4	4	4	4
Appropriation	641	861	-	12
Non Ad Valorem	1,286	1,721	-	-
Total Public Finance	$ 10,089	$ 14,680	$ 200	$ 346
Asset-Backed Securities				
RMBS	$ 452	$ 559	$ 445	$ 552
Total Asset-Backed Securities	$ 452	$ 559	$ 445	$ 552
Collateralized Debt Obligations				
Cashflow CDO	$ 26	$ 42	$ 26	$ 42
Total Collateralized Debt Obligations	$ 26	$ 42	$ 26	$ 42
Structured Single Risk				
Power & Utilities	$ 3,526	$ 3,927	$ 2,181	$ 2,560
Global Infrastructure	3,008	3,793	2,098	2,710
Specialized Risk	391	424	391	424
Total Structured Single Risk	$ 6,925	$ 8,144	$ 4,670	$ 5,694
Total Outstanding	$ 17,492	$ 23,425	$ 5,341	$ 6,634

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

The following table sets forth the number of years to maturity of Syncora Guarantee's in-force guaranteed principal and interest exposure as of December 31, 2016:

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

	Scheduled Net Debt Service	NPIO[1]
2016 Q4	$ -	$ 8,527
2017 Q1	57	8,470
2017 Q2	44	8,426
2017 Q3	119	8,307
2017 Q4	142	8,165
Total 2017	$ 362	
2018	$ 551	$ 7,614
2019	351	7,263
2020	345	6,918
2021	358	6,560
Total 2018-2021	$ 1,605	
2022-2026	$ 1,410	$ 5,150
2027-2031	338	4,812
2032-2036	1,035	3,777
2037 and thereafter	3,777	-
Total 2022-thereafter	$ 6,560	
Total	$ 8,527	

[1] NPIO represents Net Principal and Interest Outstanding.

The following tables set forth Syncora Guarantee's in-force guaranteed principal exposure by geographic concentration as of December 31, 2016 and 2015:

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

	GPO		NPO		% NPO	
	2016	2015	2016	2015	2016	2015
United States						
Puerto Rico	$ 339	$ 396	$ 101	$ 127	1.9%	1.9%
New Jersey	288	419	18	67	0.3%	1.0%
Alabama	317	570	-	116	0.0%	1.7%
Illinois	-	551	-	-	0.0%	0.0%
Other(1)	10,049	13,791	80	153	1.5%	2.3%
Non-PF Multi(2)(3)	456	572	449	564	8.4%	8.6%
Total United States	$ 11,449	$ 16,299	$ 648	$ 1,027	12.1%	15.5%
International						
United Kingdom	$ 3,562	$ 4,224	$ 2,780	$ 3,268	52.2%	49.3%
Australia	1,037	1,305	1,037	1,305	19.4%	19.7%
Chile	501	509	374	383	7.0%	5.8%
France	149	148	149	148	2.8%	2.2%
Italy	134	137	134	137	2.5%	2.1%
Canada	93	220	-	122	0.0%	1.8%
Portugal	92	95	92	95	1.7%	1.4%
Other(1)	382	395	34	56	0.6%	0.8%
Non-PF Multi(2)(4)	93	93	93	93	1.7%	1.4%
Total International	$ 6,043	$ 7,126	$ 4,693	$ 5,607	87.9%	84.5%
Total Par Outstanding	$ 17,492	$ 23,425	$ 5,341	$ 6,634	100.0%	100.0%

(1) Single state/country with NPO < 1% of the total exposure plus any multi-state/country Public Finance exposures.
(2) Non-Public Finance deals with underlying securities in multiple states/countries.
(3) Consists of $423 million and $522 million in 2016 and 2015, respectively, in Asset-backed securities ("ABS"), $26 million and $42 million in 2016 and 2015, respectively, in Collateralized Debt Obligations ("CDO").
(4) Consists of $93 million and $93 million in 2016 and 2015, respectively in Structured Single Risk.

Syncora Guarantee is exposed to residential mortgages directly, through its insurance guarantees of RMBS. As of December 31, 2016, Syncora Guarantee's total net direct exposure to RMBS aggregated approximately $0.4 billion, representing approximately 8.3% of its total in-force guaranteed net principal outstanding at such date. The RMBS exposure consisted of various collateral types as set forth in the table below. The tables below also set forth Syncora Guarantee's internal ratings, as well as the ratings of certain rating agencies, of the insured transactions as of December 31, 2016.

Exposure to RMBS

The following table presents the net principal outstanding for Syncora Guarantee's insured RMBS portfolio by type[(1)] of collateral as of December 31, 2016 and 2015:

RMBS Exposure

(U.S. Dollars in millions)	NPO		% NPO	
	2016	**2015**	**2016**	**2015**
Prime (1st lien)	$ 23	$ 31	5.2%	5.6%
Prime (2nd lien)	12	20	2.7%	3.6%
Prime (HELOC)	99	139	22.3%	25.2%
Alt-A (1st lien)	26	30	5.8%	5.4%
Alt-A (2nd lien)	4	5	0.8%	0.9%
Subprime (1st lien)	245	276	55.0%	50.0%
Subprime (2nd lien)	14	23	3.2%	4.2%
Subprime (1st lien) International	22	28	5.0%	5.1%
Total RMBS Outstanding	$ 445	$ 552	100.0%	100.0%

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

The following table presents the net principal outstanding and net case basis reserves for unpaid losses for Syncora Guarantee's insured RMBS portfolio by year of origination (year the guarantee was underwritten and issued) as of December 31, 2016:

RMBS Exposure
(U.S. Dollars in millions)

	2004	2005	2006	2007	Total
Prime/Alt-A	$ 78	$ 37	$ 43	$ 6	$ 164
Subprime	29 [1]	93	-	159	281
Total RMBS Outstanding	$ 107	$ 130	$ 43	$ 165	$ 445
Net case reserves for unpaid losses	$ 18	$ 61	$ (41)	$ 52	$ 90

(1) Includes $0.4 million relating to business underwritten and issued in 1999.

The following tables show Syncora Guarantee's current internal and rating agency ratings on all of its direct RMBS exposure by deal, grouped by collateral type as of December 31, 2016. Syncora Guarantee's internal ratings are based on its internal credit assessment of each transaction taking into account the overall credit strengths and weaknesses, transaction structure and the trends in the asset sector. Syncora Guarantee bases its analysis on information received from the trustees or from the issuers, as well as on-site visits to issuers, servicers, collateral managers and project sites. Modeling results are also considered. Syncora Guarantee also takes into consideration the rating agencies' rationale for their ratings; however, variations may exist between Syncora Guarantee's internal ratings and the ratings of the rating agencies. While Syncora Guarantee endeavors to provide the most recently published rating agencies' ratings, Syncora Guarantee can provide no assurance that such ratings represent the most current ratings published by the agencies.

RMBS Ratings

(U.S. dollars in millions)

		Vintage	Internal Rating	S&P Rating[1]	Moody's Rating[1]	NPO
Prime (1st lien)						
	1	2004	bbb+	NR	Ba2	$ 14
	2	2004	aa	AA+	NR	6
	3	2004	aa	AA+	Ba1	3
	Total					$ 23
Prime (2nd lien)						
	1	2006	d	NR	C	$ 12
	Total					$ 12

Prime (HELOC)						
1	2004	d	CCC	Ca	$	32
2	2004	d	CCC	Ca		23
3	2005	d	NR	Ca		11
4	2006	d	NR	C		25
5	2006	d	NR	Ca		4
6	2006	d	NR	Ca		2
7	2006	d	NR	Ca		-
8	2007	d	NR	Ca		2
Total					$	99
Alt-A (1st lien)						
1	2005	bb	AA+	Baa3	$	20
2	2005	d	NR	Caa2		6
3	2007	d	NR	WD		-
Total					$	26
Alt-A (2nd lien)						
1	2007	d	NR	Caa1	$	4
2	2007	d	D	B1		-
Total					$	4
Subprime (1st lien)						
1	1999	b	NR	Caa1	$	-
2	2004	b-	B	Ba2		15
3	2004	a+	AAA	Aaa		8
4	2004	aa	AA+	A1		6
5	2005	d	CCC	-		93
6	2007	c	CCC	C		123
Total					$	245
Subprime (2nd lien)						
1	2007	bbb-	BBB+	Baa3	$	8
2	2007	d	CC	C		3
3	2007	c	CC	Ca		3
Total					$	14
Subprime (1st lien) - International						
1	2007	bbb	BBB	Baa2	$	22
Total					$	22
Total RMBS Outstanding					$	445

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

Exposure to Collateralized Debt Obligations

The following table presents the net notional exposure of Syncora Guarantee's guaranteed CDOs by type[1] of referenced asset as of December 31, 2016 and 2015:

CDO Exposure

(U.S. Dollars in millions)	NPO		% NPO		# of Credits	
	2016	2015	2016	2015	2016	2015
Cashflow CDO						
TRUPS CDO	$ 24	$ 40	91.6%	94.7%	1	2
ABS CDO	2	2	8.4%	5.3%	1	1
Total Cashflow CDO	$ 26	$ 42	100.0%	100.0%	2	3

(1) Asset type is defined as follows: A Cash flow CDO is a securitized bond that is collateralized by a pool of debt obligations such as corporate loans, bonds and ABS. A Trups CDO is a CDO with underlying collateral primarily consisting of trust preferred securities issued by bank holding companies. An ABS CDO is a CDO with underlying collateral primarily consisting of RMBS bonds (greater than 50%) and other ABS securities.

