Syncora Capital Assurance Inc.

Statutory Basis Financial Statements
Years Ended December 31, 2015 and 2014
With Independent Auditor's Report

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December 31, 2015 and 2014

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Independent Auditor's Report

To the Board of Directors of Syncora Capital Assurance Inc.:

We have audited the accompanying statutory financial statements of Syncora Capital Assurance Inc. (the "Company"), which comprise the statutory statements of admitted assets, liabilities and capital and surplus as of December 31, 2015 and 2014, 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.

Auditor's 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 3 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 3 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, 2015 and 2014, or the results of its operations or its cash flows for the years then ended.

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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 capital and surplus of the Company as of December 31, 2015 and 2014, 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 3.

Emphasis of Matters

As discussed in Note 2 to the financial statements, the Company is exposed to certain significant risks and uncertainties that affect its ability to maintain adequate regulatory capital and liquidity. Management's ongoing strategic plan to mitigate these risks and uncertainties is also described in Note 2 to the financial statements.

As discussed in Note 3 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 a case reserve, (iii) to value surplus notes issued by the Company in connection with its initial capitalization at face value , and (iv) de-recognize reserves for unpaid losses, unearned premium reserves and contingency reserves for credits deemed effectively defeased or in-substance commuted. As of December 31, 2015 and 2014, these permitted practices resulted in an increase to statutory surplus of $508.1 million and 462.0 million, over what it would have been without these permitted practices.

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 and Reinsurance Attestation Supplement (collectively, the "supplemental schedules") of the Company as of December 31, 2015 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, 2016

Syncora Capital Assurance Inc.
Statements of Admitted Assets, Liabilities and Capital and Surplus
December 31, 2015 and 2014

(U.S. Dollars in thousands, except share amounts)	2015	2014
Admitted Assets		
Bonds, at amortized cost (fair value: $362,846 and $400,778)	$ 363,341	$ 386,454
Preferred stocks, at amortized cost (fair value: $2,599 and $3,692)	2,599	3,653
Common stocks, at fair value	18,390	20,750
Cash, cash equivalents and short-term investments (fair value: cash $11,008 and $2,671; cash equivalents $57,886 and $54,351; and short-term investments $4,066 and $6,047)	72,960	63,074
Other invested assets	5,448	4,904
Total cash and invested assets	462,738	478,835
Deferred tax asset	2,793	3,134
Premiums receivable	1,134	1,656
Accrued investment income	2,190	2,804
Receivables from parent and affiliates	-	3,165
Other assets	50	5,569
Total admitted assets	$ 468,905	$ 495,163
Liabilities and Capital and Surplus		
Liabilities		
Unearned premium revenue, net	$ 163,483	$ 216,723
Unpaid losses and loss adjustment expenses	40,334	21,935
Mandatory contingency reserve	62,253	85,421
Payables to parent and affiliates	10,155	5,746
Other liabilities	572	841
Total liabilities	276,797	330,666
Capital and surplus		
Common stock (par value $1,000 per share; 2,500 shares authorized; 2,500 shares issued and outstanding)	2,500	2,500
Surplus notes	200,000	200,000
Additional paid-in capital	219,000	219,000
Accumulated deficit	(229,392)	(257,003)
Total capital and surplus	192,108	164,497
Total liabilities and capital and surplus	$ 468,905	$ 495,163

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

Syncora Capital Assurance Inc.
Statements of Operations and Changes in Capital and Surplus
Years Ended December 31, 2015 and 2014

(U.S. Dollars in thousands)	**2015**	**2014**
Underwriting		
Net premiums written	$ 11,689	$ 15,292
Change in unearned premium revenue	53,241	37,717
Net premiums earned	64,930	53,009
Deductions		
Net losses and loss adjustment expenses incurred	35,872	43,869
Underwriting expenses	22,145	20,005
Total deductions	58,017	63,874
Net underwriting gain (loss)	6,913	(10,865)
Investment Income		
Net investment income	4,499	9,701
Net realized capital gains (losses), including income tax expense (benefit) of $0 and $(397)	891	(67,728)
Net investment income (loss)	5,390	(58,027)
Other Income		
Fees and other income	281	268
Total other income	281	268
Income (loss) before federal income tax expense	12,584	(68,624)
Current federal income tax expense	8,011	5,714
Net income (loss)	$ 4,573	$ (74,338)
Capital and Surplus		
Capital and surplus, beginning of period	$ 164,497	$ 186,462
Net income (loss)	4,573	(74,338)
Net unrealized capital (losses) gains	(197)	255
Net deferred income taxes	(447)	(70,803)
Change in non-admitted assets	514	72,503
Change in paid in capital	-	30,000
Change in mandatory contingency reserve	23,168	20,418
Change in capital and surplus for the year	27,611	(21,965)
Capital and surplus, end of year	$ 192,108	$ 164,497

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

Syncora Capital Assurance Inc.
Statements of Cash Flows
Years Ended December 31, 2015 and 2014

(U.S. Dollars in thousands)	2015	2014
Cash from Operations		
Premiums collected, net of reinsurance	$ 12,212	$ 15,173
Underwriting expenses paid	(22,007)	(20,023)
Net investment income collected	7,489	7,768
Miscellaneous sources	5,784	268
Benefits and loss related payments	(17,383)	(91,871)
Federal income taxes paid	(3,381)	(6,680)
Net cash used in operations	(17,286)	(95,365)
Cash from Investments		
Proceeds from bonds sold, matured or repaid	207,727	233,415
Proceeds from preferred and common stocks sold	1,015	50
Proceeds from other invested assets	1,285	161
Bonds acquired	(183,252)	(194,779)
Common stocks acquired	(650)	(4,877)
Other invested assets acquired	(2,428)	(473)
Net cash provided by investments	23,697	33,497
Cash from Financing and Miscellaneous Sources		
Capital contribution	-	30,000
Other cash provided by (used in) financing and miscellaneous sources	3,475	(3,309)
Net cash provided by financing and miscellaneous sources	3,475	26,691
Net change in cash, cash equivalents and short-term investments	9,886	(35,177)
Cash, cash equivalents and short-term investments, beginning of year	63,074	98,251
Cash, cash equivalents and short-term investments, end of year	$ 72,960	$ 63,074

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

1. Organization and Ownership

Syncora Capital Assurance Inc. (the "Company") was incorporated on April 1, 2009, became a New York domiciled financial guarantee insurance company on July 14, 2009 and commenced its operations on July 15, 2009. The Company is a wholly-owned subsidiary of Syncora Guarantee Inc. ("Syncora Guarantee"), which also is a New York domiciled financial guarantee insurance company. The Company was formed by Syncora Guarantee, in connection with its restructuring under the Master Transaction Agreement (hereafter referred to as the "2009 MTA"), for the sole purpose of: (i) reinsuring certain guarantees of public finance and global infrastructure debt obligations written by Syncora Guarantee, and (ii) assuming, through novation, certain guarantees written by Syncora Guarantee of non-public finance debt obligations and obligations of affiliates under credit default swap contracts ("CDS contracts"). Syncora Guarantee capitalized the Company with $541.5 million, consisting of cash and invested assets, in exchange for 100% of the Company's common stock and two surplus notes in the aggregate principal amount of $350.0 million as more fully described in Note 5. The Company is prohibited from writing new business and, therefore, does not intend to seek to obtain licenses to transact new insurance business in any other state or jurisdiction.

Financial guarantee insurance provides an unconditional and irrevocable guarantee to the holder of a debt obligation of full and timely payment of the guaranteed principal and interest. In the event of a default under the obligation, the insurer has recourse against the issuer and 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.

Description of the Transactions Comprising the 2009 MTA

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

(1) 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) or issuing equity securities; and

(2) the Company and Syncora Guarantee 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).

On August 24, 2015, the Company and Syncora Guarantee executed certain amendments to the 2009 MTA to, among other things, reduce the requisite consenting percentages for future amendments to 50% by value from 75% by vote and value; bifurcate voting between Company-only matters and Syncora Guarantee-only matters. 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.

2. Description of Continuing Risks and Uncertainties and Description of the Company's On-Going Strategic Plan

The Company is exposed to significant risks and uncertainties that may materially and adversely affect its results of operations, financial condition and liquidity position. These relate to, among other things, the Company's (i) limited policyholders' surplus and (ii) significant exposures to public finance transactions, structured single risk and collateralized debt obligations, all of which pose a risk of material adverse development (the extent of which is unknown as is the effect, if any, on potential claim payments and the ultimate amount of losses the Company may incur on obligations it has guaranteed). These risks and uncertainties are more fully discussed below.

As the Company has policyholders' surplus of $192.1 million as of December 31, 2015, should the Company experience material adverse developments in respect of its exposures, the Company could fall below the statutory minimum surplus to policyholders of $66.0 million or report a policyholders' deficit. See Note 10 "Schedule of Insured Financial Obligations with Credit Deterioration" for further discussion. The Company may experience significant adverse development on its insured obligations that may place further demands on the Company's liquidity and surplus. The Company cannot provide any assurance that, were it to experience further adverse loss and claims development, the NYDFS would not take regulatory action, which may include commencement of rehabilitation or liquidation proceedings.

- The Company has significant exposure to public finance transactions (including specifically Puerto Rico), which pose a risk of material adverse development, including but not limited to event driven developments, such as adverse outcomes or rulings in bankruptcy proceedings, political, operational, legal and regulatory actions, over which the Company has no control. Such adverse developments could have a material adverse effect on the Company's liquidity and financial position, on the Company's estimate of reserves for losses, and on the various assumptions underlying such reserves for losses. Under certain conditions, many of which are outside the Company's control, these exposures to public finance transactions may result in significant increases in claims beyond that assumed in the Company's current reserve estimate, which could have a material adverse effect on the Company's liquidity and financial position.

