Syncora Holdings Ltd. Announces 2016 Year End GAAP Consolidated Financial Results

HAMILTON, Bermuda, April 4, 2017 / PRNewswire/ – Syncora Holdings Ltd. ("SHL" or the "Company"), a Bermuda holding company whose subsidiaries primarily provide financial guarantee insurance and reinsurance, today reported results for the year ended December 31, 2016.

Syncora Holdings Ltd.
Summary Results of Consolidated Operations
Years Ended 2016 and 2015
(U.S. dollars in millions, except per share amounts)

	2016		2015	
Net premiums earned	$	77.2	$	73.1
Net investment income		49.1		42.8
Net (loss) on insurance cash flow certificates		(110.6)		(55.6)
Net (loss) earnings on credit default and other swap contracts		(56.4)		139.9
Net recoveries and loss adjustment expenses		179.3		149.3
Operating expenses		93.6		86.1
Net income attributable to controlling interest	$	32.7	$	216.7
GAAP earnings per common share	$	2.18[2]	$	5.33[2]
Non-GAAP operating income [1]	$	164.0	$	119.0
Non-GAAP operating income per common share [1]	$	2.41	$	2.11
	As of December 31, 2016		As of December 31, 2015	
Adjusted Book Value [1]	$	484.1	$	213.4
Common shares outstanding at end of period		86.6		56.3
Adjusted Book Value per common share [1]	$	5.59	$	3.79

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[1] Non-GAAP operating Income and adjusted book value are non-GAAP financial measures that exclude (or include) amounts that are included in (or excluded from) total Syncora Holdings Ltd. net income and common shareholders' equity, respectively, which are presented in accordance with GAAP. See below for reconciliations between GAAP and Non-GAAP financial measures.

[2] For purposes of our earnings per share calculation, $115.2 million and $83.4 million are included for 2016 and 2015, respectively, which related to the extinguishment of the Series A perpetual non-cumulative preference shares.

Year End Results

Consolidated Statements of Operations

Net premiums earned were $77.2 million for the year ended December 31, 2016, as compared to $73.1 million for the year ended December 31, 2015. The increase was due to higher premium accelerations from remediation activities and refundings during the year, which was primarily from the purchase of the remaining insured obligations related to American Roads, partially offset by the continued run-off of our insured portfolio. Total premium accelerations were $43.2 million for the year ended December 31, 2016, as compared to $29.0 million for the year ended December 31, 2015.

Net (loss) on insurance cash flow certificates was $(110.6) million for the year ended December 31, 2016, as compared to $(55.6) million for the year ended December 31, 2015. As this represents future cash flow receipts from certain insurance claim payments the Company anticipates making on policies that have been remediated, the increase to net loss was primarily driven by higher positive RMBS development.

Net (loss) earnings on credit default and other swap contracts was $(56.4) million for the year ended December 31, 2016, as compared to $139.9 million for the year ended December 31, 2015. The decrease was primarily due to non-performance risk and yield curve spread tightening, as well as from collateral spread widening on the underlying reference obligations.

Net recoveries and loss adjustment expenses were $179.3 million for the year ended December 31, 2016, as compared to $149.3 million for the year ended December 31, 2015. The increase was primarily due to positive RMBS developments, the benefit from the American Roads remediation as discussed above, a $40.0 million settlement of a dispute with an RMBS originator related to an insured RMBS-related transaction, partially offset by incurred losses on Puerto Rico-related exposures. Net recoveries in 2015 included a significant benefit received from the commutation of the Skyway Concession Company LLC insured obligation.

Operating expenses were $93.6 million for the year ended December 31, 2016, as compared to $86.1 million for the year ended December 31, 2015. The increase was primarily due to additional costs in connection with the restructuring transactions, including severance.

Consolidated Balance Sheets

Total assets decreased by $231.3 million from $2,625.7 million as of December 31, 2015 to $2,394.4 million as of December 31, 2016 primarily due to the purchase of the remaining insured obligations relating to American Roads, the $55.0 million surplus note payment and lower receivables on insurance cash flow certificates primarily as a result of positive RMBS developments, partially offset by the receipt of a $40.0 million settlement of a dispute with an RMBS originator as discussed above.