The following table presents the net notional exposure of Syncora Guarantee's guaranteed CDOs by rating as of December 31, 2016:

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

	NPO	% NPO
AA	$ 24	91.6%
Below investment grade	2	8.4%
Total Collateralized Debt Obligations Outstanding	$ 26	100.0%

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

10. Insurance Premiums

Premiums charged in connection with the issuance of Syncora Guarantee's guarantees are received either upfront at the inception of an insurance contract or in installments (usually monthly or quarterly) over the life of the underlying insured obligation. Such premiums are only recognized as written when due. In accordance with prescribed statutory accounting practice, future installment premiums on in-force policies not yet due are not recorded on Syncora Guarantee's Statements of Admitted Assets, Liabilities and Capital and Surplus as premiums receivable.

As of December 31, 2016, the aggregate amount of installment premium to be collected in the future on Syncora Guarantee's in-force policies, determined based on the expected maturity of the underlying insured obligations, was $123.6 million ($40.3 million, net of ceded reinsurance). The aforementioned amount of installment premium to be collected in the future may differ from the ultimate actual amount of installment premiums collected in the future on such in-force obligations for the reasons discussed above, and such differences, may be material.

The following table presents, as of December 31, 2016, Syncora Guarantee's gross installment premiums (on an undiscounted basis) expected to be collected (and the periods in which such collections are expected to occur) and expected future upfront premium earnings for the periods presented on the Company's direct in-force business. In addition to that presented in the tables below, Syncora Guarantee had installment premiums and unearned premium revenue of $33.6 million and $23.5 million, respectively, relating to assumed reinsurance business at December 31, 2016:

(U.S. Dollars in thousands)	Expected Collection of Installment Premiums	Expected Upfront Premium Earnings
Three months ended:		
March 31, 2017	$ 3,666	$ 2,382
June 30, 2017	2,043	2,698
September 30, 2017	3,383	2,560
December 31, 2017	1,622	2,420
Twelve months ended:		
December 31, 2017	10,714	10,060
December 31, 2018	10,203	9,571
December 31, 2019	9,827	8,914
December 31, 2020	9,398	9,193
December 31, 2021	8,459	9,825
Five years ended:		
December 31, 2021	48,601	47,563
December 31, 2026	34,175	45,003
December 31, 2031	22,457	29,160
December 31, 2036	14,703	20,545
December 31, 2041	3,155	29,157
December 31, 2046	399	6,957
December 31, 2051	106	1,399
December 31, 2056	-	15,430
December 31, 2061	-	525
Total	$ 123,596	$ 195,739

The following table presents a roll forward of the aggregate amount of gross installment premium (on an undiscounted basis) to be collected in the future on Syncora Guarantee's in-force policies for the periods ended December 31, 2016 and December 31, 2015:

(U.S. Dollars in thousands)	2016	2015
Future installment premiums on in-force contracts, beginning of period	$ 143,970	$ 169,081
Premium payments received	(15,776)	(19,147)
Changes in expected term of policies	(4,598)	(5,964)
Future installment premiums on in-force contracts, ending of period	$ 123,596	$ 143,970

11. Liability for Losses and Loss Adjustment Expenses

Syncora Guarantee's case basis reserves for unpaid losses and loss adjustment expenses are based on the net present value of the expected ultimate loss and loss adjustment expense payments that Syncora Guarantee expects to make, net of expected recoveries from salvage and subrogation rights. Case basis reserves are determined using cash flow models to estimate the net present value of the anticipated shortfall between (i) scheduled payments on the insured obligation plus anticipated loss adjustment expenses, and (ii) anticipated cash flow from the proceeds to be received on sales of any collateral supporting the obligation or other anticipated recoveries and the present value of future installment premiums. Cash flows were discounted at the rate of 4.12% and 4.70% as of December 31, 2016 and 2015, respectively. The discount rate in 2016 and 2015 was based on a duration-weighted average return on Syncora Guarantee's average invested assets at the end of the year. Syncora Guarantee's liability for unpaid losses and loss adjustment expenses, after giving effect to reinsurance, was $(123.0) million and $(45.4) million on a net present value basis, $(111.8) million and $91.1 million on a nominal basis or before giving effect to present value, as of December 31, 2016 and 2015, respectively. The amount of discount at such dates was $11.3 million and $136.5 million, respectively.

Set forth below is a discussion of case basis reserves carried by the Company at December 31, 2016 and 2015. The Company's reserves for unpaid losses and loss adjustment expenses represent its best estimate of: (i) the net present value of claims to be paid subsequent to the balance sheet date, less (ii) the net present value of recoveries subsequent to the balance sheet date and the net present value of installment premiums due from the counterparties to such guarantees subsequent to the balance sheet date. The Company's best estimate of claims and recoveries was based on assumptions and estimates extending over many years into the future. Such assumptions and estimates are subject to the inherent limitation on the Company's ability to predict the aggregate course of future events and, as a result, differences between estimated and actual results may be material. Reference should be made to Note 2 for information regarding the effect on the Company's reserves for unpaid losses resulting from transactions which effectively defeased or, in-substance, commuted (in whole or in part) substantially all its guarantees on which it previously carried case reserves. Amounts disclosed below relating to the provision for losses for the year ended December 31, 2016 reflect the effect, as previously disclosed, of certain elements of the 2009 MTA.

The Company recorded a benefit for losses and loss adjustment expenses of $(65.6) million and $(141.0) million for the years ended December 31, 2016 and 2015, respectively. The benefit primarily reflects positive development in the Company's guarantees of certain RMBS and structured single risk transactions, partially offset by adverse development in the Company's guarantees of certain public finance transactions. Reserves for unpaid losses and loss adjustment expenses on such guarantees, after giving effect to reinsurance, were $(123.0) million as of December 31, 2016 ($(65.5) million before giving effect to reinsurance). The change from the December 31, 2015 balances is primarily attributable to positive development in the Company's guarantees of certain RMBS and structured single risk transactions, partially offset by adverse development in the Company's guarantees of certain public finance transactions.

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

(U.S. Dollars in millions)	Gross		Net	
	2016	2015	2016	2015
HELOC, CES and Alt-A mortgage loan collateral	$ 96.2	$ 121.9	$ 96.2	$ 121.9
Public finance	80.1	62.5	22.7	22.8
Structured single risk	(242.7)	(190.1)	(242.8)	(190.9)
CDO's	0.9	0.8	0.9	0.8
Total	$ (65.5)	$ (4.9)	$ (123.0)	$ (45.4)

Asset-Backed Securities

The Company's estimates of reserves are determined based on an analysis of results of cash flow models. The models project expected cash flows from the underlying mortgage notes. The model output is dependent on, and sensitive to, key assumptions regarding default rates, draw rates, draw periods, recoveries and prepayment rates, among others. The cash flow from the mortgages is then run through the payment "waterfall" as set forth in the indenture for each transaction. Claims in respect of principal generally result when the outstanding principal balance of the mortgages is less than the outstanding principal balance of the insured notes, except when the principal balance is due for payment on the scheduled maturity date. Recoveries result when cash flow from the mortgages is available for repayment, typically after the insured notes are paid off in full.

The Company bases its default assumptions for the second lien transactions (HELOCs and CESs) in large part on recent observed default rates and the current pipeline of delinquent loans. The losses for the second lien transactions (HELOCs and CESs) are estimated based on a model using a constant default rate curve.

The Company generally observed peak defaults for the second lien transactions in 2009 and 2010. Default rates at December 31, 2016 are mostly forecasted with steady state default rates. Exceptions to this may include transactions for which there is an excessive build-up of severely delinquent loans for which defaults are anticipated or transactions whose collateral includes loans whose interest-only periods will end, at which point temporary increases to default rates are expected.

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

The Company's default assumptions for the first lien transactions at December 31, 2016 were based on current delinquent loans and analysis of historical defaults for loans with similar characteristics. A loss severity was applied to the first lien defaults ranging from 29.3% to 62.0% based upon actual loss severity observances and collateral characteristics to determine the expected loss on the collateral in those transactions.