- As of December 31, 2015, the Company has $323.7 million of net exposure to Puerto Rico (excluding interest outstanding of $75.8 million), which includes reinsurance of bond policies and direct investments by the Company as a result of remediation transactions, consisting predominantly of bonds issued by the Puerto Rico Electric Power Authority ("PREPA") of $183.5 million (excluding interest outstanding of $48.5 million) and general obligation bonds of the Commonwealth of Puerto Rico (the "Commonwealth") of $133.9 million (excluding interest outstanding of $21.7 million).

  PREPA's access to liquidity was adversely affected when the Government Development Bank for Puerto Rico announced in 2014 that it would no longer extend loans to certain public corporations such as PREPA, for which there is not a demonstrated ability to repay. In June 2014, the Commonwealth enacted the Puerto Rico Public Corporation Debt Enforcement and Recovery Act ("Recovery Act"), which created a legal framework for public corporations such as PREPA to restructure. On February 6, 2015, the Act was ruled unconstitutional by the District Court for the District of Puerto Rico, a decision that was upheld by the First Circuit Court of Appeals on July 7, 2015. The Commonwealth has since appealed the case to the U.S. Supreme Court. Several bills have also been proposed in the U.S. Congress to allow Puerto Rico's municipalities and public corporations to file for Chapter 9 bankruptcy protection under the Federal Bankruptcy Code. These proposals include a so-called "Super Chapter 9" proposal which would allow the Commonwealth of Puerto Rico to restructure its debts as well as those of its municipalities.

On August 14, 2014, Syncora Guarantee, other financial guarantors and certain bondholders entered into a forbearance agreement with PREPA, which provided that, among other things, the forbearing creditors agree not to exercise remedies until March 31, 2015. The forbearance agreement has been amended multiple times, extending the forbearance termination date to September 18, 2015. The bondholders have continued to extend their forbearance agreement with PREPA without the participation of Syncora Guarantee and the other financial guarantors.

On September 2, 2015, PREPA announced that it had developed a Recovery Plan Term Sheet with an ad hoc group of bondholders, and on September 22, 2015, PREPA announced that it had reached an agreement in principle with its bank lenders, in each case to restructure the related debt held by those creditor groups. On November 5, 2015, PREPA entered into a restructuring support agreement with the ad hoc bondholder group and the bank lenders formalizing the previously announced economic terms. On December 23, 2015, PREPA entered into the Amended and Restated Restructuring Support Agreement (the "RSA"), which added the terms of a restructuring of the bonds insured by National Public Finance Guarantee Corporation ("National") and Assured Guaranty Municipal Corp. ("Assured"). Under the RSA, Syncora Guarantee and PREPA agreed to negotiate a restructuring of the bonds insured by Syncora Guarantee by January 22, 2016, subject to the approval of the ad hoc bondholder group, the bank lenders, National and Assured. On January 27, 2016, the parties entered into a new restructuring support agreement on terms substantially similar to the RSA, which, among other things, extended the January 22, 2016 deadline. Legislation authorizing the implementation of the recovery plan was enacted into law on February 16, 2016. The recovery plan is subject to the assignment of an investment grade rating to the restructuring bonds and other conditions precedent.

There is significant risk and uncertainty related to PREPA's ability to implement the recovery plan and the terms of the restructuring of the bonds insured by the Company as well as the effect on PREPA of Puerto Rico's weak economy, high debt load and limited liquidity. As a result of these risks and uncertainties, the Company may experience losses on its insured exposure to Puerto Rico which could have a material adverse effect on the Company's surplus, liquidity and financial position.

- The Company issued policies insuring interest rate swaps with respect to the City of Detroit that has an estimated mark to market value of $51.4 million at December 31, 2015. If these swaps are deemed terminated by the swap counterparty, as the Company contends, the Company's policy exposure is capped at $13.5 million. The swap counterparty disputes the Company's position the swaps have been terminated. The Company is in settlement discussions with the swap counterparty, and as a result of the uncertainty with respect to the resolution of such dispute, the Company remains at risk of loss on these policies, which loss could have a material and adverse effect on the Company's financial position.

- Many municipalities that issue some of the obligations the Company insures have experienced significant budget deficits and revenue collection shortfalls that require them to significantly raise taxes and/or cut spending in order to satisfy their obligations. If the issuers of the obligations in the Company's public finance portfolio do not have sufficient funds to cover their expenses, are unable to access the capital markets and are unable or unwilling to raise taxes, decrease spending or receive state, federal and other assistance, the Company may experience increased levels of losses or impairments on its public finance obligations, which could materially and adversely affect its business, financial condition and results of operations.

- The Company's estimate of reserves for losses on its exposures is based on certain assumptions. 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 estimates (that may or may not result in an increase in such loss reserves) in the near to medium term.

- Changes in laws and regulations or the adoption of new laws affecting insurance companies, the municipal and structured securities markets, the frequency with which municipalities file for protection under Chapter 9 of the bankruptcy code or similar insolvency laws and the loss severities associated therewith, the financial guarantee insurance and reinsurance markets and the credit derivatives markets, as well as other governmental regulations, may subject the Company to additional legal liability, affect the credit performance of the securities that the Company insures and otherwise affect the Company's financial condition. In June 2014 for example, Puerto Rico passed the aforementioned Recovery Act, a law establishing a formal debt modification and "recovery program" process as well as a bankruptcy-like "debt enforcement" process for government agencies like the PREPA. In February 2015, however, the Puerto Rico Recovery Act was ruled unconstitutional by a federal court in Puerto Rico, which ruling was recently upheld by the First Circuit Court of Appeals. The case has been appealed to the Supreme Court of the United States. Several bills have also been proposed in the US Congress to allow Puerto Rico's municipal entities and public corporations to file Chapter 9 bankruptcy under the Federal Bankruptcy Code.

- 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 by management, including estimates regarding the likelihood of occurrence and amount of a loss on a guaranteed 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 and, in certain cases, will occur over many years in the future. Examples of these events include changes in the level of interest rates (including the shape of the forward interest rate curve), credit deterioration of guaranteed obligations, recoveries in bankruptcy proceedings and changes in the value of specific assets supporting guaranteed obligations. Both qualitative and quantitative factors are used in making 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.

- Any payment of principal or interest on the Company's surplus note obligations (all of which are currently held by Syncora Guarantee unless monetized by Syncora Guarantee as permitted by the MTA amendments) (see Note 1) is subject to risks and uncertainties, including, without limitation, prior regulatory approval by the NYDFS and compliance with certain contractual restrictions. Consequently no assurance can be given as to whether or when any payment of interest or principal on such surplus note, in whole or in part, may be made, from the Company to Syncora Guarantee.

- In addition to exposure to general economic factors including stress in the energy sector, the Company is exposed to the specific risks faced by the particular businesses, municipalities or pools of assets covered by its financial guarantee products. 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 the Company and the Company may incur material losses due to these exposures if the economic stress caused by these events is more severe than the Company currently foresees. Other events, such as interest rate changes or volatility, could, in certain instances, also materially affect the Company or its insured obligations.

- Through its guarantees of certain Collateralized Debt Obligations ("CDOs"), the Company is indirectly exposed to refinancing risk associated with debt obligations held or referenced in these portfolios. The underlying asset types for which refinancing risk is a factor primarily include US Collateralized Loan Obligations ("CLOs"), European CLOs and Commercial Mortgage-Backed Securities CDOs ("CMBS CDOs). The Company is also exposed to large refinancing risks in the remainder of its insured and reinsured portfolio. These transactions were entered into with the assumption that they 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.

- In addition, obligations supported by specified revenue streams, such as revenue bonds issued by toll road authorities, municipal utilities or airport authorities, may be adversely affected by revenue declines resulting from reduced demand, changing demographics or other factors associated with an economy in which unemployment remains high, housing markets have not yet stabilized and growth is slow. These obligations, which may not necessarily benefit from financial support from other tax revenues or governmental authorities, may also experience increased losses if the revenue streams are insufficient to pay scheduled interest and principal payments.

- 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 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 further deteriorate, causing these securities to incur losses.

- The Company continues to be materially exposed (directly and indirectly) to risks associated with the financial condition of other financial guarantors, including the placement of a financial guarantor into rehabilitation or liquidation. Such exposure may arise as a result of (i) direct contractual dealings with a financial guarantor such as reinsurance (whether as ceding company or reinsurer) or (ii) indirectly by means of (a) "wrapping over" another financial guarantor (which exposes the Company to the credit risks of the insured transaction directly) or (b) participating in an insured transaction with such other financial guarantor (where such rehabilitation or liquidation could have an effect on the insured transaction or the rights and remedies available to the Company). The precise effects of any such rehabilitation or liquidation are unknown, as is the effect, if any, on potential claim payments and the ultimate amount of losses the Company may incur on obligations it has guaranteed and such effects may be materially adverse to the Company's financial position.

- 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 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 3 for discussion of permitted accounting practices.

- Notwithstanding the amendment to the MTA obtained by the Company on August 24, 2015, as discussed in Note 1, 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.

- The Company and Syncora Guarantee entered into an intercompany capital support agreement whereby Syncora Guarantee has agreed to purchase up to $100 million of additional Syncora Capital Assurance surplus notes if the Company'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 Syncora Guarantee'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 Syncora Guarantee's liquidity, exacerbate Syncora Guarantee's potential "liquidity mismatch" and otherwise have a material adverse effect on Syncora Guarantee's liquidity position. Accordingly, there can be no assurance that Syncora Guarantee will have sufficient surplus to purchase the surplus notes if needed by the Company.

