

**SYNCORA HOLDINGS LTD.
Q3 2019 CONSOLIDATED GAAP EARNINGS CALL**

**Moderator: Scott Beinhacker
November 15, 2019
8:30 a.m. ET**

Operator: Good morning. My name is Beth, and I will be your conference operator today. At this time, I would like to welcome everyone to the Syncora Holdings Ltd. Q3 2019 Earnings Conference Call. All lines have been placed on mute to prevent any background noise.

Mr. Scott Beinhacker, you may begin your conference.

Scott Beinhacker: Good morning and thank you for joining us today for the SHL Q3 2019 consolidated GAAP financial results investor call. I'm Scott Beinhacker, the Head of Investor Relations at Syncora.

Participating with me on the call today are Fred Hnat, our Chief Executive Officer; and David Grande, our Chief Financial Officer.

Before I turn the call over to my colleagues, I will remind everyone that during our call, management will reference certain documents that we posted after the market closed yesterday to the Investor Relations section of our website, syncora.com, specifically on the Investor Events page.

These documents include the Syncora Holdings Ltd. consolidated GAAP financial statements as of September 30, 2019 and for the nine months ended September 30, 2019, the associated earnings release and SGI statutory basis financial statements.

We sometimes refer to Syncora Holdings Ltd. as the "Company" in these remarks.

I would also like to remind everyone that during the call, we may make projections or other forward-looking statements about future results, plans and events, including the sale of SGI to Star Insurance Holdings LLC. We caution that these forward-looking statements are not a guarantee of future events and that actual events may differ materially from those in these statements.

These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the Company's control, including, but not limited to, the factors described in our historical filings with the New York State Department of Financial Services and in Syncora Holdings Ltd.'s and Syncora Guarantee Inc.'s consolidated GAAP and statutory financial statements, respectively, which are posted on our website, as well as the need for approval by the NYDFS of the sale of SGI to Star Insurance.

You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date they are made. The Company assumes no obligation to update forward-looking statements, information in the press release or as presented on the call to reflect the impact of circumstances or events that arise after the date the forward-looking statements are made.

References throughout the call to SHL and SGI refer to Syncora Holdings Ltd. and Syncora Guarantee Inc., respectively, and the NYDFS refers to the New York State Department of Financial Services. Finally, references to numbers on the call are generally stated as approximations.

And with that introduction, I would now like to turn the call over to our CEO, Fred Hnat.

Fred Hnat: Thank you, Scott, and welcome, everyone, to our third quarter 2019 earnings investor call. On our last earnings call, we announced the agreement we had reached with Star Insurance Holdings LLC, an entity organized by GoldenTree Asset Management LP on behalf of GoldenTree's managed funds and accounts to purchase SGI and our primary focus of the last 3 months has

been working together with Star Insurance to fulfill the conditions precedent required for the closing of that purchase.

Since our earnings call in August, we have issued two press releases providing updates on the proposed sale of SGI to Star Insurance. The first press release issued in early September, announced an increase to the cash purchase price being paid by Star Insurance for SGI to \$429 million, subject to adjustment. This increased price was the result of an additional unsolicited proposal from a third party during the period in which we could entertain alternative acquisition proposals as provided for by the original purchase agreement with Star Insurance. After negotiations, we were very pleased to secure a significantly higher purchase price for SGI.

The second related press release, issued in October, described additional information regarding the net proceeds of the sale of SGI. In particular, the Company announced its intention to distribute 100% of the net sale proceeds to shareholders in furtherance of our continued efforts to return value to our shareholders. The press release also discussed that the Company, together with its advisors, is analyzing the applicable tax considerations arising in connection with the sale and related distribution to shareholders. That analysis remains subject to numerous considerations and tax efficiency will be a key consideration in terms of how we return value to shareholders. The intended tax treatment of the distribution of net sales proceeds from the sale of SGI will be disclosed as and when completed, but no later than the date of distribution.

The closing of the sale of SGI is subject to customary conditions, including approval by the New York Department of Financial Services, so we are unable to provide a precise closing date, but we would expect it to take place in the fourth quarter of 2019 or the first quarter of 2020.

Upon the sale of SGI to Star Insurance, in addition to the net sale proceeds, the Company is expected to have cash in the amount of approximately 32 million dollars and specified non-core assets currently held at SGI, including

certain non-cash assets of Pike Pointe Holdings, LLC and the 80% interest in Swap Financial Group LLC.

I thought it might be helpful to provide a brief update on the status of what we expect to be the assets retained by SHL. Last week, SHL's subsidiary, Pike Pointe, sold one of its interests in Detroit for two million dollars cash. Pike Pointe still holds options on property along the Detroit riverfront and is in active discussions to monetize these options. We are also looking to monetize a credit certificate for use on real property for sale by the City of Detroit. Finally, SHL is evaluating its strategic options with respect to its ownership interest in Swap Financial.

The Board is working to reduce the number of non-executive directors on the Board of Directors of SHL from 8 to 5, which we would expect to occur soon after the AGM.

As I have mentioned previously, this sale is the culmination of many years of hard work by our Board and the management and employees of the Company, and we are very pleased with the final terms of the sale. We are equally pleased to be working with GoldenTree, a large and highly-respected asset management firm, on this transaction.

While negotiating a strong deal for our shareholders has been our focus in the sale process, we have continued to focus on our core business.