The Company has exercised rights available to it in connection with its insurance of certain RMBS to require the sponsor of such securities and/or the originator of mortgage loans backing such securities to repurchase mortgage loans backing such securities that breached certain representations and warranties and/or to pay damages, and in the case of claims against GreenPoint Mortgage Funding, Inc. ("GreenPoint"), these claims are now being pursued by U.S. Bank as indenture trustee. While a sponsor and GreenPoint have disputed, and may in the future dispute, their obligations to repurchase all or a portion of these mortgages and/or to pay damages, if the Company or the indenture trustee is successful in enforcing its rights, whether through litigation or otherwise, it will reduce the ultimate losses the Company expects to incur through its insurance of the aforementioned securities (see Note 13). The Company records a benefit for a portion of Syncora Guarantee's interest in putbacks, when those putbacks are noticed by the trustee. As of December 31, 2016, the Company recorded a net benefit based on approximately $538 million in original principal balance of mortgage loans putback that have been noticed through the filing date of the Company's financial statements by U.S. Bank which, despite the strength of the Company's or indenture trustee's claims, are subject to material discounts for the inherent uncertainty of litigation, timing and collectability. In October of 2016, US Bank as indenture trustee noticed additional putbacks of approximately $10 million in original principal balance of mortgage loans. These additional putback notices have been incorporated into the Company's net benefit recorded as of December 31, 2016. US Bank as indenture trustee is continuing to investigate and review additional loans and as a result, the amount of noticed putbacks and the Company's net benefit are anticipated to increase through future repurchase demands, and this amount may be material. The Company's discounted interest in this benefit is recorded in the Company's financial statements through a reduction in reserves for losses that it would otherwise have had to carry. Given the inherent uncertainty of litigation, no assurance can be given that the Company or indenture trustee will be successful in enforcing its rights to require a sponsor or

GreenPoint to repurchase the mortgage loans and/or pay damages discussed above or, if successful, in collecting. If the Company or indenture trustee were successful in enforcing these rights, the ability of the Company to realize a financial benefit from the repurchase of mortgages loans and/or damages paid by a sponsor or GreenPoint is limited to the losses incurred by the Company through its insurance of the RMBS backed by such mortgages and by the financial ability of the sponsor or GreenPoint to honor their obligations. As a result, and due to the risks involved in any litigation, the actual recoveries and therefore the benefit to the Company may vary materially (favorably or unfavorably) from the Company's estimates.

The following table reconciles the beginning and ending reserve balances for losses and loss adjustment expenses, net of reinsurance, for the years ended December 31, 2016 and 2015:

(U.S. Dollars in thousands)	**2016**	**2015**
Reserve for unpaid losses and LAE, net of related reinsurance recoverables, at the beginning of the year	$ (45,407)	$ 111,302
Add:		
Increase in net losses and LAE incurred in respect of losses occurring in the current year, net of reinsurance	-	17,041
Decrease in net losses and LAE incurred in respect of losses occurring in prior years, net of reinsurance	(65,611)	(157,999)
Total net losses and LAE benefit, net of reinsurance	(65,611)	(140,958)
Deduct:		
Losses and LAE payments (net of recoverables) in respect of losses occurring in the current year	-	-
Losses and LAE payments (net of recoverables) in respect of losses occurring in prior years	12,029	15,751
Total losses and LAE payments (net of recoverables) for losses incurred during the current year	12,029	15,751
Total decrease in net losses and LAE incurred during the current year, net of reinsurance	(77,640)	(156,709)
Reserve for unpaid losses and LAE, net of related reinsurance recoverables, at the end of the year	$ (123,047)	$ (45,407)

The significant components of the change in claim liability for the years ended December 31, 2016 and 2015 are as follows:

(U.S. Dollars in thousands)

Components	**2016**	**2015**
Accretion of the discount	$ 723	$ 7,668
Changes in timing	(27,729)	40,459
New reserves for defaults of insured contracts	-	16,741
Change in prior year reserves	(50,634)	(221,577)
Total	$ (77,640)	$ (156,709)

Schedule of Insured Financial Obligations with Credit Deterioration

The Company's surveillance department is responsible for monitoring the performance of its in-force portfolio. The surveillance department maintains a list of credits that it has determined need to be closely monitored and, for certain of those credits, the department undertakes remediation activities it determines to be appropriate in order to mitigate the likelihood and/or amount of any loss that could be incurred by the company with respect to such credits.

The surveillance department focuses its review on monitoring lower rated bond sectors and potentially troubled sectors, which have included certain subsectors within the ABS, CDO, Public Finance and Structured Single Risk portfolios. For the ABS and CDO portfolios, it tracks performance monthly to determine whether or not covenants have been breached. If a covenant is breached, the Company may have the right to put the transaction into rapid amortization so that all cash flow generated from that transaction is used to pay down principal and stay current with interest or take other remedial action. Typically, the surveillance department reviews periodic servicing and trustee reports to track coverage levels, enhancement levels, delinquency levels, loss frequency, loss severity and total losses and compares such performance metrics with the metrics that were made available at the time the transaction was closed. If losses are above projections, the surveillance department will analyze the reasons for the deviation. In some cases, it may be an indication of servicing problems, where loans are delinquent and are not put into foreclosure in time to maximize recovery. Typically once per year, the surveillance department will audit servicers of loans and other assets supporting the Company's insured obligations to better understand their servicing practices and to identify potential servicing problems, if any. For the Public Finance portfolio, the surveillance department uses a Frequency of Review Schedule to prioritize reviews to ensure lower rated and larger exposure credits are being looked at more frequently. In addition, the surveillance department uses screening tools to review the entire Public Finance portfolio based upon news feeds, trade data, material event notices and other third party information. For the Structured Single Risk portfolio, the surveillance department will retain technical consultants as needed to track construction and operational risk and reviews this portfolio based upon reports it receives on a monthly, quarterly or annual basis.

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

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

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

(U.S. Dollars in millions except number of policies)

	Total		Loss List		Red Flag List		Yellow Flag List		Special Monitoring List	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Insured contractual payments outstanding:										
Principal	$1,748	$2,374	$ 448	$ 549	$ 815	$ 964	$351	$109	$134	$752
Interest	383	568	135	171	151	229	27	26	70	142
Total	$2,131	$2,942	$ 583	$ 720	$ 966	$1,193	$378	$135	$204	$894
Number of policies	178	199	168	184	5	8	4	3	1	4
Remaining weighted-average contract period (in years)	8.3	7.7	10.8	10.5	4.4	5.1	10.1	19.2	18.9	7.2
Loss and LAE liabilities reported in the balance sheet:										
Gross loss and LAE liability (nominal)	$ 452	$ 665	$ 440	$ 652	$ 9	$ 10	$ 3	$ 3	$ -	$ -
Gross potential recoveries and ceded reinsurance	564	574	564	574	-	-	-	-	-	-
Discount, net	11	136	11	136	-	-	-	-	-	-
Total	$ (123)	$ (45)	$(135)	$ (58)	$ 9	$ 10	$ 3	$ 3	$ -	$ -
Unearned premium reserve, net	$ 4	$ 14	$ 1	$ 2	$ 2	$ 9	$ 1	$ 1	$ -	$ 2
Reinsurance recoverables on paid losses and LAE	$ -	$ 1	$ -	$ 1	$ -	$ -	$ -	$ -	$ -	$ -

12. Income Taxes

The Company recorded a $1.2 million current federal income tax provision during the year ended December 31, 2016, and an additional $0.7 million foreign tax provision, for a combined current tax provision of $1.9 million. For the year ended December 31, 2015 the Company recorded a $6.7 million current federal income tax benefit partially offset by a $0.3 million foreign tax provision, for a combined current tax benefit of $6.4 million.

Management has concluded that future income forecasted to be generated is insufficient to support realization of Syncora Guarantee's net deferred tax assets, thus a full valuation allowance has been established against the deferred tax assets of Syncora Guarantee at December 31, 2016 and December 31, 2015 for $0.3 billion and $1.0 billion, respectively. In connection with the Restructuring Transactions completed on August 12, 2016, pursuant to an amended and restated tax sharing agreement, the Company contractually reallocated $1.75 billion of excess net operating losses to Syncora Holdings US Inc.

(U.S. Dollars in thousands)	2016			2015			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross Deferred Tax Assets	$ 408,245	$ 35,506	$ 443,751	$ 1,060,846	$ 31,859	$ 1,092,705	$ (652,601)	$ 3,647	$ (648,954)
Statutory Valuation Allowance Adjustments	(309,478)	(34,954)	(344,432)	(958,454)	(31,825)	(990,279)	648,976	(3,129)	645,847
Adjusted Gross Deferred Tax Assets	98,767	552	99,319	102,392	34	102,426	(3,625)	518	(3,107)
Deferred Tax Assets Nonadmitted	-	-	-	-	-	-	-	-	-
Subtotal Net Admitted Deferred Tax Asset	98,767	552	99,319	102,392	34	102,426	(3,625)	518	(3,107)
Deferred Tax Liabilities	(98,767)	(552)	(99,319)	(102,392)	(34)	(102,426)	3,625	(518)	3,107
Net Admitted Deferred Tax Asset/ (Net Deferred Tax Liability)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

There were no Federal income taxes paid in prior years recoverable through loss carrybacks for the years ended December 31, 2016 and 2015.