- 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.

Description of the Company's On-Going Strategic Plan

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) continue to discuss and explore ways of further increasing its financial and operating flexibility with existing security holders and other interested parties, including additional amendments, removal, modification and/or waiver of financial, operating and other contractual constraints (see Note 1 for a description of key remaining constraints) and (iii) take other actions to enhance its financial, liquidity, capital and surplus position (hereafter collectively referred to as "Strategic Actions").

In regard to the Strategic Actions, the Company, working with its external advisors, is actively pursuing or exploring a number of options available to it which, individually or in the aggregate, may materially affect (favorably or adversely) the Company's policyholders' surplus, liquidity position or address other challenges that the Company faces. No assurances can be given that the Company will be successful in completing any of the aforementioned actions. Moreover, transactions contemplated by the Strategic Actions may not be feasible or economically viable or ultimately be successful in creating value. Furthermore, certain of the Strategic Actions contemplated by the Company 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.

3. Summary of Significant Accounting Policies

Accounting Practices

The Company prepares its statutory basis financial statements in accordance with accounting practices prescribed or permitted by the New York State Department of Financial Services (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 net income (loss) and capital and surplus 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, 2015 and 2014:

(U.S. Dollars in thousands)

	Net Income (Loss)		Capital and Surplus	
Description	**2015**	**2014**	**2015**	**2014**
NAIC SAP Basis	$ (27)	$ (180,727)	$ (315,995)	$ (297,508)
Effect of NY prescribed practices				
(a)	-	-	-	-
Effect of NY permitted practices				
(b)	-	-	352,657	311,160
(c)	-	-	-	-
(d)	4,600	106,389	155,446	150,845
NY Basis	$ 4,573	$ (74,338)	$ 192,108	$ 164,497

Permitted or Prescribed Practices

(a) Pursuant to certain prescribed accounting practices under Articles 14 and 69 of the New York Insurance Law ("NYIL") that differ with those found in NAIC SAP, the admissible carrying value of investments in certain securities including Uninsured Cash Flow Certificates are subject to limitations. In connection with remediation efforts, the NYDFS permitted the Company to admit the Uninsured Cash Flow Certificates 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, 2015 and December 31, 2014, the Company has de-recognized $352.7 million and $311.2 million, respectively, in the aggregate, of contingency reserves on terminated policies, and policies on which the Company has established case basis 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. In addition to the foregoing, the Company releases contingency reserves based on a methodology pursuant to a permitted practice granted by the NYDFS.

(c) The NYDFS granted the Company a permitted practice to value the surplus notes issued by the Company in connection with its initial capitalization (as described in Note 5) at face value, as compared to the estimated fair value thereof, that the Company would otherwise have been required to reflect such surplus notes at in accordance with NAIC SAP. In accordance with NAIC SAP, the capitalization of the Company must be attributed to the instruments issued by the Company for such capital based on their relative fair values. Any adjustment to the carrying value of surplus notes would result in an equal and offsetting adjustment to accumulated deficit. As both surplus notes and accumulated deficit are elements of capital and surplus, a change in the value of the surplus notes would not affect capital and surplus.

(d) The NYDFS granted the Company a permitted practice to de-recognize reserves for unpaid losses, unearned premium reserves and contingency reserves relating to, and expense payments (which are reflected in "Net losses and loss adjustment expenses incurred" on Statements of Operations and Changes in Capital and Surplus ("Statements of Operations")) made to effect, certain transactions 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 of all rights under the aforementioned policies. As of December 31, 2015, such de-recognized reserves for unpaid losses, unearned premium reserves and contingency reserves (as of the date of the effective defeasance or, in-substance commutations) aggregated $140.5 million, $13.2 million and $1.8 million, respectively. As of December 31, 2014, such de-recognized reserves for unpaid losses, unearned premium reserves and contingency reserves (as of the date of the effective defeasance or, in-substance commutations) aggregated $135.9 million, $13.2 million and $1.8 million, respectively.

The Company has obtained confirmation of these permitted practices as of December 31, 2015 and 2014 and plans to seek annual confirmation of these permitted practices for the year ended December 31, 2016.

Use of Estimates

The preparation of financial statements in conformity with NAIC SAP 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, the Company 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. The Company employs a third party investment accounting service provider. Prepayment assumptions for loan-backed and structured securities are obtained from a third party pricing service or determined using the Company's internal estimates.

The following table presents the carrying value of the Company's securities by NAIC designation at December 31, 2015:

(U.S. Dollars in thousands)

	Bonds	Short-term investments	Cash equivalents	Total
NAIC designation 1	$ 216,207	$ 4,066	$ 57,886	$ 278,159
NAIC designation 2	68,686	-	-	68,686
NAIC designation 3	13,196	-	-	13,196
NAIC designation 4	-	-	-	-
NAIC designation 5	8,440	-	-	8,440
NAIC designation 6	56,812	-	-	56,812
	$ 363,341	$ 4,066	$ 57,886	$ 425,293

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 date of purchase, but less than one year to maturity. Fair values for such investments approximate carrying value.

Preferred Stocks and Common Stocks

Perpetual preferred stocks with an NAIC designation of P1 and P2 (highest-quality and high-quality) are carried at fair value while perpetual preferred stocks with an NAIC designation of P3 through P6 (medium quality, low quality, lowest quality and in or near default) are carried at the lower of cost or fair value. Redeemable preferred stocks with an NAIC designation of RP1 and RP2 (highest-quality and high-quality) are carried at amortized cost while redeemable preferred stocks with an NAIC designation of RP3 through RP6 (medium quality, low quality, lowest quality and in or near default) are carried at the lower of amortized cost or fair value. All common stocks are carried at fair value.

Limited Partnerships

The Company accounts for its investments in limited partnerships based on the underlying GAAP equity value.

Net Investment Income

Net investment income includes interest and dividends on investments. It also includes amortization of any purchase premium or discount using the effective interest 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 and interest expense on the Company's surplus note. 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

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.

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. Gross premiums earned by the Company for the years ended December 31, 2015 and 2014 were $34.6 million and $12.8 million, 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, the Company 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

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, 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 statements over a prescribed time period based on the type of business. Reductions in the contingency reserve may be recognized under certain stipulated conditions, subject to the approval of the NYDFS.

The amount of net contingency reserve was $62.3 million and $85.4 million at December 31, 2015 and 2014, respectively.

Losses and Loss Adjustment Expenses

Reserves for losses and loss adjustment expenses on insured business are established by the Company 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 the Company will incur can be reasonably estimated. The amount of such case basis reserve is based on the present value of the expected future net cash outflows for loss and loss adjustment expense payments that the Company expects to make, net of the present value of future installment premiums and expected recoveries under salvage and subrogation rights. The future expected net 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 weighted average return on the Company’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 the Company’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 losses and loss adjustment expenses in the accompanying Statements of Admitted Assets, Liabilities and Capital and Surplus are reflected net of reinsurance, if any.

Credit Default Swap Contracts

The Company accounts for its insurance of CDS contracts issued by trusts as insurance.

Reinsurance

Reinsurance premiums ceded are earned on a basis consistent with premiums written on a direct basis as discussed above. The Company 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 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

The Company files a consolidated tax return with its parent company and certain other affiliates (see Note 11). 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 the Company'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. Federal tax amounts payable and/or receivable in the accompanying financial statements represent amounts due to and/or from Syncora Holdings US Inc.

The Company 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.

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. Non-admitted assets at December 31, 2015 and 2014 were $0 and $0.5 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.

4. 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.

One bond with an amortized cost of $0.5 million and a fair value of $0.5 million at December 31, 2015 was on deposit with the State of New York as required by the NYDFS.

In connection with remediation efforts, the Company directly purchased certain securities that it had insured in return for trust certificates representing the uninsured cash flows of such securities (Uninsured Cash Flow Certificates). At December 31, 2015 and 2014 the carrying value of the Uninsured Cash Flow Certificates were approximately $57.4 million ($57.4 million fair value), and $34.0 million ($34.0 million fair value), respectively, which are included under the captions "Obligations of states, territories and possessions" and "Special revenue and assessment obligations" in the following tables.

The amortized cost and fair value for bonds as of December 31, 2015 and 2014 are as follows:

(U.S. Dollars in thousands)	**Cost or Amortized Cost**		**Gross Unrealized Gains**		**Gross Unrealized Losses**		**Fair Value**	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Bonds								
U.S. Government and government agencies and authorities	$ 46,155	$ 25,035	$ 337	$ 583	$ (243)	$ (2)	$ 46,249	$ 25,616
Non-U.S. government obligations	-	-	-	-	-	-	-	-
Obligations of states, territories and possessions	28,634	14,251	-	233	-	-	28,634	14,484
Obligations of political subdivisions	-	1,344	-	256	-	-	-	1,600
Special revenue and assessment obligations of agencies and authorities of government and political subdivisions	119,560	102,649	1,493	4,616	(937)	(158)	120,116	107,107
Industrial and miscellaneous obligations	168,992	243,175	1,727	10,457	(2,872)	(1,661)	167,847	251,971
Total bonds	$ 363,341	$ 386,454	$ 3,557	$ 16,145	$ (4,052)	$ (1,821)	$ 362,846	$ 400,778

The amortized cost and fair value of bonds at December 31, 2015 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.

