Syncora Holdings Ltd.

Moderator: Michael Corbally
November 20, 2014
8:00 a.m. ET

Operator: Good morning, my name is (Peter) and I will be your conference operator today.

At this time, I'd like to welcome everyone to the Syncora Holdings Investor Update Call.

All lines have been placed on mute to prevent any background noise. If you should require assistance during this call, please press star then zero on your telephone keypad and then, an operator will comeback to assist you. Thank you.

Michael Corbally for Syncora Holdings, you may begin your conference.

Michael Corbally: Good morning. And thanks for joining the call today. I'm Michael Corbally, Syncora's chief administrative officer. With me today are Susan Comparato, Syncora's chief executive officer and Claude LeBlanc, Syncora's chief financial officer and chief restructuring officer.

During the call, references going to be made to slides within the presentation that is being posted to the investor relation section of our Web site, specifically on the investor events page.

We hope you had an opportunity to review the statutory financial statements for the period ended September 30, 2014 for both Syncora Guarantee Inc. or SGI and Syncora Capital Assurance Inc. or SCAI.

These statements, together with the SGI and SCAI, third quarter operating supplement are available on our Web site, www.syncora.com, specifically on the company reports and financial information pages.

Please note that this call is listen-only mode. We will not be holding a Q&A session after our remarks. But as Susan will highlight, the presentation takes into consideration questions we hear during our ordinary course investor discussions. And just before we conclude the call, we'll address some specific questions directly that we recently received from investors.

We will also be posting a replay of this call together with a transcript in the investor relations section of our Web site.

Turning to slide 1 of the presentation, I'm obliged to provide you with some disclosure language. So, please note that the following discussion contains statements about future results, plans and events that may constitute forward looking statements.

You're cautioned that these statements are not guarantees of a future results plans or events and such statements involved risk and uncertainties that may cause actual results to differ materially from those set forth in these statements.

Forward looking statements are subject to a number of risk and uncertainties, many of which are beyond the company's control. These risks and uncertainties include but are not limited to the factors described in the company's historical filings with the New York Department of Financial Services or the Securities and Exchange Commission, including in its annual report on Form-10K for the fiscal year ended December 31, 2008 as amended. And in Syncora Holdings, SGIs and SCAIs GAAP and statutory financial statements as posted on our Web site.

You're cautioned not to place undue reliance on forward looking statements. They speak only as of the date they are made. The company does not undertake to update forward looking statements to reflect the impact of circumstances or events that arise after the date that the forward looking statements are made.

And with that, let me now introduce Syncora Holding's CEO, Susan Comparato.

Susan Comparato: Thank you, Mike. I want to thank everyone for joining the call. We have a lot to cover today.

As you all know the last several years have been very busy for Syncora's management team and the board as we focused on stabilizing our business.

With a great deal of work behind us, we think now is the right time to make sure that all of you were up to speed with where Syncora has been, where we are today and where we plan to go. This is largely shaped by positive momentum and some noteworthy achievements during very challenging times.

We will provide highlights of our insurance subsidiaries, third quarter operating and financial results, and provide an update on their insured portfolios.

With significant progress, it is natural for investors and other stakeholders to asked, "What happens next?" And to help answer this question, we will discuss some of the key challenges Syncora is facing, many of which it is important to note are not within our control.

Along these lines, it is also important to understand some of the key constraints and restrictions we are subject too. So, we will provide some additional background on the contractual and regulatory limitations under which Syncora Holdings, SGI and SCAI operate.

With the benefit of this background, we will then address Syncora's strategic goals and talk about next steps and our future direction.

As Mike mentioned, throughout the presentation, we address questions we hear during ordinary course investor discussions and, at the end of the call, we will also respond to some specific investor questions not otherwise addressed during the presentation.

Turning to Slides 3 and 4. Many investors on the phone today have been with Syncora for many years as common shareholders, preferred shareholders and surplus note holders. Others are relatively new constituent to Syncora and know less about the company.

The timeline is designed to highlight certain key events from 2008 to present including several material credit remediations and litigation recoveries. In addition, these slides provide some surplus, liquidity and exposure highlights during that same time period.

As you may know, Syncora completed a major restructuring in 2008 when it terminated a number of contracts and guarantees from its former parent XL Capital.

In 2009, Syncora completed its second major restructuring consisting of three major components. First, commutations of many of its worst CDS exposures. Second, creation of SCAI, a subsidiary of SGI to house SGIs municipal exposures as well as performing CDS. And third, RMBS tender which reduced a significant portion of Syncora's RMBS exposure.

As result of its restructuring effort, SGI restored itself to positive surplus from a negative level of 3.8 billion at Q1 2009. After successfully addressing liquidity challenges in 2010, SGI also recommenced making claim payments repaying all past due claims in full as well as beginning to pay all current claims when due.

In the years that followed, Syncora completed several very important remediations. These include well-known credit such as American Roads and Jefferson County in 2013 and Detroit in 2014 as well as large commutations in the structured single risk and project finance areas.

In addition, Syncora settled two major RMBS litigations with Bank of America and JPMorgan. During this period SGI surplus continued to improve significantly to its current level of 972 million. On the other hand, since its inception, SCAI’s surplus has been relatively low and continues to experience strain at its current level of 117 million.