The Company did not have any adjusted gross deferred tax assets expected to be realized after application of the threshold limitation, which is the lesser of the adjusted gross deferred tax assets expected to be realized following the balance sheet date and the adjusted gross deferred tax assets allowed per limitation threshold, as of December 31, 2016 and 2015.

Adjusted ordinary gross deferred tax assets offset by ordinary gross deferred tax liabilities for the years ended December 31, 2016 and 2015 was $98.8 million and $102.4 million, respectively. Adjusted capital gross deferred tax assets offset by capital gross deferred tax liabilities for the years ended December 31, 2016 and 2015 was $551.9 thousand and $34.0 thousand, respectively.

There were no net deferred tax assets admitted as the result of application of statutory accounting guidance for taxes as of December 31, 2016 and 2015.

For the years ended December 31, 2016 and 2015, current income taxes benefit consists of the following major components:

(U.S. Dollars in thousands)	2016	2015	Change
Current Income Tax:			
Federal	$ 1,197	$ (6,720)	$ 7,917
Foreign	725	276	449
Subtotal	1,922	(6,444)	8,366
Federal income tax on net capital gains	-	-	-
Utilization of capital loss carry-forwards	-	-	-
Federal and foreign income taxes incurred	$ 1,922	$ (6,444)	$ 8,366

Tax planning strategies did not have an effect on the Company's net deferred tax assets.

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The significant items causing this difference for the years ended December 31, 2016 and 2015 are as follows:

(U.S. Dollars in thousands)

	2016		2015	
	Federal income taxes	Effective tax rate %	Federal income taxes	Effective tax rate %
Provision computed at statutory rate	$ 21,953	35.00%	$ 70,884	35.00%
Contingency reserve	(1,000)	-1.59%	4,657	2.30%
Change in nonadmitted assets	3,836	6.12%	(2,297)	-1.13%
Change in valuation allowance	(652,938)	-1040.97%	(92,089)	-45.47%
NOL reallocated to parent	612,500	976.50%	-	0.00%
Prior year deferred tax reclass	(2,016)	-3.21%	-	0.00%
Cancellation of debt income on surplus notes	16,925	26.98%	-	0.00%
Non-deductible restructuring costs	3,636	5.80%	-	0.00%
Prior year true up	(777)	-1.24%	548	0.27%
Syncora Guarantee - UK earnings and profits	-	0.00%	4,454	2.20%
Capital loss carry forward expired	-	0.00%	6,091	3.01%
Other	(197)	-0.33%	1,308	0.64%
Totals	$ 1,922	3.06%	$ (6,444)	-3.18%
Federal income tax incurred	$ 1,840	2.93%	$ (7,268)	-3.59%
Foreign income tax incurred	725	1.16%	276	0.14%
Prior year true up	(643)	-1.03%	548	0.27%
Total Statutory income tax (benefit) incurred	$ 1,922	3.06%	$ (6,444)	-3.18%

As of December 31, 2016 and 2015, deferred income tax assets and liabilities consisted of the following major components:

(U.S. Dollars in thousands)	2016	2015	Change
Deferred Tax Assets:			
Ordinary			
Unearned premium reserve	$ 3,756	$ 4,239	$ (483)
Receivables- nonadmitted	4,936	8,773	(3,837)
Net operating loss carry-forward	294,017	925,141	(631,124)
Loss & salvage reserve discount	44,303	67,678	(23,375)
Claim reserve	19,046	22,471	(3,425)
Contingency reserve	30,801	29,801	1,000
Loss adjustment expenses reserve discount	109	126	(17)
Unrealized loss on derivative asset	1,930	417	1,513
Intangible assets	1,075	1,213	(138)
Foreign taxes	1,214	987	227
Unrealized loss on foreign exchange	5,577	-	5,577
Investment in partnership	1,481	-	1,481
Subtotal	408,245	1,060,846	(652,601)
Statutory valuation adjustment	(309,478)	(958,454)	648,976
Admitted ordinary deferred tax assets	$ 98,767	$ 102,392	$ (3,625)
Capital:			
Investments	$ 11,738	$ 7,864	$ 3,874
Net capital loss carry-forward	23,768	23,995	(227)
Subtotal	35,506	31,859	3,647
Statutory valuation adjustment	(34,954)	(31,825)	(3,129)
Admitted capital deferred tax assets	552	34	518
Admitted deferred tax assets	$ 99,319	$ 102,426	$ (3,107)
Deferred tax liabilities:			
Ordinary			
Surplus notes	$ 93,976	$ 94,686	$ (710)
Intangible amortization	4,791	6,698	(1,907)
Investment in partnership	-	1,008	(1,008)
Subtotal	$ 98,767	$ 102,392	$ (3,625)
Capital			
Investments	$ 13	$ 34	$ (21)
Unrealized capital gains	539	-	539
Subtotal	552	34	518
Deferred tax liabilities	99,319	102,426	(3,107)
Net Deferred tax assets	$ -	$ -	$ -

At December 31, 2016, the Company had net operating loss carryforwards expiring from 2027 through 2031 of $0.8 billion.

At December 31, 2016, the Company had capital loss carryforwards expiring from 2017 through 2020 of $67.9 million.

The Company had no income tax expense for 2014, 2015, and 2016 that is available for recoupment in the event of future net losses.

The Company did not have any protective tax deposits under Section 6603 of the Internal Revenue Code.

In connection with the Restructuring Transactions completed on August 12, 2016, pursuant to an amended and restated tax sharing agreement, the Company contractually reallocated $1.75 billion of excess net operating losses to SHI for its sole use and benefit, where these net operating losses may be used more broadly. In addition, SHI provided contractual protections relating to the preservation and utilization of the Company's retained net operating losses. The amendments to the tax sharing agreement did not have any effect on the Company's policyholders' surplus. At December 31, 2016, the Company's cumulative net operating losses ("NOLs"), which may be carried forward to offset future taxable income, are $0.8 billion. The Company's ability to utilize its NOLs at December 31, 2016 expires from 2027 through 2031. Approximately $161.3 million of the Company's NOLs as of December 31, 2016 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 and more particularly as described below, that occurred on August 5, 2008. An ownership change, as defined under Section 382 generally occurs if the percentage stock ownership of shareholders owning (or deemed under Section 382 to own) 5% or more of Syncora Holdings' common shares increases by more than 50 percentage points over the lowest percentage of Syncora Holdings' common shares owned by such shareholders during a defined period of time. To avoid an ownership change in the future and further limitation on the use of the Company's NOLs, on October 21, 2008, Syncora Holdings' Board of Directors approved changes to Syncora Holdings' Bye-laws which were subsequently approved by the shareholders on February 9, 2009 to limit the transfer of shares prior to the expiration of certain time periods specified in such bye-laws.

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

The Company's federal income tax return is consolidated with the following entities:

Syncora Holdings US Inc. ("Parent")
Syncora Guarantee Inc.
Syncora Guarantee Services Inc.
Syncora Capital Assurance Inc.
Syncora Administrative Holdings US Inc.

As of December 31, 2016 and 2015, the Company has a receivable from SHI of \$15.8 million and \$16.9 million, respectively, relating to the utilization of its NOLs to offset taxable income reported by Syncora Capital Assurance (both the Company and Syncora Capital Assurance are members of the parent's consolidated group).

The Company does not have any tax loss contingencies for which it is reasonably possible that the total liability will significantly increase within twelve months of the reporting date.

Interest and penalties related to uncertain tax provisions were zero for the years ended December 31, 2016 and 2015. Tax years 2013 through 2016 are potentially subject to examination by the IRS and state and local authorities.

13. Commitments and Contingencies

(a) Contingent Commitments

- See Note 6 in regard to the Back-Up Guarantees on the Novated CDS Policies.

- There is a risk that the IRS could disagree with a number of tax positions taken by Syncora Guarantee with respect to certain transactions, including but not limited to, certain transactions undertaken in connection with the 2009 MTA. If any of the positions taken by Syncora Guarantee were successfully challenged by the IRS, there could be a material adverse effect on Syncora Guarantee's financial position or the amount of net operating losses available to Syncora Guarantee.

- As of December 31, 2016 and 2015, Syncora Guarantee had \$3.8 million on deposit with a bank that acts as the trustee of trusts established in connection with the effective defeasance or, in-substance, commutation of certain of Syncora Guarantee's RMBS securities. This deposit serves to secure Syncora Guarantee's commitment to indemnify such bank in connection with any damages, as defined in the indemnification agreement, that the bank may suffer in conjunction with administering the aforementioned trusts. The deposit is recorded in "Other assets" on the accompanying Statements of Admitted Assets, Liabilities and Capital and Surplus.