	2015	
(U.S. Dollars in thousands)	**Amortized Cost**	**Fair Value**
Within one year	$ 13,855	$ 13,873
Due after one year through five years	71,198	71,556
Due after five years through ten years	97,187	96,879
Due after ten years	46,914	47,224
Subtotal	229,154	229,532
Mortgage-backed securities	134,187	133,314
Total	$ 363,341	$ 362,846

Proceeds from sales, maturities and redemptions of bonds for the years ended December 31, 2015 and 2014 were $207.7 million and $233.4 million, respectively.

Net investment income for the years ended December 31, 2015 and 2014 consisted of the following:

(U.S. Dollars in thousands)	**2015**	**2014**
Bonds		
U.S. Government and government agencies and authorities	$ 615	$ 712
Non-U.S. Government obligations	-	12
Obligations of states	1,775	588
Obligations of political subdivisions	69	74
Special revenue and assessment obligations of agencies and authorities of government and political subdivisions	4,834	9,011
Industrial and miscellaneous obligations	8,705	10,898
Cash, cash equivalents and short-term investments	21	71
Subtotals	16,019	21,366
Stocks		
Preferred stocks	258	258
Common stocks	749	670
Subtotals	1,007	928
Other invested assets	116	94
Less:		
Investment expenses	(476)	(520)
Interest expense on surplus note	(12,167)	(12,167)
Net investment income	$ 4,499	$ 9,701

The gross realized gains and gross realized losses for the years ended December 31, 2015 and 2014, before provision (benefit) for income taxes of $0 million and $(0.4) million, respectively, are as follows:

(U.S. Dollars in thousands)	**Gains**		**Losses**	
	2015	**2014**	**2015**	**2014**
Bonds	$ 9,563	$ 9,818	$ (5,459)	$ (77,942)
Preferred stocks	5	-	-	-
Common stocks	(35)	-	(3,183)	-
Short-term investments	-	1	-	(2)
Total gross realized gains (losses), before tax	$ 9,533	$ 9,819	$ (8,642)	$ (77,944)
Income tax (benefit) expense			-	(397)
Net realized capital gains (losses)			$ 891	$ (67,728)

For the years ended December 31, 2015 and 2014, the Company recorded other-than-temporary impairment charges of $7.9 million and $77.1 million, respectively, which are included in net realized capital losses on the Statements of Operations and Changes in Capital and Surplus.

The following tables present the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2015 and 2014:

(U.S. Dollars in thousands)	2015					
	Less than 12 months		12 months or more		Total	
Description of securities	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Government and government agencies and authorities	$ 30,307	$ (242)	$ 68	$ (1)	$ 30,375	$ (243)
Special revenue and assessment obligations of agencies and authorities of government and political subdivisions	47,813	(937)	-	-	47,813	(937)
Industrial and miscellaneous	80,124	(1,659)	22,458	(1,213)	102,582	(2,872)
Total temporarily impaired bonds	$ 158,244	$ (2,838)	$ 22,526	$ (1,214)	$ 180,770	$ (4,052)

(U.S. Dollars in thousands)	2014					
	Less than 12 months		12 months or more		Total	
Description of securities	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Government and government agencies and authorities	$ -	$ -	$ 74	$ (1)	$ 74	$ (1)
Special revenue and assessment obligations of agencies and authorities of government and political subdivisions	1,906	(3)	15,102	(155)	17,008	(158)
Industrial and miscellaneous	47,356	(648)	26,227	(1,014)	73,583	(1,662)
Total temporarily impaired bonds	$ 49,262	$ (651)	$ 41,403	$ (1,170)	$ 90,665	$ (1,821)

Unrealized gains and losses are deemed to be temporary and result primarily from general interest rate movements. The number of securities in an unrealized loss position as of December 31, 2015 and 2014 was 122 and 59, respectively.

5. Information Concerning Parent and Affiliates

Capital Transactions

During July 2009, Syncora Guarantee capitalized the Company with $541.5 million, consisting of cash and invested assets, in exchange for 100% of the Company's common stock and two surplus notes in the original aggregate principal amount of $350.0 million. Additionally, on November 13, 2014, after approval from the NYDFS, Syncora Guarantee made a one-time capital contribution of $30.0 million to the Company, which increased the Company's surplus by such amount. See below for information regarding the outstanding surplus note issued to Syncora Guarantee.

Surplus Note

In connection with its initial capitalization, on July 15, 2009 the Company issued a surplus note with a face amount of $200.0 million to Syncora Guarantee in exchange for consideration, whose aggregate fair value on the date of issuance equaled the par value or face amount of the surplus note. Such consideration consisted of cash and invested assets. As of December 31, 2015, Syncora Guarantee continues to hold 100% of the aforementioned surplus note. This surplus note has a 6.00% interest rate and matures on June 27, 2024. As of both December 31, 2015 and 2014, the carrying value of this surplus note was $200.0 million. See below for further discussion regarding the intercompany capital support agreement between the Company and Syncora Guarantee.

Interest on the surplus note is 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, 2013. Thereafter, interest must be paid in cash through the maturity of the surplus note. Commencing on December 28, 2018, principal amortizes in twelve equal installments payable semi-annually on June 27th and December 28th through the maturity of the note.

Each payment of interest on (other than that paid-in-kind), or principal of, the surplus note is subject to restrictions under the 2009 MTA and may be made only 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. In December 2015, the Company sought approval for payment of interest on its surplus note and on December 21, 2015, the NYDFS approved such payment, which was made on December 28, 2015. During the years ended December 31, 2015 and 2014, the Company paid $12.2 million and $12.2 million of interest on its long-term surplus note.

In the event the Company is subject to liquidation or other such proceeding, policyholder claims would be afforded greater priority than that of the surplus noteholder, and the surplus noteholder's claims would be afforded greater priority than claims of the Company's stockholder.

Intercompany Capital Support Agreement

On August 24, 2015, the Company and Syncora Guarantee entered into an intercompany capital support agreement whereby the Company has the right to issue up to $100 million of additional surplus notes to Syncora Guarantee if the Company's surplus at the end of the prior quarter falls below $100 million or is projected to fall below $100 million at the end of the coming quarter, provided, that Syncora Guarantee's surplus as of the prior quarter is at least $100 million. These notes can be transferred to a third party.

Related Party Transactions

Net amounts due from/to related parties as of December 31, 2015 and 2014 were:

(U.S. Dollars in thousands)

	Due from		Due to	
	2015	**2014**	**2015**	**2014**
Syncora Guarantee Services	$ -	$ -	$ 5,058	$ 5,404
Pike Pointe Holdings, LLC	-	1,397	-	-
Syncora Guarantee	-	1,768	109	-
Syncora Holdings Ltd.	-	-	290	273
Syncora Holdings US Inc.	-	-	4,698	69
	$ -	$ 3,165	$ 10,155	$ 5,746

Reinsurance Agreements with Parent, Affiliates and Other Transactions

The Company had the following reinsurance agreements with affiliates:

On July 15, 2009, the Company and Syncora Guarantee entered into a quota share reinsurance agreement pursuant to which the Company assumed certain of Syncora Guarantee's public finance business and certain of its global infrastructure business (the "Public Finance Reinsurance Agreement") and under which Syncora Guarantee: (i) paid the Company $348.7 million, which was equal to Syncora Guarantee's unearned premium revenue on such business at July 15, 2009 of $422.7 million, net of a 17.5% ceding commission of $74.0 million, and (ii) assigned the Company all future installment premiums on such business, net of a 17.5% ceding commission. The reinsurance agreement contains certain cut-through provisions. In addition, as of July 15, 2009, the Company assumed contingency reserves on the business it reinsured under the Public Finance Reinsurance Agreement aggregating $97.1 million. For the years ended December 31, 2015 and 2014, the Company reported assumed premiums written from the Public Finance Reinsurance Agreement of $6.0 million and $6.1 million, respectively and assumed premiums earned from the Public Finance Reinsurance Agreement of $59.3 million and $43.8 million, respectively.

On July 15, 2009, the Company and Syncora Guarantee entered into an assumption reinsurance and novation agreement (the "CDS Novation Agreement") pursuant to which the Company assumed, through novation, certain of Syncora Guarantee's non-public finance and non-commuted policies on CDS contracts and under which Syncora Guarantee: (i) paid the Company $16.3 million, which was equal to Syncora Guarantee's unearned premium revenue on such business at July 15, 2009, and (ii) assigned the Company all future installment premiums on such business. In addition, as of July 15, 2009, the Company assumed contingency reserves on the business it assumed under the CDS Novation Agreement aggregating $98.4 million.

Syncora Guarantee issued back-up guarantees on the novated CDS policies which would cover claims on such policies, to the extent not satisfied by the Company, subject to certain limitations. The Company has no obligation to pay any premium to Syncora Guarantee with respect to its back-up guarantees of the novated CDS policies.

In connection with the Public Finance Reinsurance Agreement and the CDS Novation Agreement, the Company 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.

In regard to policies novated to the Company in connection with the CDS Novation Agreement, the Company is a party to insurance and indemnity agreements with various New York trusts formed by Syncora CDS LLC and Syncora Admin LLC, both affiliates of the Company. The Company guarantees timely payment of each trust's obligations under structured CDS issued by the related trust. The Company recorded net written premiums of $5.7 million and $9.3 million for the years ended December 31, 2015 and 2014, respectively, related to these agreements. The Company earned net premiums of $5.7 million and $9.3 million for the years ended December 31, 2015 and 2014, respectively, related to these agreements. The total net notional amount of these structured credit default swaps was $5.7 billion at December 31, 2015.

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"), an affiliated company, 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, 2015 and 2014, the Company incurred costs under such agreement in the amount of $18.0 million and $17.4 million, respectively.