During this period there are two additional key takeaways to note. First, Syncora's net par outstanding has declined dramatically from a high of 165 billion to its current level of 45 billion. And second, operating expenses have shown a marked improvement with a 75 percent decline from Q4 2008 to Q4 2013.

Syncora now has a total of 63 full-time employees down from its peak of approximately 200, which more appropriately fits our operational and organizational needs today.

With that context, I'm going to turn the call over to Claude who's going to take you through operating and financial results for the nine months ended September, 2014 as well as provide an update on the insured portfolio.

Claude LeBlanc: Thank you Susan and good morning to everyone on the call.

We've had a very busy nine months. And on Slide 5, let me walk you through some of the major activities during the period which resulted in significant improvement the SGI's liquidity position and material reductions to key loss exposures of both SGI and SCAI. Specifically, management continued to actively pursue risk remediation asset recovery and stabilization initiatives for each of the two insurance companies.

On the asset recovery side, early in the first quarter SGI settled its RMBS litigation with JPMorgan for $400 million materially improving the company's liquidity position.

As this settlement was reached after yearend 2013 but prior to the issuance of our annual statements, SGI accrued for the settlement as a reduction to its reserves as of yearend 2013. SGI also successfully completed a number of key remediation transactions including during the third quarter, the commutation of a commercial ABS policy relating to a troubled containership transaction which resulted in a reduction in net par exposure of 95 million.

The company also actively pursued a number of key remediations in the largest and most troubled area of its insured portfolio, structured single risk or SSR.

I would like to highlight five key transactions in this sector. First during Q1, the company purchased its insured bonds for a number of global infrastructure transactions. Certain of these bonds have expected material claims during 2017 to 2020, a period which SGI expects some of its largest claims. Other purchases include the full remediation of one particular distressed SSR transaction. The aggregate effect of these purchases was a reduction in nominal principle and interest P&I claims by $187 million.

Second, during the nine month period ending, SGI reached agreements on the commutation of policies related to other distress global infrastructure projects and two power and utility exposures. The reduction and exposure associated with these significant commutation transactions was $720 million.

Also during the third quarter, Pike Pointe Holdings, American Roads and Detroit-Windsor Tunnel wholly owned subsidiaries of SGI reached agreement in principle with the City of Detroit and other parties on the development agreement. Completion of this agreement remains subject to the effective date of the Detroit bankruptcy plan and is not expected to have material impact SGI's financial position once completed.

In October, following a multiyear negotiation and project remediation effort on another highly distressed international power utility insured credit, SGI completed a comprehensive project restructuring and settlement agreement. Based on this settlement, SGI reduced its unpaid losses by $27 million and net par outstanding by $132 million.

Turning to Slide 6. SCAI's remediation activities focus on its key troubled public finance exposures. This include a resolving SCAI claims in the Detroit bankruptcy relating to its insured certificates of participation or COP bond, by reaching an agreement in principle with the City of Detroit.

Under this agreement, once the bankruptcy plan goes effective, SCAI is expected to fully write down its related Uninsured Cash Flow Certificates and to record additional salvage consisting of $24 million par of newly issued general unsecured obligations, $21.3 million par of a limited tax general

obligation notes secured by the city's parking revenues,$6.5 million of a real estate purchase vouchers and $5 million of cash.

SCAI also completed purchases of its remaining outstanding Detroit COP bonds with a par value of $120 million dollars. These purchases reduce SCAI future nominal P&I claims by $81 million.

The effect of these adjustments relating to the Detroit settlement including the full write down of the Detroit purchase COP bonds are not expected to have a material impact on SCAI's surplus once reflected which remains subject to the plan becoming effective.

Next, with respect to the Puerto Rico Electric and Power Authority or PREPA and Puerto Rico General Obligation Bonds, SCAI purchased it insured bonds with the par value of $21 million. These purchases also reduce SCAI's future nominal P&I claims by $10 million.

Moving now to Slide 7 and I would like to cover key statutory financial highlights for SGI and SCAI for the nine month period. Overall, SGI's reported net income of $85 million during the year versus the net loss of $17 million for the same period in 2013.

The key income drivers for 2014 were first, net positive loss development of $37 million resulting from remediation transactions and SSR exposures, discussed earlier, and improvements in our expected losses for RMBS. Next, avoiding material write downs in remediations and loss development involving purchased bonds which resulted in $40 million charge to income during 2013. Third, the increased investment income of $4 million primarily resulting from increased funds available for investments following the JPMorgan settlement.

These results were partially offset by reduction in earned premium of $18 million which was the result of an approximate 20 million decrease in refunding activity in 2014 as compared to 2013. Turning now to SCAI, the company reported a net loss $88 million consistent with these 2013 results.

Key income drivers for 2014 were first reported $85 million in adverse development compared to $150 million adverse development in 2013.

The 2014 increase in incurred losses primarily related to adverse development in Detroit exposure as well as the establishment of a loss reserve for PREPA exposure. Second, SCAI reported earned premium of approximate $36 million as compared to $49 million of 2013. Primarily due to reduced pace refundings in 2014 consistent with SGI's experience.