(b) On August 24, 2015, the Company and Syncora Capital Assurance entered into an intercompany capital support agreement whereby, if Syncora Capital Assurance's surplus at the end of the prior quarter is below \$100 million, or is projected to be below \$100 million at the end of the coming quarter, the Company has agreed to purchase up to \$100 million of additional Syncora Capital Assurance surplus notes; provided, that the Company's surplus as of the prior quarter shall not be less than \$100 million. These notes can be transferred to a third party. As of December 31, 2016, Syncora Capital Assurance's policyholders surplus was \$225.8 million.

(c) In October 2013, Syncora Holdings entered into an amended three year agreement with International Business Machines Corporation for information technology outsourcing services, effective January 1, 2014. In June 2016, Syncora Holdings Ltd. entered into an amended two year agreement with

International Business Machines Corporation for information technology outsourcing services, effective January 1, 2017. Fees associated with such agreements were approximately $1.0 million and $0.9 million for the years ended December 31, 2016 and 2015, respectively, which is included in the charges from Syncora Guarantee Services as discussed in Note 6.

(d) For the years ended December 31, 2016 and 2015, the Company recorded $0.5 million and $0.5 million of rent expense, respectively, which is included in the charges from Syncora Guarantee Services. The Company does not have any material lease commitments.

(e) Litigation

Legal Matters:

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

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

RMBS Litigation

US Bank v. GreenPoint Mortgage

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

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

On January 28, 2016, the Court rejected GreenPoint's motion for summary judgment and granted US Bank's cross-motion for partial summary judgment, finding that as a matter of law US Bank has standing to directly assert claims against GreenPoint. Greenpoint perfected its appeal on November 28, 2016 and this appeal is now fully briefed. Oral argument before the Appellate Division is currently scheduled for the May Term (April 18, 2017 - May 15, 2017). Discovery in the trial court is ongoing.

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

Lehman Brothers Proofs of Claim

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

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

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

ARPA Litigation

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

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

Macquarie Litigation

On April 18, 2012, Syncora Guarantee initiated an action in the Supreme Court of the State of New York against Macquarie Capital (USA) Inc. ("Macquarie"), among others. The case remains pending only against Macquarie, with Syncora Guarantee having entered into a stipulation dismissing the other defendants from the lawsuit. Syncora Guarantee alleges that Macquarie made misrepresentations and omissions in obtaining insurance in connection with a bond offering by American Roads LLC. Macquarie's initial motion to dismiss the claims was denied in its entirety and decided in Syncora Guarantee's favor. On September 28, 2015, Syncora Guarantee filed a motion to amend its complaint to include additional allegations against Macquarie. In May 2016, Macquarie filed a motion to dismiss Syncora Guarantee's amended complaint and, in the alternative, to narrow Syncora Guarantee's claims and damages. On February 15, 2017, Macquarie's motion to dismiss was largely denied, but granted as to Syncora Guarantee's requests for rescissory damages and punitive damages. Apart from these forms of relief, Syncora Guarantee's claims for fraud and negligent misrepresentation were upheld and will continue. Fact discovery is largely concluded, with expert discovery anticipated to conclude in May 2017.

14. Capital and Surplus and Dividend Restrictions

The ability of the Company to declare and pay a dividend to shareholders is governed by applicable New York law, including the NYIL. Under Section 4105 of the NYIL, the Company is permitted to pay dividends to shareholders in any 12-month period, without the prior approval of the NYDFS in an amount equal to the lesser of 10% of its policyholders' surplus as of the last financial statement filed with the NYDFS (annual or quarterly) or their adjusted net investment income for the 12-month period, as determined in accordance with Statutory Accounting Practices prescribed or permitted by the NYDFS. The NYIL also provides that the Company may distribute dividends to shareholders in excess of the aforementioned amount only upon approval thereof by the NYDFS. Even if these tests are satisfied, New York Insurance Law provides a further test in that the Company may not declare or distribute any dividends to shareholders except out of "earned surplus" (an amount equal to "unassigned funds" as shown on its statutory balance sheet, which as of December 31, 2016 was approximately $417.1 million, less "unrealized appreciation of assets"). The NYDFS may disapprove such dividends to shareholders if it finds that the Company will retain insufficient surplus to support its obligations and writings.

As discussed in Note 2, the NYDFS granted the Company permission to increase its earned surplus to the greatest extent possible given its current gross paid in and contributed surplus by allocating the entire balance of that account to earned surplus. As both earned surplus and gross paid in and contributed surplus are elements of policyholders' surplus, this permitted practice has no effect on total policyholders' surplus. As a result of this permitted practice, the Company reclassed its gross paid in and contributed surplus balance of $2.0 billion to earned surplus as of September 30, 2016.

Pursuant to the terms of the 2009 MTA, Syncora Guarantee is not permitted to pay dividends or repurchase, redeem, exchange or convert any equity securities until such time as all surplus notes issued by the Company are paid in full. In addition, Syncora Capital Assurance is also subject to certain restrictions on its ability to pay dividends to the Company. On August 12, 2016, the NYDFS also granted Syncora Capital Assurance permission to increase its earned surplus to the greatest extent possible given its current gross paid in and contributed surplus by allocating the entire balance of that account to earned surplus. As both earned surplus and gross paid in and contributed surplus are elements of policyholders' surplus, this permitted practice has no effect on Syncora Capital Assurance total policyholders' surplus.

The portion of accumulated deficit represented by or reduced by each item below at December 31, 2016 is as follows:

(U.S. Dollars in thousands)

Unrealized (gains) and losses	$	190,522
Non-admitted asset values	$	14,104

Surplus Notes

As part of the consideration paid in connection with the effective defeasance, or in-substance commutation, of certain of the Company's guarantees of CDS contracts pursuant to the 2009 MTA discussed in Note 2, on July 15, 2009, Syncora Guarantee issued $150.0 million face amount of short-term and $475.0 million face amount of long-term surplus notes to the counterparties of such CDS contracts. Subsequent to their issuance, $142.5 million of paid-in-kind interest has been added to the face amount of the surplus notes. As part of the 2012 settlement of RMBS-related claims and other claims with BAC thereof, $48.4 million face amount of surplus notes ($21.2 million short-term and $27.2 million long-term) were received back which included $7.7 million of paid-in-kind interest ($2.0 million short-term and $5.7 million long-term). The total face amount of the surplus notes, including paid-in-kind interest held by third parties as of December 31, 2016 is $685.6 million. The short-term surplus notes have a 5.00%

interest rate and matured on December 28, 2011, and the long-term surplus notes have a 6.00% interest rate and mature on June 27, 2024.

See table below for a summary of these surplus notes as of December 31, 2016 and December 31, 2015 and for the years ended December 31, 2016 and 2015 (net of amounts received back from BAC):

(U.S. dollars in millions)

	Total		Short-Term		Long-Term	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Par Value	$685.6	$719.1	$130.2	$144.2	$555.4	$574.9
Carrying value	556.2	584.3	118.1	130.7	438.1	453.6
Accrued interest	-	-	-	-	-	-
Interest expense	46.8	-	3.4	-	43.4	-
Unrecognized accrued interest	255.4	264.4	53.6	49.9	201.8	214.5
Unrecognized interest expense	48.9	47.4	9.0	8.8	39.9	38.6

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

In connection with the August 12, 2016 Restructuring Transactions, $30.0 million of long-term and short-term surplus notes were transferred from Syncora Holdings to the Company, and cancelled by the Company. $23.6 million and $6.4 million of long-term and short-term notes, respectively (including principal, paid-in-kind interest and accrued interest) of surplus notes were cancelled. In addition, upon closing of the transaction, the Company made a net cash payment of $55.0 million on its long-term and short-term externally held surplus notes after receiving approval from the NYDFS for such payment. The Company will continue to request NYDFS approval for cash payments to holders of surplus notes each calendar year (to be paid in two equal semi-annual installments during such year), beginning in June 2017. The Company can provide no assurance about whether the NYDFS will approve any future payments on the short-term or long-term surplus notes.

Notwithstanding the Company's litigation settlements, Syncora Guarantee remains exposed to significant risks and uncertainties that may materially and adversely affect its financial condition, liquidity position and ability to make payments on its surplus notes. Consequently, there is significant uncertainty and there can be no assurance as to whether and when the conditions to payment of the Company's short-term and long-term notes, including the NYDFS approval of any future payments on these notes, will be satisfied.

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

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

15. Derivative Instruments

During 2013, the Company entered into a derivative transaction at a fixed cost of $5.6 million to economically hedge certain interest rate risk associated with certain of its insured exposures. Such derivative transaction serves to limit the Company's exposures should three-month LIBOR rates increase above certain set cap rates between March 2013 and June 2018. For the years ended December 31, 2016 and 2015, the Company recorded an unrealized (loss) on the derivative of $(0.5) million and $(2.7) million, respectively. As of December 31, 2016 and 2015, the Company recorded a derivative asset of $50.0 thousand and $0.5 million, respectively, which is included in “Derivatives instruments” on the accompanying Statement of Admitted Assets, Liabilities and Capital and Surplus.