Employee Benefit Plans

Syncora Holdings US Inc., (the U.S. intermediate parent holding company of the Company's ultimate parent) maintains 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. 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 the Company for services rendered by Syncora Guarantee Services. For the years ended December 31, 2015 and 2014, the Company incurred expenses of $0.6 million and $0.5 million, respectively, relating to employer contributions made to the aforementioned plans.

Other Transactions

See Note 11 for information regarding a tax sharing agreement and a related escrow agreement to which the Company is a party along with certain of its affiliates.

6. Net Premiums Earned

Premiums earned comprise:

(U.S. Dollars in thousands)

	Premiums Written		Change in Unearned Premium Revenue		Premiums Earned	
	2015	2014	2015	2014	2015	2014
Direct - non-affiliate	$ 5,764	$ 9,337	$ -	$ -	$ 5,764	$ 9,337
Assumed - affiliate	6,037	6,070	53,281	37,758	59,318	43,828
Ceded - non-affiliate	(112)	(115)	(40)	(41)	(152)	(156)
Net	$ 11,689	$ 15,292	$ 53,241	$ 37,717	$ 64,930	$ 53,009

7. Reinsurance

The Company utilizes reinsurance principally for risk management purposes. The Company's reinsurance arrangements included facultative quota share reinsurance treaties as discussed in Note 5. Reinsurance does not relieve the Company of its obligations under its policies of insurance. Accordingly, the Company is still liable under such policies even if any or all of the reinsuring companies are unable to meet their obligations to the Company or contest such obligations. The Company regularly monitors the financial condition of its reinsurers and believes that all reinsurance receivables and recoverables are fully collectible at December 31, 2015 and 2014.

At December 31, 2015 and 2014 the Company's ceded par exposure was $144 million and $145 million, respectively. At December 31, 2015 and 2014 the Company's ceded contingency reserve was $0.8 million and $0.7 million, respectively.

The maximum amount of return commission which would be due to cedant or (from) reinsurers if all reinsurance were cancelled with the return of the unearned premium revenue as of December 31, 2015 and 2014 is as follows:

(U.S. Dollars in thousands)

	Affiliate		Non-affiliate		Total	
	2015	2014	2015	2014	2015	2014
Assumed unearned premium revenue	$ 164,770	$ 218,051	$ -	$ -	$ 164,770	$ 218,051
Ceded unearned premium revenue	-	-	(1,312)	(1,352)	(1,312)	(1,352)
Net unearned premium revenue	$ 164,770	$ 218,051	$ (1,312)	$ (1,352)	$ 163,458	$ 216,699
Assumed commission equity	$ (28,835)	$ (38,159)	$ -	$ -	$ (28,835)	$ (38,159)
Ceded commission equity	-	-	342	352	342	352
Net commission equity	$ (28,835)	$ (38,159)	$ 342	$ 352	$ (28,493)	$ (37,807)

8. Outstanding Exposure and Collateral

As discussed in Note 1, the Company's in-force business consists of guarantees of debt obligations written by Syncora Guarantee that the Company has reinsured, as well as direct guarantees of CDS originally written by Syncora Guarantee, which the Company has assumed through novation. 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, 2015 and 2014, the Company's in force net total principal and interest exposure was $34.4 billion and $49.0 billion, respectively. The tables below reflect certain information regarding the Company's in-force principal and/or interest exposure at December 31, 2015 and 2014. 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 following table sets forth the Company's in-force guaranteed principal exposure by bond sector as of December 31, 2015[(1)] and 2014:

Bond Exposure
(U.S. Dollars in millions)

	GPO[(2)]		NPO[(2)]	
	2015	**2014**	**2015**	**2014**
Public Finance				
Special Revenue	$ 5,960	$ 7,806	$ 5,816	$ 7,661
General Obligation	4,218	7,490	4,218	7,490
Utility	2,598	3,882	2,598	3,882
Non Ad Valorem	1,721	2,587	1,721	2,587
Appropriation	849	1,317	849	1,317
Total Public Finance	$ 15,346	$ 23,082	$ 15,202	$ 22,937
Asset-Backed Securities				
Commercial ABS	$ 72	$ 174	$ 72	$ 174
Total Asset-Backed Securities	$ 72	$ 174	$ 72	$ 174
Collateralized Debt Obligations				
Synthetic CDO	$ 897	$ 1,043	$ 897	$ 1,043
Cashflow CDO	729	1,770	729	1,770
Total Collateralized Debt Obligations	$ 1,626	$ 2,813	$ 1,626	$ 2,813
Structured Single Risk				
Power & Utilities	$ 3,220	$ 3,574	$ 3,220	$ 3,574
Global Infrastructure	1,565	1,704	1,565	1,704
Specialized Risk	50	50	50	50
Total Structured Single Risk	$ 4,835	$ 5,328	$ 4,835	$ 5,328
Total Outstanding	$ 21,879	$ 31,397	$ 21,735	$ 31,252

(1) As of December 31, 2015 approximately 26.2% and 73.8% of the Company's in-force principal exposure represents direct and assumed business, respectively.

(2) GPO and NPO represent Gross Principal Outstanding and Net Principal Outstanding, respectively.

The following table sets forth the number of years to maturity of the Company's in-force guaranteed principal and interest exposure as of December 31, 2015:

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

	Scheduled Net Debt Service	NPIO[1]
2015 Q4	$ -	$ 34,426
2016 Q1	801	33,625
2016 Q2	759	32,866
2016 Q3	834	32,032
2016 Q4	617	31,415
Total 2016	$ 3,011	
2017	$ 2,234	$ 29,181
2018	1,521	27,660
2019	1,492	26,168
2020	1,627	24,541
Total 2017-2020	$ 6,874	
2021-2025	$ 7,196	$ 17,345
2026-2030	5,914	11,431
2031-2035	4,076	7,355
2036 and thereafter	7,355	-
Total 2021-thereafter	$ 24,541	
Total	$ 34,426	

[1] NPIO represents Net Principal and Interest Outstanding.

The following table sets forth the Company's in-force guaranteed principal exposure by geographic concentration as of December 31, 2015 and 2014:

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

	GPO		NPO		% NPO	
	2015	2014	2015	2014	2015	2014
United States						
California	$ 3,496	$ 4,536	$ 3,452	$ 4,491	16.0%	14.4%
New York	1,916	2,510	1,916	2,510	8.8%	8.0%
Texas	1,035	1,396	1,035	1,396	4.8%	4.5%
Florida	808	1,638	708	1,538	3.3%	4.9%
Virginia	643	657	643	657	3.0%	2.1%
Pennsylvania	582	1,033	582	1,033	2.7%	3.3%
Colorado	556	842	556	842	2.6%	2.7%
Illinois(4)	551	1,246	551	1,246	2.5%	4.0%
Washington	510	594	510	594	2.3%	1.9%
Georgia	484	685	484	685	2.2%	2.2%
District of Columbia	465	477	465	477	2.1%	1.5%
Alabama	455	842	455	842	2.1%	2.7%
Ohio	452	605	452	605	2.1%	1.9%
Tennessee	421	594	421	594	1.9%	1.9%
New Jersey	352	522	352	522	1.6%	1.7%
South Carolina	289	496	289	496	1.3%	1.6%
Massachusetts	271	384	271	384	1.2%	1.2%
Puerto Rico	269	325	269	325	1.2%	1.0%
Maryland	267	272	267	272	1.2%	0.9%
Missouri	235	402	235	402	1.1%	1.3%
Indiana	217	434	217	434	1.0%	1.4%
Minnesota	152	370	152	370	0.7%	1.2%
Michigan	198	361	198	361	0.9%	1.2%
Wisconsin	166	327	166	327	0.8%	1.0%
Other(1)	2,020	3,161	2,020	3,161	9.3%	10.1%
Non-PF Multi (2),(3)	1,401	2,473	1,401	2,473	6.4%	7.9%
Total United States	$ 18,211	$ 27,182	$ 18,067	$ 27,037	83.1%	86.5%
International						
United Kingdom	$ 2,511	$ 2,675	$ 2,511	$ 2,675	11.6%	8.6%
New Zealand	485	513	485	513	2.2%	1.6%
Netherlands	298	593	298	593	1.4%	1.9%
Other(1)	374	434	374	434	1.7%	1.4%
Total International	$ 3,668	$ 4,215	$ 3,668	$ 4,215	16.9%	13.5%
Total Par Outstanding	$ 21,879	$ 31,397	$ 21,735	$ 31,252	100%	100%

(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 $1,329 million and $2,299 million in 2015 and 2014, respectively in CDO and $72 million and $174 million in 2015 and 2014, respectively in ABS net par.

(4) As of December 31, 2015, the Company has $9.2 million of net par exposure to General Obligation bonds, which matured in January 2016 issued by the City of Chicago.

