Syncora Holdings Ltd. Announces 2017 Year End GAAP Consolidated Financial Results

HAMILTON, Bermuda, March 27, 2018 (GLOBE NEWSWIRE) – Syncora Holdings Ltd. (“SHL” or the “Company”), a Bermuda holding company whose wholly-owned subsidiary provides financial guarantee insurance and reinsurance, today reported financial results for the year ended December 31, 2017.

Syncora Holdings Ltd.
Summary of Consolidated Financial Results
December 31, 2017 and 2016
(U.S. dollars in millions, except per share amounts)

	Years Ended	
	2017	**2016**
Net premiums earned	$ 51.1	$ 77.2
Net investment income	45.3	48.8
Net realized losses on investments	(17.7)	(19.8)
Net loss on insurance cash flow certificates	(120.1)	(110.6)
Net earnings (loss) on credit default and other swap contracts	59.7	(56.4)
Net recoveries on losses and loss adjustment expenses	(197.7)	(179.3)
Operating expenses	47.0	74.3
Income from continuing operations	121.4	20.2
Income from discontinued operations	12.5	13.0
Net income attributable to controlling interest	$ 133.5	$ 32.7
Basic and diluted income per common share	$ 1.54	$ 2.18 [2]
Basic and diluted income from discontinued operations per common share	$ 0.14	$ 0.19
Non-GAAP operating income [1]	$ 148.3	$ 150.9
Non-GAAP basic and diluted operating income per common share [1]	$ 1.71	$ 2.22
Basic and diluted weighted average common shares outstanding	86.7	67.9

	As of Year-End	
	2017	**2016**
Adjusted Book Value [1]	$ 609.3	$ 484.1
Common shares outstanding at end of period	86.8	86.6
Adjusted Book Value per common share [1]	$ 7.02	$ 5.59

[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 is included for 2016, which is related to the extinguishment of the Series A perpetual non-cumulative preference shares.

Financial Results

Consolidated Statements of Operations

Net premiums earned were $51.1 million for the year 2017, as compared to $77.2 million for the year 2016. The decrease was due to lower earned premiums as a result of the continued run-off of the Company's book of business, and lower premium accelerations from refundings in the current year. Total premium accelerations were $24.8 million for the year 2017, as compared to $43.2 million for the year 2016.

Net investment income decreased slightly by $3.5 million from $48.8 million for the year 2016 to $45.3 million for the year 2017. The decrease was primarily due to lower invested assets as a result of claims payment activity during the year.

Net realized losses on investments decreased by $2.1 million to $17.7 million for the year 2017 from $19.8 million for the year 2016. The decrease was primarily due to higher realized gains on sales, partially offset by higher other-than-temporary impairment charges in the current period.

Net loss on insurance cash flow certificates was $120.1 million for the year 2017, as compared to $110.6 million for the year 2016. As this represents future cash flow receipts from certain insurance claim payments the Company anticipates making on policies that have been remediated, offset by reimbursements assigned to UCF holders, the increase was a result of positive RMBS developments and the effects of the GreenPoint litigation settlement.

Net earnings (loss) on credit default and other swap contracts was $59.7 million for the year 2017, as compared to $(56.4) million for the year 2016. The increase was primarily due to higher non-performance risk spreads primarily as a result of Puerto Rico adverse developments.

Net recoveries on losses and loss adjustment expenses were $197.7 million for the year 2017, as compared to $179.3 million for the year 2016. The increase was primarily due to higher recoveries as a result of the GreenPoint litigation settlement and other RMBS positive developments, partially offset by net incurred losses on our Puerto Rico exposures.

Operating expenses were $47.0 million for the year 2017, as compared to $74.3 million for the year 2016. The decrease was primarily due to cost savings associated with headcount reductions and removal of restructuring transaction-related costs.

Income from discontinued operations represents the total revenues and total expenses of American Roads LLC, which was $12.5 million for the year 2017 and $13.0 million for the year 2016.

Consolidated Balance Sheets

Total assets decreased by $8.9 million from $2,394.4 million as of year-end 2016 to $2,385.5 million as of year-end 2017 primarily as a result of Puerto Rico net claim payments, a reduction in expected roundtrip claim payments for remediated RMBS exposures and lower premium receivables as a result of refunding activity and the continued run-off of the Company's book of business, partially offset by higher salvage and subrogation recoverable as a result of the GreenPoint settlement.