16. Fair Value of Financial Instruments

The following estimated fair values have been determined by Syncora Guarantee using available market information and appropriate valuation methodologies. However, considerable judgment is necessary to interpret the data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amount Syncora Guarantee could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Bonds: The fair value of bonds were provided by the Securities Valuation Office of the NAIC, except for uninsured cash flows for which fair value was determined using internal models.

Cash, cash equivalents, restricted cash and short-term investments: The carrying amounts of these items are a reasonable estimate of their fair value.

Derivative instruments: The fair value of this asset is the indicative price Syncora Guarantee would receive to sell the derivative in an arms-length transaction between willing market participants.

Investment in limited liability company: Investments in limited liability companies are generally valued using an equity method based on the proportionate share of ownership.

Receivables from and payables to parent and affiliates: The carrying amounts of these items approximate fair value due to the short-term nature of these instruments.

Financial Guarantee Insurance Contracts: The Company believes that the best estimate of fair value for its insurance contracts is the discounted expected premiums less the discounted expected losses over the remaining life of each contract. To determine this fair value the Company utilized a discounted cash flow model based on inputs that include assumptions of expected losses net of expected recoveries where loss reserves have been established (reserve contracts), and expected premiums and losses where loss reserves have not been recognized (non-reserve contracts). For non-reserve contracts, estimates of expected loss are driven by assumptions as to default and loss given default rates for each contract. Market-based discount rates that are credit adjusted for the premium payer and the Company's own credit risk are applied to the premium and loss cash flows, respectively, to ultimately determine the contracts fair value. The inputs used in determining fair value were mostly unobservable and as a result the fair value could change materially.

The carrying amounts and estimated fair values of Syncora Guarantee's financial instruments at December 31, 2016 and 2015 were as follows:

	Carrying Amount		Estimated Fair Value	
(U.S. Dollars in thousands)	**2016**	**2015**	**2016**	**2015**
Assets				
Bonds	$ 850,187	$ 872,250	$ 857,148	$ 877,633
Common stock	20,915	-	20,915	-
Cash, cash equivalents, restricted cash and short-term investments	96,941	138,547	96,941	138,596
Derivative instruments	50	521	50	521
Investment in limited liability company	1,566	1,178	1,566	1,178

The Company categorizes its assets measured at fair value into the three-level fair value hierarchy as reflected in the table below. The three-level fair value hierarchy is based on the degree of subjectivity inherent in the valuation method by which fair value was determined. The three levels are defined as follows.

Fair Value Measurements

Level 1- Quoted prices for identical instruments in active markets.

Level 2- Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs and valuation drivers are observable in active markets.

Level 3- Model-derived valuations in which one or more significant inputs or significant value drivers are unobservable.

The following fair value hierarchy table presents the Company's assets measured at fair value at December 31, 2016 and 2015. There were no Level 1 assets or any liabilities measured at fair value at December 31, 2016 or 2015.

(U.S. Dollars in thousands)

	2016	2015
Level 1		
Assets at fair value - recurring		
Common Stocks:		
Common Stocks	$ 16,277	$ -
Mutual Funds	4,638	-
Total Level 1 assets at fair value	20,915	-
Level 2		
Assets at fair value - recurring		
Derivative instruments	50	521
Assets at fair value - non-recurring		
Bonds:		
Industrial & Miscellaneous	8,270	-
Total Level 2 assets at fair value	8,320	521
Level 3		
Assets at fair value - recurring		
Investment in limited liability company	1,566	1,178
Total Level 3 assets at fair value	1,566	1,178
Total assets at fair value	$ 30,801	$ 1,699

The fair value of the Company's financial guarantee insurance contracts was $17.0 million and $291.6 million at December 31, 2016 and 2015, respectively. The fair value of the Company's financial guarantee insurance contracts would be categorized into the Level 3 hierarchy since the significant inputs used were unobservable.

The following table presents information about changes in assets measured at fair value using significant unobservable inputs (Level 3) as of December 31, 2016.

(U.S. Dollars in thousands)

	Balance at December 31, 2015	Total Gains included in Surplus	Balance at December 31, 2016
Assets:			
Investments in Limited Partnerships	$ 1,178	$ 388	$ 1,566
Total Assets	$ 1,178	$ 388	$ 1,566

The Company had no transfers into and out of Level 3, gains and (losses) included in Net income, Purchases, Issuances, Sales, Settlements and no transfers between Level 1 and Level 2 of the fair value hierarchy for the years ended December 31, 2016 and 2015.

The following tables reflect the fair values and admitted values of all admitted assets and liabilities that are financial instruments excluding those accounted for under the equity method as of December 31, 2016 and 2015. The fair values are also categorized into the three-level fair value hierarchy as described above.

(U.S. Dollars in thousands)

Type of Financial Instrument	Aggregate Fair Value		Admitted Assets		Level 1		Level 2		Level 3	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Financial Instruments - assets										
Bonds	$857,148	$ 877,633	$850,187	$ 872,250	$112,095	$115,611	$745,053	$762,022	$ -	$ -
Cash, cash equivalents and Short-term investments	96,941	138,596	96,941	138,547	87,948	132,338	8,993	6,258	-	-
Common stocks	20,915	-	20,915	-	20,915	-	-	-	-	-
Derivative instruments	50	521	50	521	-	-	50	521	-	-
Investment in limited liability company	1,566	1,178	1,566	1,178	-	-	-	-	1,566	1,178
Total assets	$976,620	$1,017,928	$969,659	$1,012,496	$220,958	$247,949	$754,096	$768,801	$1,566	$1,178

17. Other Matters

As of December 31, 2016, the Company had, in the aggregate, approximately $48.3 million on deposit to collateralize its contractual obligations under certain agreements, including reinsurance. Of such deposits, $43.1 million, $3.8 million, and $1.4 million are recorded on the accompanying Statements of Admitted Assets, Liabilities, Capital and Surplus in “Bonds”, “Other assets”, and “Restricted cash and short-term investments”, respectively.

As of December 31, 2015, the Company had, in the aggregate, approximately $61.5 million on deposit to collateralize its contractual obligations under certain agreements. Of such deposits, $41.3 million, $3.8 million, and $16.4 million are recorded on the accompanying Statements of Admitted Assets, Liabilities, Capital and Surplus in “Bonds”, “Other assets”, and “Restricted cash and short-term investments”, respectively.

18. Variances between Statutory Basis Accounting and GAAP Basis Accounting

The accompanying statutory basis financial statements have been prepared in conformity with NAIC SAP adjusted for NYDFS permitted practices (as discussed in Note 4), which differs in some respects from accounting principles generally accepted in the United States of America (“GAAP”). The more significant of these differences are as follows:

- Bonds (which consist of bonds and loan-backed securities) assigned an NAIC designation of 1 or 2 are stated at cost, adjusted for amortization of premium and accretion of discount which is calculated using the constant yield method. Bonds assigned an NAIC designation of 3 through 6 are stated at the lower of amortized cost, adjusted for amortization of premium and accretion of discount calculated using the constant yield method or, fair value. The prospective method is used to value loan-backed securities. Under GAAP, Syncora Guarantee’s bonds are categorized as “available for sale” and are recorded at their fair value, and unrealized appreciation or depreciation of these securities, net of applicable deferred income taxes, is credited or charged as a separate component of shareholders’ equity.

- Syncora Guarantee’s investment in the common stocks of its wholly owned insurance and non-insurance subsidiaries are accounted and reported under the equity method as described in SSAP No. 97, “Investments in Subsidiary, Controlled and Affiliated Entities”, and valued in accordance with section 3(ii)(D) of the NAIC Valuations Securities manual. Changes in the carrying value of such investments are reflected as unrealized gains or losses in capital and surplus. In addition, the NYDFS granted Syncora Guarantee a permitted practice to account for its 100% ownership of Pike Pointe as salvage recoverable, which is deducted from the liability for unpaid claims or losses. Under GAAP, Syncora Guarantee consolidates its wholly owned insurance and non-insurance subsidiaries.

- In accordance with SSAP No. 86 – "Accounting for Derivative Instruments and Hedging Activities", derivative instruments are recorded at an estimated fair value with changes in fair value recorded as unrealized gains and losses on the Statements of Admitted Assets, Liabilities and Capital and Surplus. Under GAAP, changes in fair value are recorded as unrealized gains and losses on the Statements of Operations.

- Under NAIC SAP investment income due and accrued that is greater than 90 days past due is non-admitted and charged directly to capital and surplus, whereas non-admitted assets are not recognized under GAAP (see discussion regarding admitted assets below).

- Under NAIC SAP decreases in the fair value of bond and stock investments below their carrying value which are determined to be "other than temporary" are reflected as realized losses and are recorded in the Statements of Operations. In accordance with periodic investment reviews by management, an impairment of a bond shall be considered to have occurred if it is probable that Syncora Guarantee will be unable to collect all amounts due according to the contractual terms of the security. In accordance with GAAP, any credit-related impairment on bonds Syncora Guarantee does not plan to sell and more likely than not will not be required to sell would be recognized in the Statements of Operations, with the non-credit-related impairment recognized in other comprehensive income. For other impaired bonds, where Syncora Guarantee has the intent to sell the security or where Syncora Guarantee will more likely than not be required to sell or where the entire impairment is deemed by Syncora Guarantee to be credit-related, the entire impairment is recognized in accordance with GAAP in the Statements of Operations.