Total liabilities decreased by $257.2 million from $2,110.4 million as of December 31, 2015 to $1,853.2 million as of December 31, 2016. The decrease primarily resulted from the release of reserves associated with the American Roads remediation purchase as discussed above, lower unpaid losses due to RMBS positive developments, the settlement of a dispute related to our guarantee of certain interest rate swaps issued with respect to the City of Detroit, lower unearned premium revenue from the continued run-off of our insured portfolio and from our ongoing remediation activities. These decreases were partially offset by higher credit default and other swap contract liabilities due to non-performance risk and yield curve spread tightening, as well as from collateral spread widening, higher losses on Puerto Rico-related exposures and the continued accretion of Syncora Guarantee Inc.'s surplus notes.

Syncora Holdings Ltd.
Consolidated Statements of Operations
Years Ended 2016 and 2015
(U.S. dollars in thousands)

	2016	2015
Revenues		
Net premiums earned	$ 77,154	$ 73,147
Net investment income	49,080	42,799
Net realized losses on investments	(19,604)	(3,330)
Net loss on insurance cash flow certificates	(110,595)	(55,578)
Toll revenue	27,769	25,298
Fees and other income	24,375	12,526
Net (loss) earnings on credit default and other swap contracts	(56,423)	139,891
Net change in fair value of consolidated variable interest entities	44,528	6,107
Total revenues	36,284	240,860
Expenses		
Net recoveries and loss adjustment expenses	(179,261)	(149,278)
Amortization of deferred acquisition costs, net	11,629	9,962
Realized loss on interest rate derivative instrument	471	2,660
Interest expense, including accretion of $22,874 and $25,196	71,806	72,572
Operating expenses	93,601	86,137
Total expenses	(1,754)	22,053
Income before income tax expense	38,038	218,807
Income tax expense	4,755	1,127
Net income	33,283	217,680
Net income attributable to non-controlling interest	633	976
Net income attributable to controlling interest	$ 32,650	$ 216,704

Syncora Holdings Ltd.
Consolidated Balance Sheets
December 31, 2016 and December 31, 2015
(U.S. dollars in thousands)

	2016	2015
ASSETS		
Debt securities, available-for-sale, at fair value	$ 1,275,443	$ 1,355,985
Other invested assets, at fair value	95,810	57,470
Cash and cash equivalents	188,621	245,743
Total cash and invested assets	1,559,874	1,659,198
Restricted cash and cash equivalents	4,886	26,101
Accrued investment income	11,884	8,317
Deferred acquisition costs, net	42,614	54,243
Premiums receivable	117,728	133,516
Salvage and subrogation recoverable	101,207	87,829
Credit default and other swap contracts, at fair value	-	13
Receivables on insurance cash flow certificates, net	203,764	314,412
Property and equipment, net	48,802	50,781
Leasehold rights and other definite-lived intangible assets, net	18,229	21,544
Toll rights and other indefinite-lived intangible assets, net	97,702	97,726
Other assets	40,846	46,437
Assets of consolidated variable interest entities, at fair value	146,857	125,608
Total assets	$ 2,394,393	$ 2,625,725
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Unpaid losses and loss adjustment expenses	$ 742,236	$ 1,007,186
Unearned premium revenue	292,816	366,821
Credit default and other swap contracts, at fair value	160,515	97,975
Notes payable (par value: $685,556 and $719,142)	396,759	366,237
Accrued interest on notes payable	125,953	129,592
Reinsurance premiums payable	12,732	15,239
Accounts payable, accrued expenses and other liabilities	44,544	42,452
Pension and other post-retirement liabilities	11,475	11,200
Liabilities of consolidated variable interest entities, at fair value	66,183	73,726
Total liabilities	1,853,213	2,110,428
Shareholders' equity		
Non-controlling interest in subsidiary - Series B perpetual non-cumulative preferred shares of Syncora Guarantee Inc.	13,453	13,453
Non-controlling interest in consolidated entity	3,066	3,146
Series A perpetual non-cumulative preferred shares and additional paid-in-capital	-	163,162
Common shares and additional paid-in-capital	2,716,220	2,678,346
Accumulated deficit	(2,195,356)	(2,343,216)
Accumulated other comprehensive income	3,797	406
Total Syncora Holdings Ltd. common shareholders' equity	524,661	335,536
Total Syncora Holdings Ltd. shareholders' equity	524,661	498,698
Total shareholders' equity	541,180	515,297
Total liabilities and shareholders' equity	$ 2,394,393	$ 2,625,725