Total liabilities decreased by $169.7 million from $1,853.2 million as of year-end 2016 to $1,683.5 million as of year-end 2017. The decrease was primarily due to RMBS positive developments, lower unearned premium revenue from the continued run-off of the Company's insured portfolio, lower mark-to-market fair values on our credit default and other swap contracts due to higher non-performance risk spreads and lower accounts payable, accrued expenses and other liabilities due to lower compensation-related expenses as a result of headcount reductions.

Assets and liabilities of entity held-for-sale represent the total assets and total liabilities of American Roads LLC, which met the accounting criteria for held-for-sale during the third quarter of 2017.

Syncora Holdings Ltd.
Consolidated Statements of Operations
Years Ended December 31, 2017 and 2016
(U.S. dollars in thousands)

	2017	2016
Revenues		
Net premiums earned	$ 51,081	$ 77,154
Net investment income	45,313	48,843
Net realized losses on investments, including other-than-temporary impairment losses of $(41,453) and $(39,829)	(17,735)	(19,789)
Net loss on insurance cash flow certificates, net of amortization of deferred gains of $2,227 and $2,464	(120,103)	(110,595)
Fees and other income	6,282	20,186
Net earnings (loss) on credit default and other swap contracts: net unrealized gains (losses) of $56,351 and $(60,923) and realized gains and other settlements of $3,335 and $4,500	59,686	(56,423)
Net change in fair value of consolidated variable interest entities	37,594	44,528
Total revenues	62,118	3,904
Expenses		
Net recoveries on losses and loss adjustment expenses	(197,687)	(179,261)
Amortization of deferred acquisition costs, net	7,684	11,629
Realized loss on interest rate derivative instrument	50	471
Interest expense, including accretion of $40,705 and $22,874	88,503	71,806
Operating expenses	46,974	74,269
Total expenses	(54,476)	(21,086)
Income before income tax (benefit) expense from continuing operations	116,594	24,990
Income tax (benefit) expense	(4,793)	4,755
Income from continuing operations	121,387	20,235
Income from discontinued operations	12,522	13,048
Net income	133,909	33,283
Net income attributable to non-controlling interest	407	633
Net income attributable to controlling interest	133,502	32,650

Syncora Holdings Ltd.
Consolidated Balance Sheets
December 31, 2017 and 2016
(U.S. dollars in thousands, except share and per share amounts)

ASSETS	**2017**	**2016**
Debt securities, available-for-sale, at fair value		
(amortized cost: $910,858 and $1,257,670)	$ 928,044	$ 1,272,641
Other invested assets, at fair value (cost: $94,232 and $79,284)	117,110	93,888
Cash and cash equivalents	311,951	167,088
Total cash and invested assets	1,357,105	1,533,617
Restricted cash and cash equivalents	2,637	4,704
Accrued investment income	6,633	11,884
Deferred acquisition costs, net	34,930	42,614
Premiums receivable	92,824	117,728
Salvage and subrogation recoverable	422,687	101,207
Receivables on insurance cash flow certificates, net	109,869	203,764
Other assets	45,106	52,261
Assets of consolidated variable interest entities, at fair value	118,154	146,857
Assets of entity held-for-sale	195,540	179,757
Total assets	$ 2,385,485	$ 2,394,393
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Unpaid losses and loss adjustment expenses	$ 674,999	$ 742,236
Unearned premium revenue	224,885	292,816
Credit default and other swap contracts, at fair value	104,094	160,515
Notes payable (par value: $677,117 and $685,556)	428,887	396,759
Accrued interest on notes payable	127,329	125,953
Reinsurance premiums payable	12,921	12,732
Accounts payable, accrued expenses and other liabilities	29,244	38,135
Liabilities of consolidated variable interest entities, at fair value	60,708	66,183
Liabilities of entity held-for-sale	20,428	17,884
Total liabilities	1,683,495	1,853,213
Shareholders' equity		
Non-controlling interest in subsidiary- Series B perpetual non-cumulative preferred shares of Syncora Guarantee Inc. (2,000 shares authorized and issued; 1,345 shares outstanding, 655 shares held by subsidiary; $134,526 liquidation preference)	13,453	13,453
Non-controlling interest in consolidated entity	2,578	3,066
Common shares (500,000,000 shares authorized; 89,811,623 and 89,613,270 shares issued; 86,767,035 and 86,568,682 shares outstanding, 3,044,588 shares held as treasury; $0.01 par value) and additional paid-in capital	2,716,798	2,716,220
Accumulated deficit	(2,061,854)	(2,195,356)
Accumulated other comprehensive income	31,015	3,797
Total Syncora Holdings Ltd. shareholders' equity	685,959	524,661
Total shareholders' equity	701,990	541,180
Total liabilities and shareholders' equity	$ 2,385,485	$ 2,394,393