In 2013, SCAI was able to recognize a $37 million tax credit to offset its losses due to active claim payments on its loss exposures. For the newly established case reserves in 2014, this tax benefit recognition will be made at the time of initial claim payments.

Now, turning to Slide 8. I would like to highlight some key balance sheet developments for both SGI and SCAI. SGI's surplus remained flat at $972 million as of September 30. Primarily resulting from its net income of $85 million being offset by a reduction in the carrying value of its subsidiary SCAI by approximately $70 million.

However, as a result of the JPM settlement and a number of material remediation transactions discussed earlier, the company was able to improve its short to medium term liquidity profile and remediate a number of key risk exposures.

SGI cash and invested assets increased to $1.2 billion from $1 billion as of December 31st, 2013. This increase was primarily due to the receipt of the $400 million in litigation proceeds from JPMorgan partially offset by remediation activities and claim payments.

With respect to its investment portfolio, the company maintains a Double A average rating and a short duration of 1.4 years in anticipation of future large claim payments starting in 2017 as well as ongoing remediation activities.

Unpaid losses and (LAE) at SGI were a recoverable of $27 million, a change of $232 million as compared to a recoverable of $259 million as of December 31st. This change was primarily due to the collection of the JPMorgan

settlement which was recorded as salvage as of December 31st, 2013 partially offset by remediation activities and claim payments.

Although not recognized on its balance sheet, SGI has $2.9 billion of NOLs available that will begin to expire in 2027. Future income forecasted to be generated is insufficient to support realization of SGI net deferred tax assets. For this reason, a full evaluation of loans of $1.1 billion has been established.

Also, in connection with a litigation settlement in 2012, Syncora received a number of its securities including approximately 85,000 of SHL 6.88 percent preferred securities or SHL prefs.

As of the end of the third quarter, the transfer of all securities other than the SHL prefs have been completed. While the transfer of the SHL prefs remains subject to regulatory approval, we do not expect their transfer and recording to have a material effect on SGI's financial position.

Now, turning to SCAI's balance sheet. SCAI's surplus decreased by $70 million over the period, bringing its surplus down to $117million at the end of the third quarter. This decrease resulted from an increase in losses primarily related to Puerto Rico and Detroit exposures as well as remediation related expenses.

Cash and invested assets decreased by $98 million to $514 million primarily the result of claim and commutation related payments of $62 million and impairments recognized on securities purchased as part of our remediation activities of $38 million.

The remediations completed had a material impact of reducing potential for severe future adverse development of certain key exposures including Detroit COP bond.

Unpaid losses in (LAE) and SCAI were $77 million an increase of $7 million compared to the $70 million recorded as of year-end 2013. The increase was due to adverse development in the company's reserves relating to its guarantees of public finance transactions partially offset by material claim payments on existing reserves.

As noted in our third quarter disclosures and in response to SGI's decreasing surplus, on November 13th, 2014, SGI made a one-time $30 million capital contribution to SCAI which is not yet reflected in either company's balance sheets. With this capital contribution, SCAI's surplus would have been $147 million as of September 30.

SGI's cash and investments would be reduced by the same amount. However, SGI's surplus would not be affected by this contribution as it records it ownership in SCAI at its book value.

Turning now to Slide 9 which provides details on SGI and SCAI's claims paying resources. As you can see, the leverage at SGI showed minor improvements while SCAI leverage increased slightly in response to loss and remediation activities.

As of September 30, SGI leverage ratio was 7.5 compared to 8.3 as of year-end 2013. When looking at the leverage ratio excluding SGI's holdings in SCAI, SGI's leverage ratio was 8.2 versus 9.4.

Turning to SCAI as of September 30, its leverage ratio was 54.2 which represent a slight increase from the December 31st ratio of 52.3.

Turning to Slide 10, SGI's policyholder surplus remains strong. However, it remains subject to unfavorable development resulting primarily from first adverse development on insured and reinsured exposures. And secondly, remediation transactions, in particular those focused on remediation of potential future liquidity mismatches.

For SCAI, its surplus continues to experience stress primarily resulting from material adverse development in municipal finance exposures most notably Detroit and Puerto Rico.

Turning now to Slide 11 which covers SGI and SCAI's liquidity forecast. SGI continues to face a potential liquidity mismatch between expected future medium to long-term claim payments and recoveries relating to such claims.

In particular, SGI anticipates that it will be obligated to make substantial gross claim payments excluding remediated RMBS exposures on certain insured and reinsured loss credits between 2017 and 2029 of approximately $570 million. The associated recoveries for these claim payments which are subject to material risk and uncertainties are expected to be received in a period following initial claim payments to the year 2065.

The company is also exposed to an SSR transaction with a net par outstanding of $986 million which is subject to significant refinancing risk and has a heightened risk of material claim payments for the same period. Although management does not currently anticipate claims on this transaction, a material risk of future claims exist absent improvement to the underlying credit.

SGI is further exposed to number of other credits with refinancing risk and risk of material principal repayments. The aggregate par outstanding of these credits is an additional $4.2 billion.

Moving to the bottom half of the slide, SCAI has significant exposure to public finance transactions which pose a risk of material adverse development to its short to medium-term liquidity position. SCAI may also face future adverse development on its Puerto Rico exposures which could lead to a material increase in projected claims.