Exposure to Collateralized Debt Obligations

The following table presents the net notional exposure of the Company's guaranteed CDOs by type(1) of referenced asset as of December 31, 2015 and 2014:

CDO Exposure
(U.S. Dollars in millions)

	NPO		% NPO		# of Credits	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Synthetic CDO						
CMBS CDO	$ 747	$ 893	46.0%	31.8%	1	1
Corporate Synthetic CDO	150	150	9.2%	5.3%	1	1
Total Synthetic CDO	$ 897	$ 1,043	55.2%	37.1%	2	2
Cashflow CDO						
US CLO	$ 388	$ 1,185	23.9%	42.0%	8	10
Euro CLO	298	513	18.3%	18.3%	1	1
TRUPS CDO	43	72	2.6%	2.6%	2	3
Total Cashflow CDO	$ 729	$ 1,770	44.8%	62.9%	11	14
Total Collateralized Debt Obligations Outstanding	$ 1,626	$ 2,813	100.0%	100.0%	13	16

(1) Asset type is defined as follows: A Synthetic CDO is a CDO that synthetically references a portfolio of debt obligations through the use of credit default swaps. A CMBS CDO is a CDO that synthetically references a portfolio of Commercial Mortgage Backed Securities. A Corporate Synthetic CDO is a CDO that references a pool primarily consisting of senior unsecured corporate credits rated investment grade at inception (i.e., rated at least "BBB-" by S&P, "Baa3" by Moody's and "BBB-" by Fitch or higher).

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 US CLO is a CDO with underlying collateral primarily consisting of senior secured bank loans made to corporate entities domiciled in the United States and rated below investment grade at inception (i.e., rated below "BBB-" by S&P, "Baa3" by Moody's and "BBB-" by Fitch). A Euro CLO is a CDO with underlying collateral primarily consisting of senior secured bank loans made to corporate entities domiciled in Europe and generally rated below investment grade at inception (i.e., rated below "BBB-" by S&P, "Baa3" by Moody's and "BBB-" by Fitch). A Trups CDO is a CDO with underlying collateral primarily consisting of trust preferred securities issued by bank holding companies.

The following table presents the net notional exposure of the Company's guaranteed CDOs by rating as of December 31, 2015:

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

	NPO	% NPO
AAA	$ 854	52.6%
AA	25	1.5%
BBB	747	45.9%
Total Collateralized Debt Obligations Outstanding	$ 1,626	100.0%

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

9. Insurance Premiums

Premiums charged in connection with the issuance of the Company'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 practices, future installment premiums on in-force policies not yet due are not recorded on the Company's Statements of Admitted Assets, Liabilities and Capital and Surplus as premiums receivable.

As of December 31, 2015, the aggregate amount of installment premium to be collected in the future on the Company's in-force policies, determined based on the expected maturity of the underlying insured obligations, was $195.7 million ($194.5 million net of ceded reinsurance). The aforementioned amount of installment premium to be collected in the future may differ from the ultimate amount of installment premiums collected in the future on such in-force obligations and such difference could be material.

The following table presents, as of December 31, 2015, the Company'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:

(U.S. Dollars in thousands)	**Expected Collection of Installment Premiums**	**Expected Upfront Premium Earnings**
Three months ended:		
March 31, 2016	$ 3,950	$ 2,034
June 30, 2016	1,381	2,193
September 30, 2016	3,560	2,165
December 31, 2016	1,477	1,932
Twelve months ended:		
December 31, 2016	10,368	8,324
December 31, 2017	9,479	8,714
December 31, 2018	9,163	8,165
December 31, 2019	9,002	7,843
December 31, 2020	8,793	7,977
Five years ended:		
December 31, 2020	46,805	41,023
December 31, 2025	38,081	40,208
December 31, 2030	31,579	35,593
December 31, 2035	26,222	24,759
December 31, 2040	20,177	15,030
December 31, 2045	15,372	4,592
December 31, 2050	12,473	1,062
December 31, 2055	5,003	74
December 31, 2060	-	305
Total	$ 195,712	$ 162,646

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 the Company's in-force policies for the periods ended December 31, 2015 and December 31, 2014:

(U.S. Dollars in thousands)

	2015	2014
Future installment premiums on in-force contracts, beginning of period	$ 221,899	$ 255,956
Premium payments received	(10,121)	(15,274)
Changes in expected term of policies	(16,066)	(18,783)
Future installment premiums on in-force contracts, ending of period	$ 195,712	$ 221,899

At December 31, 2015 and 2014, the Company had uncollected premium balances of $1.1 million and $1.7 million, respectively. There were no uncollected premiums more than 90 days past due as of December 31, 2015 and 2014. Any amounts more than 90 days past due are non-admitted. The Company routinely assesses the collectibility of these receivables.

10. Liability for Losses and Loss Adjustment Expenses

The Company's case basis reserves for unpaid losses and loss adjustment expenses are based on the net present value of the ultimate loss and loss adjustment expense payments that the Company 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, net of the present value of future installment premiums. Cash flows were discounted at the rate of 3.72% and 4.47% as of December 31, 2015 and 2014, respectively. The discount rate in 2015 and 2014 was based on a duration-weighted average return on the Company's average invested assets at the end of the year. At December 31, 2015 and 2014, the amount of discount was $(9.9) million and $(15.0) million, respectively.

Set forth below is a discussion of case basis reserves carried by the Company at December 31, 2015 and 2014. The Company recorded a provision for losses and loss adjustment expenses of $35.9 million and $43.9 million for the years ended December 31, 2015 and 2014, respectively.

Public Finance

During the years ended December 31, 2015 and 2014, the Company recorded a provision for losses and loss adjustment expenses of $35.0 million and $43.9 million, respectively, relating to its guarantees of public finance transactions, which included the City of Detroit, the Commonwealth of Puerto Rico and PREPA exposure. The provision primarily reflects adverse development in the aforementioned guarantees and payments made as a result of remediation transactions. Reserves for unpaid losses and loss adjustment expenses on such guarantees were $39.6 million and $21.9 million as of December 31, 2015 and December 31, 2014, respectively.

Structured Single Risk

During the years ended December 31, 2015 and 2014, the Company recorded a provision for losses and loss adjustment expenses of $0.9 million and $0, respectively, relating to its guarantees of structured single risk transactions. The provision reflects adverse development in the Company's estimate of loss adjustment expenses. Reserves for unpaid losses and loss adjustment expenses on such guarantees were $0.7 million and $0 as of December 31, 2015 and December 31, 2014, respectively.

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, 2015 and 2014:

(U.S. Dollars in thousands)	**2015**	**2014**
Reserve for unpaid losses and LAE, net of related reinsurance recoverables, at the beginning of the year	$ 21,935	$ 70,135
Add:		
Increase in net losses and LAE incurred in respect of losses occurring in the current year, net of reinsurance	19,078	65,135
(Decrease) increase in net losses and LAE incurred in respect of losses occurring in prior years, net of reinsurance	16,794	(21,266)
Total incurred losses and LAE, net of reinsurance	35,872	43,869
Deduct:		
Losses and LAE payments (net of recoverables) in respect of losses occurring in the current year	5,888	5,498
Losses and LAE payments (net of recoverables) in respect of losses occurring in prior years	11,585	86,571
Total losses and LAE payments (net of recoverables) for losses incurred during the current year	17,473	92,069
Total (decrease) increase in net losses and LAE incurred during the current year, net of reinsurance	18,399	(48,200)
Reserve for unpaid losses and LAE, net of related reinsurance recoverables, at the end of the year	$ 40,334	$ 21,935

The significant components of the change in claim liability for the years ended December 31, 2015 and 2014 are as follows:

(U.S. Dollars in thousands)

Components	**2015**	**2014**
Accretion of the discount	$ (230)	$ 2,809
New reserves for defaults of insured contracts	18,169	63,122
Change in prior year reserves	460	(114,131)
Total	$ 18,399	$ (48,200)

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 it could incur with respect to such credits.

The surveillance department focuses its review on monitoring the 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 take certain remedial actions, which could include putting the transaction into rapid amortization so that all cash flow generated is used to pay current interest and senior note principal. 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, Surveillance will analyze the reasons for the deviation. With regard to the CDO portfolio, many of the transactions are managed by third party asset managers who are permitted to trade the underlying assets collateralizing the CDO based on investment guidelines established at deal origination. The surveillance department typically reviews such trading activity as reported by the trustee to not only ensure compliance with the CDO's investment guidelines but also to determine market trends and assess manager performance. The surveillance department periodically conducts CDO manager due diligence reviews and will opine on whether or not the Company should consider finding a replacement manager should the Company have the right to do so. 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 surveillance department estimates claims based on its best estimate of net cash outflows under the 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 case, 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 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 table set forth certain information in regard to the Company's closely monitored credits as of December 31, 2015 and 2014:

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

	Total		Loss List		Red Flag List		Yellow Flag List		Special Monitoring List	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Insured contractual payments outstanding:										
Principal	$2,487	$3,415	$282	$213	$ 3	$143	$1,208	$1,447	$ 994	$1,612
Interest	1,175	1,887	84	73	1	39	966	1,228	124	547
	$3,662	$5,302	$366	$286	$ 4	$182	$2,174	$2,675	$1,118	$2,159
Number of policies	74	90	34	10	1	28	19	24	20	28
Remaining weighted-average contract period (in years)	9.9	11.5	5.1	6.8	5.1	4.2	16.9	17.6	2.8	7.3
Loss and LAE liabilities reported in the balance sheet:										
Gross loss and LAE liability (nominal)	$ 100	$ 79	$ 98	$ 77	$ -	$ -	$ 2	$ 2	$ -	$ -
Gross potential recoveries	70	72	70	72	-	-	-	-	-	-
Discount,net	(10)	(15)	(10)	(15)	-	-	-	-	-	-
Total	$ 40	$ 22	$ 38	$ 20	$ -	$ -	$ 2	$ 2	$ -	$ -
Unearned premium revenue, net	$ 26	$ 33	$ 3	$ 2	$ -	$ 1	$ 21	$ 24	$ 2	$ 6
Reinsurance recoverables on paid losses and LAE	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

11. Income Taxes

The Company has recognized a $8.0 million current Federal income tax provision on its year-to-date December 31, 2015 ordinary income compared to a $5.7 million current Federal income tax provision on its year-to-date December 31, 2014 ordinary income. The Company's admitted deferred tax asset was $2.8 million and $3.1 million as of December 31, 2015 and 2014, respectively.