Non-GAAP Financial Measures

This earnings release references Non-GAAP operating income and Adjusted Book Value, financial measures that are not calculated in accordance with GAAP. A Non-GAAP financial measure is a numerical measure of financial performance or financial position that excludes (or includes) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP. While the Company does not manage its business or measure its performance using Non-GAAP measures, we are presenting these Non-GAAP financial measures because they provide greater transparency and enhanced visibility into the underlying performance of our business and, with respect to Adjusted Book Value, the effect of certain items that the Company believes will reverse from GAAP book value over time. In addition, we have included these measures because we believe they provide investors with important additional information to compare the Company to other financial guarantors. Non-GAAP operating income and Adjusted Book Value as calculated do not consider timing or amounts, if any, of payment on SGI's surplus notes, which would require NYDFS approval, dividend restrictions under New York Insurance Law applicable to the insurance subsidiaries and contractual constraints with respect to any dividend payment. Reference should be made to Note 20 in the most recently issued consolidated GAAP financial statements. In addition, because other financial guarantors may calculate Non-GAAP operating income and Adjusted Book Value or similarly titled measures differently, or may not be subject to the restrictions noted above, Non-GAAP operating income and Adjusted Book Value may not necessarily be comparable to similarly titled measures reported by other financial guarantors. Non-GAAP operating income and Adjusted Book Value are not substitutes for the most directly comparable GAAP measures, should not be viewed in isolation and may be subject to change.

In the fourth quarter of 2016, the Company revised its calculation of non-GAAP measures in response to the U.S. Securities and Exchange Commission's recent public views relating to the release of updated Compliance and Disclosure Interpretations on non-GAAP measures (the "May 2016 C&DIs"). The Company had previously excluded the effects of consolidated variable interest entities ("VIEs") in its calculation of Non-GAAP operating income and Adjusted Book Value. Beginning in the fourth quarter of 2016, the Company will no longer eliminate the effects of consolidated VIEs based on the May 2016 C&DIs. However, the Company has separately disclosed the effects of consolidated VIEs on its GAAP financial statements that were previously included as adjustments to its non-GAAP measures. These disclosures can be found after the Non-GAAP operating income and Adjusted Book Value tables below. The 2015 non-GAAP financial measures have been updated to reflect the revised calculation.

The following table reconciles GAAP earnings attributable to common shareholders of Syncora Holdings Ltd. to Non-GAAP operating income attributable to common shareholders of Syncora Holdings Ltd.:

Syncora Holdings Ltd.
Reconciliation of GAAP Net Income to Non-GAAP Operating Income

(In millions)	Year Ended December 31, 2016		Year Ended December 31, 2015	
GAAP net income	**$**	**32.7**	**$**	**216.7**
Extinguishment of Series A perpetual non-cumulative preference shares		115.2		83.4
GAAP earnings attributable to common shareholders of Syncora Holdings Ltd.	**$**	**147.9**	**$**	**300.1**
GAAP net income	**$**	**32.7**	**$**	**216.7**
Pre-tax adjustments:				
Non-credit impairment of net realized and unrealized fair value losses and (gains) on credit derivatives [1]		69.0		(126.2)
Surplus note accretion [2]		22.9		25.2
Net realized losses on investments [3]		26.8		3.3
Non-recurring transaction related expenses [4]		12.6		-
Total pre-tax adjustments		131.3		(97.7)
Less tax effect on pre-tax adjustments [5]		-		-
Non-GAAP operating income	**$**	**164.0**	**$**	**119.0**
Basic and diluted weighted average common shares		67.9		56.3
GAAP earnings per common share	$	2.18	$	5.33
Non-GAAP operating income per common share	$	2.41	$	2.11

Non-GAAP operating income (loss) adjustments:

(1) Elimination of non-credit impairment net realized and unrealized fair value (gains) and losses on credit derivatives in excess of the present value of the expected estimated economic credit losses, and non-economic payments. The fair value adjustments on derivative financial instruments are heavily influenced by, and fluctuate, in part according to, market interest rates, credit spreads and other factors that management cannot control or predict and that are not expected to result in an economic gain or loss. In addition, this adjustment presents all financial guaranty contracts on a more consistent basis of accounting, whether or not they are subject to derivative accounting rules.