As of September 30, SCAI had $358 million of exposure to Puerto Rico primarily relating to PREPA. As Susan will discuss later in this presentation, there are number of contractual and regulatory constraints which limit SGI and SCAI's flexibility to address liquidity and surplus challenges in the normal course.

This concludes my comments on the third quarter financial results and I now wanted to turn to Slide 12 to discuss SGI and SCAI’s insured portfolio.

As of September 30, SGI's portfolio consists of 96 credits totaling $11.4 billion in net par exposure. The average internal credit rating is Triple B minus with 32 percent or $3.6 billion rated below investment grade.

Looking at the pie chart on the left side of the slide, the key components of SGI's insured portfolio include 81 percent or $9.2 billion of the exposure is to SSR credits with an average internal credit rating of Triple B minus. This category includes global infrastructure, power and utility credits and specialized risk credits including guarantees of insurance products. 9 credits within this category totaling $2.3 billion in net par exposure are internally rated below investment rate.

The further 11 percent or $1.3billion of the exposure is to ABS which are primarily non-investment grade defaulted RMBS. The average rating of this category is B plus.

Moving to the right side of the slide, SCAI's insured portfolio consist of 1738 credits totaling $33.8 billion in net par exposure with an average internal credit rating a of which 5.5 or $1.85 billion is below investment grade.

The key components of SCAI’s insured portfolio include 73 percent or $24.5 billion of public finance credits with an average internal credit rating of a minus. This sector makes up the largest below investment grade exposure with 20 credits totaling $1.5 billion. 16 percent or $5.4 billion of the exposure is to SSR credits with an average credit rating of a minus.

Finally, 10 percent or $3.6 billion of SCAI’s exposure is to CDOs with an average rating of aa. This segment of the portfolio consists of both high-yield European CLOs and U.S. CLOs.

On Slide 13, we've provided information on the SGI and SCAI insured, below investment grade or BIG credits. For those of you not familiar with our BIG or below investment grade categories, we have included a table at the bottom of the page. Starting with SGI on the left, total loss list exposure is $808 million, the majority of which is RMBS.

Moving to the Red Flag credits, the majority of the approximate $1.8 billion exposure is to SSR credits including toll road and other transport related concessions. The Yellow Flag list accounts for a little over $1 billion of exposure and includes SSR and RMBS credits.

Looking to the table on the right and SCAI’s flag list, two credits make up the loss list category, Detroit and PREPA. These account for $239 million of the $1.9 billion of flag list exposures. The majority of SCAI’s Red Flag list exposure of $147 million, is comprised of other exposure to Puerto Rico including G.O. bonds and a small amount to the Puerto Rico highway and transport authority.

Finally, the Yellow Flag list accounts were close to 79 percent of SCAI’s flag list exposure or close to $1.5 billion. This consists of a variety of public finance credits and a U.K. PFI transaction.

On Slide 14, we show a breakdown of below investment grade credits with exposures greater than $100 million. Consistent with the portfolio makeup, the majority of SGI's largest BIG credits are in SSR including global infrastructure, power and utilities, specialized risk as well as RMBS credits. A total of 12 credits with total par of over $3.1 billion make up the greater than $100 million in net par exposure. Of these 12 largest exposures, three are on the loss list, four are on the Red Flag list and five are on the Yellow Flag list.

Moving to SCAI, the largest BIG credits are made-up of 7 muni finance and one global infrastructure credit for total par exposure in excess of $1.5 billion. Of these largest exposures, there is one on each of the loss and Red Flag list and six are on the Yellow Flag list.

Now turning to Slide 15, we show SGI's insured portfolio with expected net par reductions by business area. Here, I would like to make the following observations.

As of Q 3, 2014, SGI's portfolio stands at $11.4 billion in net par outstanding with 13.8 year weighted average life which includes many long dated SSR and power and utility policies. The $4.1 billion of total flag list exposure is depicted by the blue line and its long tail is evident.

Turning now to SCAI, its portfolio has $33.8 billion in par outstanding largely comprised of municipal finance, related credits where again, our greatest risk exist for adverse development and increased losses.

Given our experiences in Detroit, we have concerns that other cities over time will face similar issues with respect to large unfunded pension liabilities and other post employment benefits.

For current investment-grade munis, we believe that the possibility exists for additional bankruptcies over the next five to 10 years where loss given defaults could be significant.

SCAI has an 11.6 year weighted average life and $3.4 billion of total current flag list exposure which as depicted by the blue line has long tail exposure.

Now moving to Slide 16, I would like to touch on SGI and SCAI's credit count reduction by business area. While SGI's portfolio credit count remains modest as previously discussed, it does contain a high percentage of flag list exposures. The prospective decline in credit count is due to the amortization and pay downs of some CDO and ABS deals. However, the portfolio count is still expected to remain above 70 credits over the next 10 years.

The flag list credit count as depicted by the blue line is currently 43 credits and it's expected to remain above 20 credits until past 2030.

Turning now to SCAI, due to the long dated nature of public finance and SSR exposures, SCAI's insured portfolio is expected to remain above 800 credits for the next 10 years. SCAI's flag list credit count is currently 41 credits and similar to SGI It's expected to remain above 20 credits past 2030.