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 18 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.

The following table reconciles GAAP income 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
December 31, 2017 and 2016
(in millions, except per share amounts)

	Years Ended	
	2017	**2016**
GAAP net income attributable to controlling interest	**$ 133.5**	**$ 32.7**
Extinguishment of Series A perpetual non-cumulative preference shares	-	115.2
GAAP earnings attributable to common shareholders of Syncora Holdings Ltd.	**$ 133.5**	**$ 147.9**
GAAP net income attributable to controlling interest	**$ 133.5**	**$ 32.7**
Pre-tax adjustments:		
Non-credit impairment of net realized and unrealized fair value losses and (gains) on credit derivatives [1]	(38.1)	69.0
Surplus note accretion [2]	40.7	22.9
Net realized losses on investments [3]	24.8	26.8
Non-recurring transaction related expenses [4]	-	12.6
Income from discontinued operations [5]	(12.5)	(13.0)
Total pre-tax adjustments	14.8	118.3
Less tax effect on pre-tax adjustments [6]	-	-
Non-GAAP operating income	**$ 148.3**	**$ 150.9**
Basic and diluted weighted average common shares	86.7	67.9
Basic and diluted earnings per common share	$ 1.54	$ 2.18
Non-GAAP basic and diluted operating income per common share	$ 1.71	$ 2.22

Non-GAAP operating income 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 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 results from discontinued operations related to American Roads LLC.

(6) 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, the Company utilizes a 0% effective tax rate until the expiration of these NOLs.

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
December 31, 2017 and 2016
(in millions, except per share amounts)

	As of Year-End	
	2017	**2016**
GAAP common shareholders' equity	**$ 686.0**	**$ 524.7**
Series B preferred stock [1]	(121.0)	(121.0)
Adjusted GAAP common shareholders' equity	**$ 565.0**	**$ 403.7**
Pre-tax adjustments:		
Deferred acquisition costs [2]	(34.9)	(42.6)
Net credit derivative liability [3]	84.2	122.3
Net present value of estimated net future credit derivative revenue [4]	65.8	65.9
Net unearned premium reserve on financial guaranty contracts in excess of expected loss to be expensed [5]	208.9	272.1
Notes payable [6]	(248.2)	(288.8)
Unrealized gains on investments [7]	(24.4)	(21.5)
Income Taxes [8]	(7.1)	(27.0)
Adjusted Book Value	**$ 609.3**	**$ 484.1**
Common shares outstanding at end of the period	86.8	86.6
Book value per common share	$ 6.51	$ 4.66
Adjusted book value per common share	$ 7.02	$ 5.59

Note: GAAP common shareholders' equity and Adjusted Book Value includes $175.1 million and $175.1 million, $161.9 million and $161.9 million as of December 31, 2017 and 2016, respectively, related to American Roads LLC.

Adjusted Book Value adjustments:

(1) Addition of the excess of the outstanding liquidation preference of the SGI Series B non-cumulative preferred shares over their carrying values. Including the SGI Series B non-cumulative preferred shares at their outstanding liquidation value (which 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 are not deemed economic until the Company sells such investments.

[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, the Company utilizes a 0% effective tax rate until the expiration of these NOLs.

Conference Call Details

The Company plans to host a conference call at 8:30 a.m. on Wednesday, March 28, 2018 to discuss its financial results for the year ended December 31, 2017. 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# 737-7329. 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# 737-7329.

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 and Syncora Guarantee 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.