Under the terms of our reinsurance arrangement with Assured Guaranty, we are able to take steps to remove ourselves and substitute Assured Guaranty in our place as primary insurer, which would simplify the administration of the policies and provide the beneficiaries of those policies direct contractual privity with a primary insurer whose financial strength is rated. Since the closing of the reinsurance transaction, we have been working on a variety of fronts to effect this process for the reinsured policies, which is commonly referred to as a novation. For a novation to be effective, the policyholder has to provide its consent. We have worked with trustees who are the policyholders to file trust instruction proceedings (or TIPs) to obtain an order

that would direct the trustee to consent to the novation on behalf of the related bondholders. Three orders directing three Trustees to consent to the novation have been issued in connection with approximately one billion dollars of par outstanding. We are working on additional TIPs with a trustee for an additional approximately one billion dollars net par outstanding, and hope to file those TIPs in the first quarter of 2020. We continue to identify and encourage additional trustees to pursue TIPs on behalf of the related bondholders.

For a number of large transactions that do not qualify for a TIPs proceeding due to structure or jurisdiction, we are working with the parties to the transaction to obtain the appropriate consent to effect a novation of the related policy.

We have made progress on transactions that do not qualify for TIPs proceedings, having terminated or novated reinsured policies in excess of one billion dollar net par outstanding in the last quarter.

With that, I would like to turn the call over to David Grande to discuss our third quarter 2019 financial performance

David Grande: Thanks, Fred.

To begin, I'd first like to describe a significant update to the presentation of our SHL consolidated GAAP financial statements. This quarter, as a result of the agreement to sell SGI to Star Insurance, the company concluded that it has met all of the GAAP accounting criteria to present SGI as held-for-sale on the SHL consolidated balance sheet, and the results of SGI as discontinued operations in the SHL consolidated statements of operations. As a result of this update, all of the assets and liabilities related to the business classified as "held-for-sale" and all of the "loss from discontinued operations" are now being presented as single line item amounts.

The benefit of this new presentation is greater transparency for the users of our financial statements as to the assets and liabilities that will not be going

over to Star Insurance as a result of the sale, as well as the income being generated from those assets.

In addition, management has discontinued the issuance of its quarterly financial highlights deck which primarily consisted of supplemental GAAP, non-GAAP and insured exposure information. Given the pending sale of SGI, this information is no longer relevant to the users our financial statements.

Turning now to the financial results for the period:

Overall, for the nine months ended September 30, 2019, we had a GAAP net loss attributable to SHL of 97.7 million dollars or a loss of 1 dollar and 96 cents per common share, as compared to a net loss of 19.3 million or a loss of 22 cents per common share for the same period last year. Please note that for purposes of our calculation of loss per share for 2019, net loss is increased by 73 million dollars for the accounting effect related to the purchases of the Series B preferred shares made in January and June.

Of the net loss of 97.7 million dollars however, 88.4 million related to a loss from discontinued operations which included a 132.7 million dollar impairment loss representing the difference between the book value of the net assets to be sold and the agreed upon purchase price of 429 million dollars. Given the fixed purchase price with Star Insurance, any future income or loss on the assets being sold will not inure to the benefit of SHL's common shareholders, but rather will be offset by either an increase or decrease to the impairment loss until closing of the transaction.

In addition, before I turn to the specific financial movements for the period, I want to highlight that the book value and book value per share of the net assets not being held-for-sale at September 30, 2019 was 36.2 million dollars and 42 cents, respectively. And again, the update to our financial statement presentation significantly improves the transparency of the assets and liabilities that will be retained after the sale of SGI.

Turning now to the key drivers of our loss from continuing operations, there are three items that I want to quickly highlight for the period:

First, fee revenue, which represents the consulting and advisory fees earned by Swap Financial, increased by 800 thousand dollars to 4.2 million dollars for the nine months ended September 30, 2019 from 3.4 million for the same period last year. The increase was primarily due to higher deal volume.

Second, other income decreased by 10.5 million dollars to 500 thousand dollars, as the prior period included a gain from the monetization of a Detroit real estate development option. We currently have one material real estate development option remaining, but carry this asset at zero on our balance sheet given its contingent nature.

Third, in connection with the sale process, during the third quarter, management made an assessment that it was more likely than not that the intangible assets related to the goodwill and trademark of Swap Financial were impaired. This assessment was made after incorporating information obtained from the sale process of SGI and resulted in a 1.9 million dollar write-off of the entire goodwill balance and a 900 thousand dollar write-down of the trademark.

And then **lastly**, operating expenses were 11.1 million dollars for the nine months ended September 30, 2019, as compared to 4.8 million dollars for the same period last year. The increase was primarily due to a one-time board of director incentive plan payment made in the first quarter, as well as from certain sale-related expenses incurred to-date.

Although not yet reflected in our financial statements, I also want to mention two subsequent events which took place after September 30th.

The **first** was that on November 12th, SGI made another purchase of 3.0 million dollar par of Twin Reefs preferred securities for approximately 2.3 million dollars. In connection with the sale agreement for SGI, this

transaction will result in a purchase price increase of 375 thousand dollars to Syncora.

The **second**, as Fred mentioned, was that on November 8th, Pike Pointe sold its interest in an infrastructure asset for 2.0 million in cash. This asset will be recorded as other income in the fourth quarter of 2019 as part of continuing operations.

With that, let me turn the call back over to Scott.

Scott Beinhacker: Thank you, David, and thanks, everyone, for joining us on the call. We look forward to talking to you again after the release of our year end 2019 financial statements.

In the meantime, if you have any questions, please feel free to reach out to me at (212) 478-3400 or through our dedicated Investor Relations e-mail, investorrelations@scafg.com. A transcript and replay of this call will be available on our website later today. Thank you all for listening.

Operator: Thank for participating in today's conference, you may now disconnect.

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