This includes my comments on the insured portfolio and I would now like to turn it back to Susan to discuss some of the structural constraints and risks and uncertainties that the company is facing.

Susan Comparato: Thanks Claude. As is evident from Slide 17, Syncora has a very complex organizational structure with many layers of security holders. In a moment, I'm going to talk through a number of the challenges we face as well as some notable MTA 2and regulatory constraints.

But first, I want to highlight a few key facts. To begin with, SHL is our Bermuda Holding Company, its main purpose is to hold our insurance and other operations. It is subject to regulation by the Bermuda Monetary Authority.

SHL has two outstanding security issuances, the SHL prefs and the SHL common shares. The Syncora group of companies has $2.9 billion of NOLs available for federal income tax purposes which will begin to expire in 2027. These NOLs can be used pursuant to a tax sharing agreement amongst Syncora's U.S. tax groups which consists of Syncora Holdings U.S. Inc. and all subsidiaries thereof.

SGI, a New York domiciled insurer has two outstanding security issuances. One, the short and long dated surplus notes and two, the SGI Series B preferred shares.

All of these issuances would be subordinated to policyholders in liquidation and any payments on the surplus notes if approved by the NYDFS, must be on a on pro rata basis.

Just a brief mention of Syncora U.K., a wholly-owned subsidiary of SGI. It currently has $3.6 billion of par exposure outstanding, with 97 percent of such exposure reinsured to SGI. We are currently taking steps to redomesticate our U.K. operations to the U.S. to further simplify our capital structure, decrease related expenses and improve SGI's liquidity.

In connection with the Countrywide litigation settlement, Syncora received Syncora securities in addition to cash. The footnotes of the chart on this Slide 17 provides specific detail on the securities acquired.

Turning to Slide 18, Syncora has completed significant remediation and risk mitigation transactions and settled some large RMBS litigation. Meaningful progress has also been made with respect to financial and operational stability.

However, Syncora Holdings, SGI and SCAI continue to face significant challenges, many of which are not in our control. Our disclosures contain a

detailed discussion of risk and uncertainties but today we want to highlight a few of the more significant issues.

First, as noted on Slide 18, SHL our Bermuda Holding Company has very limited funds as the insurance companies have not been permitted to pay any distributions to the holding company for many years. As a result, SHL does not currently have the resources to declare and pay dividends on its outstanding securities.

Before any distributions to SHL could be made by the insurance entities, the NYDFS will need to be satisfied that the insurance entities can meet their policyholder obligations. In addition, SGI would need to satisfy all its obligations under the SGI surplus notes and SGI Series B preferred shares prior to making any dividend payments on SGI common stock.

As you will hear more about later, any such distributions from SGI are also subject to MTA 2 constraints. It is also important to keep in mind the position of SHL's securities as compared to other securities in the Syncora capital structure.

The SHL prefs and common shares are structurally subordinate to payments to SGI's and SCAI's policyholders as well as payments on securities including the surplus notes issued by SGI. The SHL common shares are subordinate to the SHL prefs.

The market for SHL common shares is not very liquid for a few reasons. First, as many of you know the company was formally registered with the SEC and listed on the NYSE. To conserve funds and reduce administrative costs, Syncora deregistered in 2009. The common shares trade over-the-counter on the pink sheet under the symbol SYCRF. Second, to protect the company's NOLs, there is a bylaw restriction on trades which prohibit acquisitions or transfers or sales of SHL's common stock absent board approval. If as a result of such acquisitions or transfers or any series of acquisitions or transfers either (1) any person or group of persons would become a 5 percent shareholder or (2), the percentage stock ownership interest in the company of any 5 percent shareholder would increase.

Lastly, as a holding company of two New York insurers, the acquisition of control of SHL which is present at 10 percent or more of SHL's voting power, requires the prior approval of the NYDFS.

In addition, I want to emphasize the importance of protecting our NOLs. As has already been mentioned, one of Syncora's off-balance sheet assets its $2.9 billion of available NOLs. A portion of these NOLs are expected to be used by the insurance entities in the ordinary course of business.

In addition, the remaining unused NOLs can be used in connection with other profitable ventures to benefit all Syncora stakeholders. Management and the board recognize that there is potential value to the NOLs and continue to explore options to maximize such value and NOL utilization.

Moving to Slide 19, I now want to focus on select SGI risks and uncertainties.

SGI continues to have significant below investment grade exposure of approximately $3.7 billion. Some of these credits also have large par balances and, if they experience further adverse development, claims and losses could be significant.

In addition, we've identified several problematic credits in SGI's portfolio where while not immediate the potential for adverse development exist. We continue to carefully monitor these transactions and we'll take steps to address any issues that arise.

Earlier in the presentation, Claude took you through some details about our liquidity mismatch in the mid to long-term. SGI has taken and continues to take steps to mitigate its upcoming liquidity challenges. However, there is no certainty that any future actions can address these challenges and the liquidity issues may worsen if certain problematic credits perform worse than we expect or if credits which are currently performing deteriorate.

Credits with refinancing risk are particularly problematic as they could quickly place material demand on SGI's liquid resources, if the issuers are unable to access the market at the stated maturity date. Further, for certain

credits, SGI is expecting significant future recoveries which in certain cases are far in the future after the expected claim payments.