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

Management has concluded that future income forecasted to be generated is insufficient to support realization of a portion of Syncora Capital Assurance's net deferred tax assets as of December 31, 2015 and December 31, 2014, thus a partial valuation allowance has been established against the deferred tax assets.

The components of deferred tax assets and deferred tax liabilities at December 31, 2015 and 2014, as well as the changes herein, are as follows:

(U.S. Dollars in thousands)

	2015			2014			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross Deferred Tax Assets	$59,605	$40,759	$100,364	$60,818	$41,094	$101,912	$ (1,213)	$ (335)	$ (1,548)
Statutory Valuation Allowance Adjustments	51,083	39,921	91,004	53,762	40,149	93,911	(2,679)	(228)	(2,907)
Adjusted Gross Deferred Tax Assets	8,522	838	9,360	7,056	945	8,001	1,466	(107)	1,359
Deferred Tax Assets Nonadmitted	-	-	-	-	-	-	-	-	-
Subtotal Net Admitted Deferred Tax Asset	$ 8,522	$ 838	$ 9,360	$ 7,056	$ 945	$ 8,001	$ 1,466	$ (107)	$ 1,359
Deferred Tax Liabilities	(5,729)	(838)	(6,567)	(3,922)	(945)	(4,867)	(1,807)	107	(1,700)
Net Admitted Deferred Tax Asset/ (Net Deferred Tax Liability)	$ 2,793	$ -	$ 2,793	$ 3,134	$ -	$ 3,134	$ (341)	$ -	$ (341)

The admission calculation components as of December 31, 2015 and 2014, as well as the changes herein, are as follows:

(U.S. Dollars in thousands)

Admission Calculation Components SSAP No. 101		2015 Ordinary	2015 Capital	2015 Total	2014 Ordinary	2014 Capital	2014 Total	Change Ordinary	Change Capital	Change Total
a	Federal income taxes paid in prior years recoverable through loss carrybacks	$ 8,522	$ -	$ 8,522	$ 7,056	$ -	$ 7,056	$ 1,466	$ -	$ 1,466
b	Adjusted gross deferred tax assets expected to be realized (excluding the amount of deferred tax assets from 2(a) above) after application of the threshold limitation. (The lesser of 2(b)1 and 2(b)2 below:	-	-	-	-	-	-	-	-	-
	1. Adjusted gross deferred tax assets expected to be realized following the balance sheet date	-	-	-	-	-	-	-	-	-
	2. Adjusted gross deferred tax assets allowed per limitation threshold	25,157	-	25,157	-	-	-	25,157	-	25,157
c.	Adjusted gross deferred tax assets (excluding the amount of deferred tax assets from 2(a) and 2(b) above) offset by gross deferred tax liabilities	-	838	838	-	945	945	-	(107)	(107)
d.	Deferred tax assets admitted as the result of application of SSAP 101. Total (2(a)+2(b)+2(c)	$ 8,522	$ 838	$ 9,360	$ 7,056	$ 945	$ 8,001	$ 1,466	$ (107)	$ 1,359

For the years ended December 31, 2015 and 2014, current income taxes incurred consist of the following major components:

(U.S. Dollars in thousands)

	2015	2014	Change
Current Income Tax:			
Federal	$ 8,011	$ 10,181	$ (2,170)
Foreign	-	-	-
Subtotal	8,011	10,181	(2,170)
Federal income (benefit) tax on net capital gains	2,578	(397)	2,975
Utilization of capital loss carry-forwards	(2,578)	(4,467)	1,889
Federal and foreign income taxes incurred	$ 8,011	$ 5,317	$ 2,694

As of December 31, 2015 and 2014, deferred income tax assets and deferred income tax liabilities consist of the following major components:

(U.S. Dollars in thousands)	**2015**	**2014**	**Change**
Deferred Tax Assets:			
Ordinary:			
Unearned premium reserve	$ 10,867	$ 10,046	$ 821
Receivable - nonadmitted	-	180	(180)
Intangible assets	5,427	6,062	(635)
Contingency reserve	21,788	29,897	(8,109)
LAE reserve discount	94	60	34
Claim reserve	21,429	14,573	6,856
Subtotal	59,605	60,818	(1,213)
Statutory valuation allowance adjustment	(51,083)	(53,762)	2,679
Admitted ordinary deferred tax assets	$ 8,522	$ 7,056	$ 1,466
Capital:			
Investments	$ 4,012	$ 1,769	$ 2,243
Net capital carry-forward	36,747	39,325	(2,578)
Subtotal	40,759	41,094	(335)
Statutory valuation allowance adjustment	(39,921)	(40,149)	228
Admitted capital deferred tax assets	838	945	(107)
Admitted deferred tax assets	$ 9,360	$ 8,001	$ 1,359
Deferred tax liabilities:			
Ordinary:			
Salvage and subrogation	$ 5,729	$ 3,922	$ 1,807
Subtotal	$ 5,729	$ 3,922	$ 1,807
Capital:			
Unrealized capital gains	$ 838	$ 945	$ (107)
Subtotal	838	945	(107)
Deferred tax liabilities	6,567	4,867	1,700
Net deferred tax assets	$ 2,793	$ 3,134	$ (341)

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, 2015 and 2014 are as follows:

(U.S. Dollars in thousands)

	2015		2014	
	Federal income taxes	**Effective tax rate %**	**Federal income taxes**	**Effective tax rate %**
Provision computed at statutory rate	$ 4,404	35.00%	$ (24,157)	35.00%
Permanent adjustment	(1,290)	-10.25%	(1,724)	2.50%
Contingency reserve	8,109	64.44%	7,146	-10.35%
Change in valuation allowance	(3,013)	-23.95%	94,048	-136.26%
Change in nonadmitted assets	180	1.43%	(180)	0.26%
Other	68	0.54%	987	-1.44%
Totals	$ 8,458	67.21%	$ 76,120	-110.29%
Federal and foreign income tax incurred	$ 8,011	63.66%	$ 5,714	-8.28%
Realized capital gains (losses) tax	-	0.00%	(397)	0.57%
Change in net deferred income tax	447	3.55%	70,803	-102.58%
Total Statutory income tax	$ 8,458	67.21%	$ 76,120	-110.29%

At December 31, 2015, the Company had capital loss carryforwards of $105.0 million.

The following is income tax expense for 2013, 2014, and 2015 that is available for recoupment in the event of future net losses:

(U.S. Dollars in thousands)

Year	Ordinary	Capital	Total
2013	N/A	$ -	$ -
2014	10,236	-	10,236
2015	8,011	-	8,011
Total	$ 18,247	$ -	$ 18,247

The Company did not have any protective tax deposits under Section 6603 of the Internal Revenue Code. As of December 31, 2015, the Company did not have any net operating loss carryforwards.

The Company's federal income tax return is consolidated with the following entities (hereafter collectively referred to as "Members of the Consolidated Tax Return"):

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

Syncora Holdings US Inc. maintains a tax sharing agreement and an escrow agreement with its subsidiaries, whereby the consolidated tax liability is allocated among affiliates in the ratio that each affiliate's separate return liability bears to the sum of the separate return liabilities of all affiliates that are members of the consolidated group. In addition, a complementary method is used which results in reimbursement by profitable affiliates to loss affiliates for tax benefits generated by loss affiliates. As of December 31, 2015, the Company had a current federal income tax payable to Syncora Holdings US Inc. of $4.7 million compared to $0.1 million payable as of December 31, 2014. The Company funds its current Federal tax liability into a tax escrow account with Syncora Holdings US Inc. quarterly in arrears.

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, 2015 and 2014. Tax years 2012 through 2015 are subject to examination by the IRS and state and local authorities.

12. Commitments and Contingencies

The Company does not have any material commitments or contingent commitments to any affiliates other than those discussed in Note 5.

All of the CDS contracts insured by the Company have mark-to-market termination payments following a failure by the Company to pay a claim related to the CDS contract or the occurrence of events that are outside the Company's control, such as the Company being placed into receivership or rehabilitation by the NYDFS or the NYDFS taking control of the Company. Mark-to-market termination payments for which the Company would have to pay a termination payment is generally calculated either based on "market quotation" or "loss" (each as defined in the ISDA Master Agreement). "Market quotation" is calculated as an amount (based on quotations received from dealers in the market) that the counterparty would have to pay another party (other than monoline financial guarantee insurance companies) to have such party takeover the Company's position in the CDS contract. "Loss" is an amount that a counterparty reasonably determines in good faith to be its total losses and costs in connection with the CDS contract, including any loss of bargain, cost of funding or, at the election of such counterparty, but without duplication, loss or cost incurred as a result of its terminating, liquidating, obtaining or reestablishing any hedge or related trading position. If the Company failed to pay claims related to all of its insured CDS contracts or were placed into receivership or rehabilitation by the NYDFS or the NYDFS took control of the Company, the aggregate termination payments that the Company would be required to pay would significantly and adversely affect the Company's financial liquidity and, accordingly, such events would have a material adverse effect on the Company's financial position and results of operations. The Company's reserves for unpaid losses and loss adjustment expenses do not consider the effect of mark-to-market termination payments.

(a) Litigation

The Company has reinsured 100% of Syncora Guarantee's exposure under the Arkansas River Power Authority ("ARPA") and is therefore responsible for 100% of Syncora Guarantee's loss and loss adjustment expenses in connection with the ARPA related litigation.