(2) Elimination of surplus note accretion as the full face amount of the surplus notes (including interest paid-in-kind) is included in the Adjusted Book Value calculation.

(3) Elimination of net realized gains (losses) on the Company's investments, except for gains and losses on investments for which the fair value option of accounting was elected. The timing of realized gains and losses, which depends largely on market credit cycles, can vary considerably across periods. The timing of sales is largely subject to the Company's discretion and influenced by market opportunities, as well as the Company's tax and capital profile.

(4) Elimination of expenses associated with the surplus note exchange offer and proxy solicitation for the variation of rights to the SHL Preferred Shares, which were part of Syncora Holdings US Inc.'s ("SHI") restructuring transactions completed on August 12, 2016. The elimination of such non-recurring, infrequent or unusual items presents expenses on a more consistent basis of accounting.

(5) Elimination of the tax effects related to the above adjustments. SHI has a significant tax NOL that is offset by a full valuation allowance in the GAAP consolidated financial statements. As a result, for purposes of non-GAAP measures, we utilize a 0% effective tax rate until the expiration of these NOLs.

Net income (loss) effects of VIE consolidation: GAAP requires the Company to consolidate certain VIEs that (a) have issued debt obligations that are insured and controlled by the Company and (b) were designed to effectively defease or, in-substance, commute the Company's exposure on certain of its other financial guaranty insurance policies. The effect on Net income of these consolidated VIEs was $44.5 million and $6.1 million for the years ended December 31, 2016 and 2015, respectively. Had these financial guarantee VIEs been accounted for under the provisions of the Financial Services – Insurance Topic of the ASC, the effect on Net income would have been $17.7 million and $22.7 million for the year ended December 31, 2016 and 2015, respectively. The net effect of these different accounting bases on Net income (including per share amounts) was $(26.8) million ($(0.39) per common share) and $16.6 million ($0.29 per common share) for the years ended December 31, 2016 and 2015, respectively. This is supplemental information only and is not a component of Non-GAAP operating income.

The following table reconciles GAAP common shareholders' equity to Adjusted Book Value:

Syncora Holdings Ltd.
Reconciliation of GAAP Common Shareholders' Equity to
Adjusted Book Value
(in millions)

	As of December 31,	
	2016	**2015**
GAAP common shareholders' equity	**$ 524.7**	**$ 335.5**
Series A preferred stock [1]	-	(2.3)
Series B preferred stock [1]	(121.0)	(121.0)
Adjusted GAAP common shareholders' equity	**$ 403.7**	**$ 212.2**
Pre-tax adjustments:		
Deferred acquisition costs [2]	(42.6)	(54.2)
Net credit derivative liability [3]	122.3	53.4
Net present value of estimated net future credit derivative revenue [4]	65.9	80.9
Net unearned premium reserve on financial guaranty contracts in excess of expected loss to be expensed [5]	272.1	317.7
Notes payable [6]	(288.8)	(352.9)
Unrealized gains on investments [7]	(21.5)	(15.8)
Taxes [8]	(27.0)	(27.9)
Adjusted Book Value	**$ 484.1**	**$ 213.4**
Common shares outstanding at end of the period	86.6	56.3
Book value per common share	$ 4.66	$ 3.77
Adjusted book value per common share	$ 5.59	$ 3.79

Adjusted Book Value adjustments:

(1) Addition of the excess of the outstanding liquidation preference of the SHL Series A perpetual non-cumulative preferred shares and the SGI Series B non-cumulative preferred shares over their carrying values. Including the SHL Series A perpetual non-cumulative preferred shares and the SGI Series B non-cumulative preferred shares at their outstanding liquidation value (which, for the SGI Series B, is net of the shares received in connection with our 2012 settlement with Countrywide, Bank of America Corp.) instead of their carrying value is more in line with the residual value to common shareholders.

(2) Elimination of pre-tax deferred acquisition costs as these amounts represent net deferred expenses that have already been paid and will be expensed in future accounting periods.