Consequently, there's inherit uncertainty as to whether and when the recoveries will be received. And because of the MTA 2 restrictions and other factors, it may not be possible or practicable to finance our way through the mismatch.

In connection with MTA 2, SGI issued short and long dated surplus notes. To date, SGI has not been permitted by the NYDFS to make any payments on its surplus note. And a significant amount of unpaid interest has accrued. Management is frequently asked when holders of SGI surplus notes can expect payment especially in light of recent increases to SGI's surplus.

I want to respond to this question with a few points. First, it is important to remember that the NYDFS must approve all insurance company distributions including surplus note payments. The NYDFS has broad discretion and can consider any factors it deems appropriate in making its determination. Second, SGI requests approval from the NYDFS on at least in annual basis to pay amounts owed on the surplus note.

Finally, while there can be no assurance as to what factors the NYDFS will base its decision on, factors we believe might influence the NYDFS's approval or disapproval of surplus note payments include (1) adverse development in SGI's portfolio, (2), the liquidity mismatch described above and (3), SCA'Is overall performance.

SGI's financial health and ability to make payments to policyholders as well as surplus noteholders is dependent on SCAI's financial condition. Of course, the NYDFS retains absolute discretion with respect to its approval of any payment including the timing and amount of any surplus note payments.

As for SGI preference shares, as noted in the company's disclosures, they are junior to surplus noteholders and cannot receive any payment until SGI's surplus notes are paid in full and certain P&I policies issued by SGI in respect of SCAI's CDS policies are no longer outstanding. The NYDFS must also approve any distribution on the SGI's Series B preferred shares.

Finally, I want to discuss certain litigation uncertainties. SGI has pursued several RMBS lawsuits with great success and its currently pursuing several additional RMBS related claims against sponsors and originators.

We believe in the merits of these cases, but as you know litigation outcomes are inherently uncertain. Even if we are successful, collectability can be a challenge as many of these companies are in a precarious financial condition and are facing significant claims from other litigants.

Turning to Slide 20, SCAI also faces many risks and uncertainties. A few that stakeholders should be aware of include the following. First, SCAI continues to be at risk for adverse development. SCAI's total par outstanding of $34 billion remains significant. It also has approximately $1.9 billion of BIG credits mostly in the public finance sector. It also has a significant number of credits on its special monitoring list. SCAI's flag list credits including Puerto Rico are at risk for further deterioration.

Now is also a good opportunity to speak about SCAI’s surplus position. When MTA 2 closed, SCAI’s surplus was at a modest level, it has taken further hits as SCAI began to face significant adverse development ranging from CMBS transactions in 2009 to more recently Detroit and Puerto Rico. SCAI’s current surplus of $117 million is modest in light of the regulatory minimum of $66 million and SCAI’s remaining outstanding insured exposure of $34 billion.

Although, SCAI’s surplus increased to $147 million following the contribution from SGI previously discussed, SCAI's financial condition remains fragile and it cannot withstand much additional adverse development without coming close to or even falling below the statutory minimum.

Lastly, we recently received a question about future payments on the SCAI surplus note. Over the past few years, the NYDFS has permitted SCAI to make regular payments to SGI on its surplus notes.

In December, SCAI will once again ask permission to make a current interest payment to SGI but it is uncertain whether the NYDFS will grant permission

in light of SCAI's lower surplus position and the recent capital contribution from SGI. Again, the NYDFS has complete discretion to approve such payments and it is uncertain what factors they will consider in their review.

Moving now to Slide 21. As a result of MTA 2, Syncora is subject to a number of constraints that limit financial and operational flexibility. I will describe a few of these restrictions in detail.

Any changes to these contractual restrictions would, depending on the change, require consent of a majority or super majority, by number and face amount, of surplus noteholders and SCAI swap counter parties. In addition, the consent of the NYDFS and other regulators may also be required.

Existing agreements that may not be changed or terminated without these consents include the tax sharing agreement noted previously and intercompany service level agreements.

MTA 2 also effectively prohibits SGI and SCAI from providing any substantial intercompany financial assistance which is challenging in light of SGI's liquidity issues and SCAI surplus challenges. In addition, MTA 2 contains prohibitions relating to the insurance companies writing new insurance business.

Further, the NYDFS has similar restrictions on the ability of the insurance entities to write new insurance business. As a result, absent the consent of the regulator, surplus noteholders and potentially SCAI swap counterparties, Syncora’s ability to execute on new opportunities and create value for all stakeholders is limited.

Finally, MTA 2 also limits Syncora’s ability to enter into financing arrangements without certain approvals and consents. Syncora securities have traded extensively and are now held by a large stakeholder base which may make it more difficult to obtain necessary approvals and consents in a timely fashion.

Moving to Slide 22, in addition to the MTA 2 restrictions, the Syncora insurance entities are subject several regulatory constraints similar to other financial guarantee companies.

Slide 22 highlights a number of matters that require approval of the NYDFS or prior notice and non-disapproval. Before speaking about the constraints, I wanted to talk about SGI and SCAI's regulatory status and their ongoing relationship with the NYDFS. Neither insurance company is under any formal review process or heightened standard of review. That said management continues to work closely with the NYDFS to keep them well informed of our plans and regularly seeks certain permissions for accounting related practices as well as other approvals.