13. 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. Notwithstanding the foregoing, 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, 2015 was ($229.4) 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.

Pursuant to the terms of the 2009 MTA, the Company is not permitted to pay any dividend or make any distribution to Syncora Guarantee of any other affiliate unless the Company's remaining surplus note has been paid in full (the terms of which provide for full repayment on June 27, 2024) and provided that, after giving effect to any such dividend or distribution the Company would have sufficient capital as calculated pursuant to the 2009 MTA.

The Company did not declare or pay any dividends in 2015 or 2014.

As of December 31, 2015, the Company had no profits which could be paid as ordinary dividends to stockholders.

Accumulated deficit at December 31, 2015 included unrealized gains of approximately $2.4 million.

14. Fair Value of Financial Instruments

The following estimated fair values have been determined by the Company using available market information and appropriate valuation methodologies. However, considerable judgment is necessary to interpret the data to develop certain estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amount the Company 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 Flow Certificates for which fair value was determined using internal models.

Common and preferred stocks: The fair value of common stock and preferred stock is based upon quoted market prices.

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

Other invested assets: Other invested assets consist of investments in limited partnerships. Limited partnership interests are generally valued based on each partner's proportionate share of net asset value determined by quoted prices.

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 the Company’s financial instruments at December 31, 2015 and 2014 were as follows:

	Carrying Amount		Estimated Fair Value	
(U.S. Dollars in thousands)	**2015**	**2014**	**2015**	**2014**
Assets				
Bonds	$ 363,341	$ 386,454	$ 362,846	$ 400,778
Preferred stocks	2,599	3,653	2,599	3,692
Common stocks	18,390	20,750	18,390	20,750
Cash, cash equivalents and short-term investments	72,960	63,074	72,960	63,069
Other invested assets	5,448	4,904	5,448	4,904

The Company has categorized its assets that are 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, 2015 and 2014. There were no liabilities measured at fair value at December 31, 2015 and 2014.

(U.S. Dollars in thousands)

	2015	2014
Level 1		
Assets at fair value - recurring		
Common Stocks:		
Common Stocks	$ 8,028	$ 9,648
Mutual Funds	10,362	11,102
Assets at fair value - non-recurring		
Preferred Stocks	2,599	2,658
Total Level 1 assets at fair value	20,989	23,408
Level 2		
Assets at fair value - recurring		
Investment in Limited Partnership	2,732	2,205
Assets at fair value - non-recurring		
Bonds:		
Industrial & Miscellaneous	8,512	6,212
Total Level 2 assets at fair value	11,244	8,417
Level 3		
Assets at fair value - recurring		
Investment in Limited Partnerships	2,716	2,699
Total Level 3 assets at fair value	2,716	2,699
Total assets at fair value	$ 34,949	$ 34,524

The fair value of the Company's financial guarantee insurance contracts was $228.3 million and $266.9 million at December 31, 2015 and 2014, 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, 2015.

(U.S. Dollars in thousands)

	Balance at December 31, 2014	Total Gains included in Surplus	Purchases	Sales	Balance at December 31, 2015
Assets:					
Investments in Limited Partnerships	$ 2,699	$ 111	$ 1,192	$ (1,286)	$ 2,716
Total Assets	$ 2,699	$ 111	$ 1,192	$ (1,286)	$ 2,716

The Company had no transfers into or out of Level 3, gains and (losses) included in net income, issuances, settlements and no transfers between Level 1 and Level 2 of the fair value hierarchy for the year ended December 31, 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, 2015 and 2014. 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	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Financial Instruments - Assets										
Bonds	362,846	$ 400,778	$ 363,341	$ 386,454	$ 33,317	$ 8,218	$ 329,529	$ 392,560	$ -	$ -
Preferred Stocks	2,599	3,692	2,599	3,653	2,599	3,692	-	-	-	-
Common Stocks	18,390	20,750	18,390	20,750	18,390	20,750	-	-	-	-
Cash, Cash Equivalents and Short-term Investments	72,960	63,069	72,960	63,074	64,610	59,034	8,350	4,035	-	-
Other Invested Assets	5,448	4,904	5,448	4,904	-	-	2,732	2,205	2,716	2,699
Total Assets	$ 462,243	$ 493,193	$ 462,738	$ 478,835	$ 118,916	$ 91,694	$ 340,611	$ 398,800	$ 2,716	$ 2,699

15. 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 3), 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 with 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, the Company'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 shareholder's equity.

- 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 such amounts are recognized under GAAP irrespective of aging.

- 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 the Company 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 the Company does not plan to sell and more likely than not, will not be required to sell shall be recognized in the Statements of Operations, with the non-credit related impairment recognized in other comprehensive income. For other impaired bonds, where the Company has the intent to sell the security or where the Company will more likely than not be required to sell or where the entire impairment is deemed by the Company to be credit-related, the entire impairment is recognized in the 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 Statement of Admitted Assets, Liabilities and Capital and Surplus. Under GAAP, contingency reserves are not recognized.

- Under NAIC SAP reserves for losses and loss adjustment expenses on insured business are reported net of reinsurance loss recoverables established by the Company with respect to a specific policy and are generally discounted at a rate reflecting the weighted average return on the Company'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.

- 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.

- The Company accounts for its insurance of CDS contracts issued by 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.

- Under NAIC SAP a net deferred tax asset is recorded only to the extent it is expected to be realized in accordance with SSAP No. 101, *Income Taxes, a Replacement of SSAP No. 10R and SSAP No. 10*. 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.

- 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, 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.

- 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.

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

16. Subsequent Events

The Company has evaluated all subsequent events through April 5, 2016, the date the financial statements were available to be issued. There were no material events occurring subsequent to December 31, 2015 that required recognition or disclosure.

Appendix A

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SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For the year ended DECEMBER 31, 2015

(To Be Filed by April 1)

Of The SYNCORA CAPITAL ASSURANCE INC.

Address (City, State, Zip Code) New York, NY, 10020

NAIC Group Code 4676 NAIC Company Code 13666 Employer's ID Number 26-4761276

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. $ 468,905,202

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 FREMF MORTGAGE TRUST	BOND	9,649,175	2.058
2.02 CITIGROUP INC	BOND & PREFERRED STOCK	5,490,277	1.171
2.03 GOLDMAN SACHS GROUP	BOND & LLC	4,353,499	0.928
2.04 WF-RBS COMMERCIAL MORTGAGE TRUST	BOND	4,294,788	0.916
2.05 JPMORGAN CHASE & CO	BOND	4,228,565	0.902
2.06 DREYFUS TREASURY PRIME CASH MANAGEMENT	BOND	4,065,373	0.867
2.07 APIDOS CLO	BOND	3,740,000	0.798
2.08 MORGAN STANLEY	BOND	3,692,895	0.788
2.09 MAGNETITE LTD	BOND	3,605,703	0.769
2.10 LB-UBS COMMERCIAL MORTGAGE TRUST 2007-C2	BOND	3,117,912	0.665

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	278,159,879	59.321
3.02 NAIC 2	68,685,546	14.648
3.03 NAIC 3	13,195,991	2.814
3.04 NAIC 4		
3.05 NAIC 5	8,439,641	1.800
3.06 NAIC 6	56,811,564	12.116
Preferred Stocks		
3.07 P/RP-1		
3.08 P/RP-2		
3.09 P/RP-3	2,599,000	0.554
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	41,555,733	8.862
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	40,792,542	8.700
5.02 Countries designated NAIC 2	763,191	0.163
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 CAYMAN ISLANDS	22,041,031	4.701
6.02 CANADA	5,538,267	1.181
Countries designated NAIC 2:		
6.03 SPAIN	763,191	0.163
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 TALISMAN ENERGY INC	2FE	2,825,131	0.602
10.02 APIDOS CLO XII	1FE	2,750,000	0.586
10.03 CIFC FUNDING 2013-I LTD	1FE	2,425,000	0.517
10.04 COOPERATIEVE CENTRALE RAIFFEISEN-BOERENL	2FE	2,320,859	0.495
10.05 MAGNETITE IX LTD	1FE	2,200,703	0.469
10.06 ATRIUM X	1FE	2,184,721	0.466
10.07 ARES XXIX CLO LTD	1FE	2,145,000	0.457
10.08 SHACKLETON 2014-VI CLO	1FE	1,928,190	0.411
10.09 UPCB FINANCE V LTD	3FE	1,559,856	0.333
10.10 WESTPAC BANKING CORP	1FE	1,532,517	0.327

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[X] No[ ]
    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		
	Largest 3 investments with contractual sales restrictions:		
12.03			
12.04			
12.05			

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	CITIGROUP CAPITAL XIII	2,599,000	0.554
13.03	BERKSHIRE HATHAWAY INC DEL CL A COM	2,373,600	0.506
13.04	ALTEGRIS WINTON FUTURES FUND	2,168,768	0.463
13.05	VANGUARD DIVIDEND APPRECIATION ETF	1,944,000	0.415
13.06	POWERSHARES FINANCIAL PREFERRED PORTFOLIO	1,609,965	0.343
13.07	APPLE INC	1,595,215	0.340
13.08	SPDR S&P DIVIDEND ETF	1,471,400	0.314
13.09	OHA NEWBURY PARTNERS	1,353,730	0.289
13.10	EMERALD CREEK CAPITAL FUND IV, LLC	1,050,000	0.224
13.11	ROYAL DUTCH SHELL PLC	1,022,088	0.218

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)

Description	Loans 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 5 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				
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

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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, 2015

Signed:

2/24/16 2/24/16

Chief Executive Officer Date Chief Financial Officer Date