(3) Elimination of the consolidated net credit derivative liability which represents an estimate of the fair value of the Company's guarantees issued as CDS contracts in excess of the present value of the expected losses. By excluding the net credit derivative liability, this metric eliminates the benefit to our shareholders' equity embedded therein from the Company's non-performance risk, which reflects the market's view of the risk that the Company will not be able to financially honor its obligations as they become due. The fair value adjustments on derivative financial instruments are heavily influenced by, and fluctuate, in part according to, market interest rates, credit spreads and other factors that management cannot control or predict and that are not expected to result in an economic gain or loss. In addition, by including our best estimate of losses we expect to incur on our CDS contracts if we were to hold such CDS contracts to maturity and pay claims as they arise over the remaining life of such contracts, the metric presents our guarantees of insurance and derivatives on a consistent basis, which results in a more meaningful measure of our value.

(4) Addition of the pre-tax net present value of estimated net future credit derivative revenues. Including the net present value of estimated net future credit derivative revenues enables an evaluation of the value of future estimated credit derivative revenue for which there is no corresponding GAAP financial measure.

(5) Addition of the pre-tax value of the unearned premium reserve on financial guaranty contracts in excess of expected losses to be expensed on an individual policy level, net of reinsurance as the unearned premium reserve on financial guaranty contracts represents revenues that are expected to be earned in the future.

(6) Addition to the full face amount, in excess of the carrying amount, of the surplus notes payable held by third parties (including interest paid-in-kind), as including the full face amount of the surplus notes is consistent with the treatment of these instruments as debt.

[7] Elimination of the pre-tax unrealized gains on the Company's investments that are recorded as a component of accumulated other comprehensive income ("AOCI"), excluding the effects of foreign exchange. The effects of the AOCI component of the fair value adjustment on investments is not deemed economic as the Company generally holds such investments to maturity and therefore the Company should not recognize an economic gain or loss.

[8] Elimination of the tax effects related to the above adjustments. SHI has a significant tax NOL that is offset by a full valuation allowance in the GAAP consolidated financial statements. As a result, for purposes of Non-GAAP measures, we utilize a 0% effective tax rate until the expiration of these NOLs.

Total shareholders' equity effects of VIE consolidation: As described above, the Company consolidates certain VIEs. The net effect on Total shareholders' equity of these consolidated VIEs was $80.7 million and $51.9 million as of December 31, 2016 and 2015, respectively. Had these financial guarantee VIEs been accounted for under the provisions of the Financial Services – Insurance Topic of the ASC, the effect on Total shareholders' equity would have been $127.0 million and $121.8 million as of December 31, 2016 and 2015, respectively. The net effect of these different accounting bases on Total shareholders' equity (including per share amounts) was $46.3 million ($0.53 per common share) and $69.9 million ($1.24 per common share) as of December 31, 2016 and 2015, respectively. This is supplemental information only and is not a component of Adjusted Book Value.

Conference Call Details

The earnings call will be webcast via the Investor Events page of the Investor Relations section of the Company's website, or by dialing (877) 512-9165 (U.S. toll free), or (706) 679-5795 outside the U.S., Puerto Rico and Canada, approximately 10 minutes prior to the scheduled start time and providing conference ID# 853-86-170. Following conclusion of the call, the Company will post a transcript on its website alongside a replay of the webcast. The replay will also be available via telephone by dialing [(855) 859-2056 (U.S. toll free), or (404) 537-3406] outside the U.S., Puerto Rico and Canada, and providing conference ID# 853-86-170.

Important Information

This press release contains statements about future results, plans and events that may constitute "forward-looking" statements within the meaning of the U.S. federal securities laws. The Company cautions you that the forward-looking information presented in this press release is not a guarantee of future events, and that actual events may differ materially from those made in or suggested by the forward-looking information contained in this press release. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "plan," "seek," "comfortable with," "will," "expect," "intend," "estimate," "anticipate," "believe" or "continue" or the negative thereof or variations thereon or similar terminology. Forward-looking statements are subject to a number of risks 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 State Department of Financial Services, and in the Company's, Syncora Guarantee Inc.'s and Syncora Capital Assurance Inc.'s GAAP and statutory financial statements, as applicable, posted on its website at www.syncora.com. Readers are cautioned not to place undue reliance on forward-looking statements which 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 the forward-looking statements are made.