I think it also worth highlighting a few specific regulatory restrictions such as restrictions relating to distributions from the insurance companies and inter-company transactions.

For transactions between an insurance company and companies within its holding system, New York Insurance law requires among other things that (1), the terms be fair and equitable and (2), charges or fees for services perform need to be reasonable.

These requirements will apply to, among other items, any amendment to the tax agreement, the service level agreement and any other affiliate agreement.

As reviewed earlier, any distributions from or payments on the surplus notes from the insurance entities are also subject to NYDFS approval and the NYDFS can review and consider such factors as it believes appropriate in determining whether to approve such payment.

As you can see, Syncora has many challenges to navigate and must do so with the backdrop of several contractual and regulatory limitations. The company has a strategy to continue to move forward and Claude will now provide you with an overview of Syncora's strategic goals.

Claude LeBlanc: Thank you Susan.

Turning to Slide 23, as described in this presentation Syncora’s made significant progress in its corporate strategy of remediating exposures and moving the company towards financial stability, however a number of key challenges remain.

In particular, SGI continues to face a potential liquidity mismatch and SCAI is facing stress on it surplus level and the potential for further adverse development.

As Susan described, we also face significant challenges in remediating our exposures and transitioning the platform and new business opportunities due to the significant contractual and regulatory constraints imposed on the companies.

Syncora's corporate strategy is focused on addressing both its financial and operating challenges as well as repositioning the platform to engage in new business activities which will result in maximizing value to Syncora stakeholders.

Syncora's three strategic goals are (1), to achieve financial stability for the insurance platforms, (2), enhance financial and operating flexibility for the Syncora entities as a whole and (3), initiate new businesses with sustainable sources of economic and strategic value.

On the first goal of achieving financial stability for the insurance platforms, we will continue to aggressively pursue our proven and successful remediation and asset recovery activities focused on the liquidity and surplus objectives at SGI and SCAI.

Syncora accomplished a number of significant achievements in 2014, with the successful settlement of the JPM litigation and the remediation of exposures with key liquidity constraints for SGI as well as the successful remediation of the Detroit COP bond exposures at SCAI.

We continue to actively pursue new and creative solutions for remediation which we believe position the company well to achieve its goal.

On the second goal of enhancing financial and operating flexibility, the company is actively exploring options to address key contractual and regulatory constraints as well as ways to simplify its capital structure.

The objectives underlying this goal include first, enhancing the ability for the holding company and other Syncora entities to access liquidity and capital. Second, enhancing the ability for SGI and SCAI to provide intercompany assistance to each other and third, removing constraints to modify key agreements such at the general services and tax sharing arrangements that currently limit value maximization for all stakeholders.

On the third goal of initiating new businesses with sustainable sources of economic and strategic value, we continue to focus on first, active businesses possible under existing constraints and the company's current capital structure. And separately, exploring new business options possible under an improved structure with enhanced financial and operating flexibility.

Active business currently under development or transition by Syncora currently include first, American Roads which is a wholly-owned subsidiary of SGI acquired through the successful September, 2013 prepack bankruptcy involving an SGI guaranteed obligation.

American Roads is uniquely positioned as a U.S. based owner operator of toll assets. Headquartered in Detroit, Michigan, American Roads manages 4 wholly owned toll bridges and one toll tunnel concession, the international Detroit-Windsor Tunnel.

As previously noted, during the third quarter, American Roads and certain of it affiliates reached agreement in principle with the City of Detroit and other parties on a development agreement which includes a 20 year extension to the Detroit-Windsor Tunnel lease, options with regards to the development of certain real estate assets and a long-term concession to operate and make improvements to a parking garage.

This transaction creates enhanced value and opportunity for American Roads and supports its future growth strategy. Two other initiatives under development include Camberlink, a wholly owned subsidiary of Syncora

Holding’s, established to provide credit operations and investment services to third -party senior debt investors, leveraging off Syncora's credit and surveillance core competencies. And secondly, SGI’s strategic investments, established to better address the company’s long-term liability matching needs.

With respect to new business options possible under an improved structure with enhanced financial and operating flexibility, in addition to expansion of existing businesses, management is also exploring options across a number of different business strategies and models, many of which would necessitate new capital infusion and focus on additional use and value recognition of the NOL asset.

These strategies include certain financial and credit insurance businesses, consumer and commercial credit, and asset management amongst others.

Moving to Slide 24, Syncora's developed key criteria and considerations for evaluating strategic initiatives. We believe such criteria to be important in measuring our value to stakeholders and focusing our activities in the most efficient manner.

These criteria include first, compliance with all regulatory and contractual constraints. As was previously discussed, the existing constraints materially limit certain remediation and new business activities for the companies. Second, there should no be distraction from de- risking and stabilization activities which places both human resource and capital limits on the scope and breadth of activities pursued until the insurance platforms are further stabilized. Third, there should be a sustainable source of economic and strategic value for stakeholders.

Fourth, the opportunity should be consistent with the company's core competencies which it is important to note are broader than those competencies historically associated with financial guarantee companies as we have added, changed and significantly enhanced personnel and skills since 2007.

Next, maximize the value of the NOLs and other assets which over time will assist in creating value to stakeholders. We currently estimate as previously noted that over 2.5 billion of the NOLs will expire unutilized without taking steps to create new sources of income. And finally, where possible, strategic initiatives should reduce or support future operating cost of the insurance companies.

Now, moving to slide 25, our target timeline for executing on the components of management strategy is highly interrelated. The first component is ongoing and is a continued focus on de-risking and stabilization of insurance platforms. The timing depends on the outcome of certain key remediation transactions, the future performance, and attrition of our legacy portfolio as well as our ability to remove key financial and operating constraints, which as previously discussed, if successful will assist in accelerating the timing and certainty of stabilizing the insurance platforms.

Base on the future input from regulators and key constituents, we intend to consider options for the removal of key operating and financial constraints which we view as material for both, the de-risking and stabilization efforts as well as exploration and pursuit of new businesses and value realization initiatives.

While achieving this component is not fully in our control, we intend to explore and if available consider options within to the next 12 months. To the extent suitable options are not available, we may consider reassessing options surrounding this goal at a future date.

The final component involves exploring and pursuing new business opportunities. Management has undertaken comprehensive steps to evaluate options for new businesses both within and outside of the current structure and constraint environment. Should the company succeed in removing key operating and financial constraints, we expect to adjust our activities and plans to pursue these expanded opportunities. Subject to the successful outcome of the first two components of our strategy, we're targeting 12 to 24 months for the launch of expanded new business initiatives.

I will conclude by stating that Syncora has made significant progress in remediation and stabilization activities since 2008. However, as discussed, we continue to face a number of key challenges. We believe that a critical factor in achieving financial stability in the insurance platforms as well as repositioning Syncora to maximize value for all stakeholders will be the successful removal of key financial and operating constraints.

With this in mind, we continue to work closely with our regulators and key stakeholders in considering potential options for the company and its future.

This concludes my prepared remarks. Mike?

Michael Corbally: Thank you, Claude. As I mentioned at the beginning of the call, we do want to address a few other matters that investors ask us about including questions relating to SGI liquidity options, relisting, compensation, operational expenses, and the status of the appointment of the two new directors to SHL's Board.

So now, I'd like to turn it back to Claude to address the first question before Susan addresses the others.

Claude LeBlanc: Thanks Mike. We received a number of inquiries as to whether there are steps the company can take to accelerate payment on the surplus notes. As noted in our prior remarks, the decision to make payments on surplus notes is completely in the control and discretion of the New York Department of Financial Services. As also noted in our strategy review, we are focused on maximizing value to all stakeholders including policyholders, surplus noteholders and equityholders. Accordingly, we are actively pursuing ways to increase liquidity and surplus through our targeted strategy of remediation and asset recovery as well as efforts to enhance our financial and operating flexibility.

Susan Comparato: Moving on the next question. Some investors have also asked whether the company is considered relisting with the SEC. As noted in our discussions on slide 19, Syncora deregistered in 2009 in an effort to conserve funds and reduce administrative cost.

While we continue to consider the benefits of relisting, we are mindful that this would be a large undertaking at an entity that has limited capital and for which the administrative costs might well outweigh any associated benefits. Management and the Board will continue to evaluate the feasibility and potential benefits of relisting as we work towards Syncora enhancing its financial and operational flexibility.

Moving to compensation, we've been asked how management is compensated and do they receive SHL common shares or other Syncora securities as part of their compensation. To drive performance, it is essential to have a well designed incentive program. Following the financial crisis in designing its incentive program, Syncora has not issued common stock or others Syncora instruments to management or directors due to MTA 2 related restrictions. Instead, Syncora has designed an incentive program which focuses on key metrics, such as remediation outcomes, litigation recoveries, operational efficiencies and other strategic goals. The program has a short term component consisting of annual base and bonus as well as a longer term component.

Next to the question on operational expenses, in line with the compensation question, we've also been asked what steps has the company taken to reduce operational expenses and are there efforts underway to reduce expenses further.

Syncora continues to take steps to reduce its operational expenses. Excluding loss adjustment expenses from 2008 to 2013, SHL has reduced its operating expenses by approximately 75 percent.

Reductions have occurred primarily due to staff reductions, use of fewer consultants and a decrease in general legal spend. LAE, which we don't consider to be an ongoing operating expense, continues to remain high but will decrease as Syncora’s insured portfolio continues to improve.

Finally, following the nomination and election of Mr. Alan Carr and Mr. Spencer Wells to the SHL Board we have received questions regarding the

expected timing for the NYDFS’s approval of their appointment to SHL's board.

As a reminder, Mr. Carr and Mr. Wells were elected to the SHL Board on September 3rd by a vote of the series A pref shareholders. The NYDFS is reviewing the applications for Mr. Carr and Mr. Wells and has not yet completed its review. At this point, we really do not have a timeline as to when this review will be complete.

Michael Corbally: Thank you, Susan. Ladies and gentlemen, that concludes the Syncora Investor Update Call. But as a means of continuing our dialogue please feel free to reach out to us through our dedicated investor relation's e-mail, that's investorrelations@scafg.com.

A transcript and a replay of this call will be available on our web site later today. So thank you all for listening.

Operator, this ends our call.

Operator: This concludes today's conference call. You may now disconnect.

END