- Premiums charged in connection with the issuance of Syncora Guarantee's policies are received either upfront or in installments. Such premiums are recognized as written when due. Accordingly, under NAIC SAP, future installment premiums are not recognized as receivable until they are due. Once due, installment premiums written are earned ratably over the installment period, generally one to six months, which is consistent with the expiration of the underlying risk or amortization of the underlying insured principal. Upfront premiums written are earned based on the proportion of principal and interest paid during the period, as compared to the total amount of principal and interest to be paid over the contractual life of the insured debt obligation. Under GAAP, upfront premiums are recognized as written when due and installment premiums are recognized as written at the inception of the contract along with a corresponding receivable regardless of when due. Under GAAP, financial guarantee insurance premiums (both upfront and installment premiums) are earned at a constant rate calculated based on the relationship between the insured principal outstanding in a given reporting period compared with the sum of each of the insured principal amounts outstanding for all periods.

- In accordance with NAIC SAP, a statutorily mandated contingency reserve is established net of reinsurance by an appropriation of unassigned surplus and is reflected in the Statements of Admitted Assets, Liabilities and Capital and Surplus. Under GAAP, contingency reserves are not recognized.

- In accordance with a NYDFS permitted practice, the Insurance Cash Flow Certificates are recorded as paid losses. Under GAAP, since the Insurance Cash Flow Certificates do not legally extinguish the RMBS or other insured securities, the Company regards the effective purchase of the Insurance Cash Flow Certificates as providing protection on the underlying securities upon the occurrence of an event of default and consequently follows reinsurance accounting principles.

- Under NAIC SAP reserves for losses and loss adjustment expenses on insured business are reported net of reinsurance loss recoverables established by Syncora Guarantee with respect to a specific policy and are generally discounted at a rate reflecting the weighted average return on the Syncora Guarantee's invested assets at year-end. In accordance with GAAP, reserves for losses are recognized at the measurement date on a contract by contract basis based on the weighted average probability of net cash outflows to be paid under the contract, on a present value basis, to the extent that the reserve, so determined, exceeds the unearned premium revenue attributable to such contract at the measurement date. In addition under GAAP, reserves for losses are discounted based on a risk free rate of interest commensurate with the expected duration of the related insurance contract and are reported net of unearned premium revenue and gross of reinsurance recoverables.

- Under NAIC SAP assets and liabilities relating to reinsurance are reported on a net basis. Under GAAP, these reinsurance balances are required to be reported on a gross basis.

- Syncora Guarantee accounts for its insurance of CDS contracts issued by the affiliated trusts as insurance under NAIC SAP. Under GAAP, insurance of CDS contracts are accounted for as derivative financial instruments and are carried at fair value with changes in fair value included in net income.

- In accordance with NAIC SAP, the Company must recognize as a liability in its financial statements for any credit recorded therein for ceded reinsurance liabilities to unauthorized reinsurance companies, unless such reinsurance companies have secured such obligations through funds on deposit with the ceding company, a letter or credit or by some other means generally recognized under NAIC SAP or by the NYDFS irrespective of whether the Company believes such amounts are ultimately collectible from the reinsurer. Under GAAP, no such liability is recognized.

- Under NAIC SAP a net deferred tax asset is recorded only to the extent it is expected to be realized in accordance with the applicable statutory accounting for income taxes. Amounts in excess of such limit are recorded as non-admitted assets. Changes in the admitted deferred tax asset or liability are recorded directly to unassigned surplus. In addition, a valuation allowance is recorded when it is more likely than not that all, or some portion, of the benefits related to deferred tax assets will not be realized. Under GAAP, deferred taxes are recorded for any temporary differences between the tax basis of assets and liabilities to the extent it is more likely than not that deferred tax assets are realizable, with changes in deferred tax assets and liabilities recorded as a component of net income tax expense, except for changes in unrealized gains and losses on available for sale securities.

- Under NAIC SAP certain assets are non-admitted, (consisting primarily of premium and intercompany receivables that are greater than 90 days past due) and charged directly to unassigned surplus. Under GAAP, these amounts are typically reflected as assets.

- In accordance with NAIC SAP, surplus notes are recorded as a component of capital and surplus, while under GAAP, surplus notes are recorded as notes payable.

- Under NAIC SAP, acquisition costs are charged to operations as incurred rather than GAAP's requirement to defer and amortize the costs as the related premiums are earned.

- Variable interest entities are not consolidated by the primary beneficiary under statutory requirements.

19. Subsequent Events

Syncora Guarantee has evaluated all subsequent events through April 5, 2017, the date the financial statements were available to be issued. There were no material events occurring subsequent to December 31, 2016 that required recognition or disclosure.

Appendix A

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SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For the year ended DECEMBER 31, 2016

(To Be Filed by April 1)

Of The SYNCORA GUARANTEE INC.
Address (City, State, Zip Code) New York, NY, 10020
NAIC Group Code 4676 NAIC Company Code 20311 Employer's ID Number 13-3635895

The Investment Risk Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.
Answer the following interrogatories by reporting the applicable U. S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. $ 1,259,875,625

1 Issuer	2 Description of Exposure	3 Amount	4 Percentage of Total Admitted Assets
2. Ten largest exposures to a single issuer/borrower/investment.			
2.01 SYNCORA INVESTMENT HOLDINGS, LLC	PARENT, SUBSIDIARIES AND AFFILIATES	46,637,654	3.702
2.02 DREYFUS TREASURY PRIME CASH MANAGMENT	EXEMPT MNY MKT MUTAL FUND	28,321,585	2.248
2.03 SYNCORA CAPITAL ASSURANCE INC	PARENT, SUBSIDIARIES AND AFFILIATES	25,758,089	2.044
2.04 VERIZON COMMUNICATIONS	BOND & COMMON STOCK	11,367,609	0.902
2.05 PNC BANK NA	BOND	9,867,900	0.783
2.06 SANTANDER HOLDINGS	BOND	8,931,851	0.709
2.07 SYNCHRONY FINANCIAL	BOND	7,987,851	0.634
2.08 BANK OF AMERICA CORP	BOND	7,775,632	0.617
2.09 WELLS FARGO & CO	BOND	7,693,443	0.611
2.10 FORD MOTOR CREDIT CO LLC	BOND	7,681,104	0.610

NAIC Designation	1 Amount	2 Percent
3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC designation.		
Bonds		
3.01 NAIC 1	591,419,821	46.943
3.02 NAIC 2	235,294,260	18.676
3.03 NAIC 3	40,356,831	3.203
3.04 NAIC 4	2,507,506	0.199
3.05 NAIC 5	10,603,535	0.842
3.06 NAIC 6	57,308,501	4.549
Preferred Stocks		
3.07 P/RP-1		
3.08 P/RP-2		
3.09 P/RP-3		
3.10 P/RP-4		
3.11 P/RP-5		
3.12 P/RP-6		

4. Assets held in foreign investments:
4.01 Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets? Yes[ ] No[X]
If response to 4.01 above is yes, responses are not required for interrogatories 5 - 10.

	1 Amount	2 Percent
4.02 TOTAL admitted assets held in foreign investments	123,137,480	9.774
4.03 Foreign-currency-denominated investments		
4.04 Insurance liabilities denominated in that same foreign currency		

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (Continued)

NAIC Sovereign Designation	1 Amount	2 Percent
5. Aggregate foreign investment exposure categorized by NAIC sovereign designation:		
5.01 Countries designated NAIC 1	123,137,480	9.774
5.02 Countries designated NAIC 2		
5.03 Countries designated NAIC 3 or below		

NAIC Sovereign Designation	1 Amount	2 Percent
6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation:		
Countries designated NAIC 1:		
6.01 NETHERLANDS	26,514,146	2.105
6.02 CANADA	23,266,039	1.847
Countries designated NAIC 2:		
6.03		
6.04		
Countries designated NAIC 3 or below:		
6.05		
6.06		

Description	1 Amount	2 Percent
7. Aggregate unhedged foreign currency exposure		

NAIC Sovereign Designation	1 Amount	2 Percent
8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:		
8.01 Countries designated NAIC 1		
8.02 Countries designated NAIC 2		
8.03 Countries designated NAIC 3 or below		

NAIC Sovereign Designation	1 Amount	2 Percent
9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation:		
Countries designated NAIC 1:		
9.01		
9.02		
Countries designated NAIC 2:		
9.03		
9.04		
Countries designated NAIC 3 or below:		
9.05		
9.06		

1 Issuer	2 NAIC Designation	3 Amount	4 Percent
10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:			
10.01 TORONTO-DOMINION BANK/THE	1FE	5,396,631	0.428
10.02 MITSUBISHI UFJ FINANCIAL GROUP INC	1FE	5,033,400	0.400
10.03 ROYAL BANK OF CANADA	1FE	4,991,202	0.396
10.04 SANTANDER UK PLC	1FE	4,972,449	0.395
10.05 ING BANK NV	1FE	4,955,776	0.393
10.06 ABN AMRO BANK NV	1FE	4,949,875	0.393
10.07 HSBC HOLDINGS PLC	1FE	4,794,166	0.381
10.08 ACTAVIS FUNDING SCS	2FE	4,565,820	0.362
10.09 NXP BV / NXP FUNDING LLC	3FE	4,072,764	0.323
10.10 BANK OF NOVA SCOTIA/THE	1FE	3,990,160	0.317

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (Continued)

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:
 11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? Yes[X] No[ ]
 If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.

Description	1 Amount	2 Percent
11.02 TOTAL admitted assets held in Canadian Investments		
11.03 Canadian-currency-denominated investments		
11.04 Canadian-denominated insurance liabilities		
11.05 Unhedged Canadian currency exposure		

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.
 12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? Yes[ ] No[X]
 If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.

1 Contractual Sales Restrictions	2 Amount	3 Percent
12.02 Aggregate statement value of investments with contractual sales restrictions	48,271,769	3.831
Largest 3 investments with contractual sales restrictions:		
12.03 FEDERAL NATIONAL MORTGAGE ASSOCIATION	25,862,147	2.053
12.04 FEDERAL HOME LOAN MORTGAGE CORP	14,990,640	1.190
12.05 BNYM INDEMNIFICATION	3,783,371	0.300

13. Amounts and percentages of admitted assets held in the ten largest equity interests:
 13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets? Yes[ ] No[X]
 If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.

1 Name of Issuer	2 Amount	3 Percent
Assets held in equity interests:		
13.02 SYNCORA INVESTMENT HOLDINGS LLC	46,637,654	3.702
13.03 SYNCORA CAPITAL ASSURANCE INC	25,758,089	2.044
13.04 VANGUARD DIVIDEND APPRECIATION ETF	2,129,500	0.169
13.05 BROADSOLUTIONS, LLC	1,565,852	0.124
13.06 AT&T INC	1,339,695	0.106
13.07 NEW RESIDENTIAL INVESTMENT CORP	1,234,020	0.098
13.08 VERIZON COMMUNICATIONS COM	1,201,050	0.095
13.09 DOW CHEMICAL CO/THE	1,173,010	0.093
13.10 POWERSHARES FINANCIAL PREFERRED PORTFOLIO	992,829	0.079
13.11 ABBVIE INC	939,300	0.075

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (Continued)

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:
    14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes[X] No[ ]
    If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

	1 Investment Category	2 Amount	3 Percent
14.02	Aggregate statement value of investments held in nonaffiliated, privately placed equities		
	Largest 3 investments held in nonaffiliated, privately placed equities:		
14.03			
14.04			
14.05			

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:
    15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes[X] No[ ]
    If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

	1 Investments in General Partnerships	2 Amount	3 Percent
15.02	Aggregate statement value of investments held in general partnership interests		
	Largest 3 investments in general partnership interests:		
15.03			
15.04			
15.05			

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:
    16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes[X] No[ ]
    If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

1 Type (Residential, Commercial, Agricultural)	2 Amount	3 Percent
TOTAL admitted assets held in Mortgage Loans		
16.02		
16.03		
16.04		
16.05		
16.06		
16.07		
16.08		
16.09		
16.10		
16.11		

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (Continued)

	Loans	
Description	2 Amount	3 Percent
Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:		
16.12 Construction loans		
16.13 Mortgage loans over 90 days past due		
16.14 Mortgage loans in the process of foreclosure		
16.15 Mortgage loans foreclosed		
16.16 Restructured mortgage loans		

	Residential		Commercial		Agricultural	
Loan-to-Value	1 Amount	2 Percent	3 Amount	4 Percent	5 Amount	6 Percent
17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:						
17.01 Above 95%						
17.02 91% to 95%						
17.03 81% to 90%						
17.04 71% to 80%						
17.05 Below 70%						

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:
18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes[X] No[ ]
If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

1 Description	2 Amount	3 Percent
Largest five investments in any one parcel or group of contiguous parcels of real estate:		
18.02		
18.03		
18.04		
18.05		
18.06		

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:
19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? Yes[X] No[ ]
If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

1 Description	2 Amount	3 Percent
19.02 Aggregate statement value of investments held in mezzanine real estate loans		
Largest three investments held in mezzanine real estate loans:		
19.03		
19.04		
19.05		

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (Continued)

Description	At Year-End Amount 1	At Year-End Percent 2	Amount at End of Each Quarter 1st Qtr 3	2nd Qtr 4	3rd Qtr 5
20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:					
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)					
20.02 Repurchase agreements					
20.03 Reverse repurchase agreements					
20.04 Dollar repurchase agreements					
20.05 Dollar reverse repurchase agreements					

Description	Owned 1 Amount	Owned 2 Percent	Written 3 Amount	Written 4 Percent
21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:				
21.01 Hedging	49,999	0.004		
21.02 Income generation				
21.03 Other				

Description	At Year-End Amount 1	At Year-End Percent 2	Amount at End of Each Quarter 1st Qtr 3	2nd Qtr 4	3rd Qtr 5
22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:					
22.01 Hedging					
22.02 Income generation					
22.03 Replications					
22.04 Other					

Description	At Year-End Amount 1	At Year-End Percent 2	Amount at End of Each Quarter 1st Qtr 3	2nd Qtr 4	3rd Qtr 5
23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:					
23.01 Hedging					
23.02 Income generation					
23.03 Replications					
23.04 Other					

Appendix B

20311201639900100 2016 Document Code: 399

REINSURANCE ATTESTATION SUPPLEMENT

The Chief Executive Officer and Chief Financial Officer shall attest, under penalties of perjury, with respect to all reinsurance contracts for which the reporting entity is taking credit on its current financial statement, that to the best of their knowledge and belief after diligent inquiry:

(I) Consistent with SSAP No. 62R, Property and Casualty Reinsurance, there are no separate written or oral agreements between the reporting entity (or its affiliates or companies it controls) and the assuming reinsurer that would under any circumstances, reduce, limit, mitigate or otherwise affect any actual or potential loss to the parties under the reinsurance contract, other than inuring contracts that are explicitly defined in the reinsurance contract except as disclosed herein;

(II) For each such reinsurance contract entered into, renewed, or amended on or after January 1, 1994, for which risk transfer is not reasonably considered to be self-evident, documentation concerning the economic intent of the transaction and the risk transfer analysis evidencing the proper accounting treatment, as required by SSAP No. 62R, Property and Casualty Reinsurance, is available for review;

(III) The reporting entity complies with all the requirements set forth in SSAP No. 62R, Property and Casualty Reinsurance; and

(IV) The reporting entity has appropriate controls in place to monitor the use of reinsurance and adhere to the provisions of SSAP No. 62R, Property and Casualty Reinsurance.

If there are any exception(s), it should be noted in the Reinsurance Attestation Supplement filed electronically with the NAIC and in hard copy with the domestic regulator (excluding the details of the exceptions). The details of the exceptions shall be filed in a separate hard copy supplement (Exceptions to the Reinsurance Attestation Supplement) with the domestic regulator.

For reporting period ended December 31, 2016

Signed:

Chief Executive Officer	Date	Chief Financial Officer	Date
			2/21/17

Appendix C

20311201640100100 2016 Document Code: 401

REINSURANCE SUMMARY SUPPLEMENTAL FILING FOR GENERAL INTERROGATORY 9 (Part 2)

For The Year Ended DECEMBER 31, 2016

NAIC Group Code 4676 | To Be Filed by March 1 | NAIC Company Code 20311

(A) Financial Impact

		1 As Reported	2 Interrogatory 9 Reinsurance Effect	3 Restated without Interrogatory 9 Reinsurance
A01.	Assets	1,259,875,625	(315,605,056)	1,575,480,681
A02.	Liabilities	71,591,352	(267,871,672)	339,463,024
A03.	Surplus as regards to policyholders	1,188,284,273	(47,733,383)	1,236,017,656
A04.	Income before taxes	62,724,017	(11,119,397)	73,843,414

(B) Summary of Reinsurance Contract Terms	(C) Management's Objectives
The Company and Syncora Capital Assurance ("SCAI") entered into a quota share reinsurance agreement under which the Company ceded certain public finance business and certain of its global infrastructure business to SCAI for an amount equal to the Company's unearned premium reserve on such business and all future installment premiums on such business. See footnote 10 for further details.	Management entered into this agreement as part of the Company's restructuring on July 15, 2009 .

D. If the response to General Interrogatory 9.4 (Part 2 Property & Casualty Interrogatories) is yes, explain below why the contract is treated differently for GAAP and SAP.: