Syncora Holdings Ltd. Announces Third Quarter 2016 Interim GAAP Consolidated Financial Results And Board Composition Changes

HAMILTON, Bermuda, December 19, 2016 / 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 nine months ended September 30, 2016.

Syncora Holdings Ltd.
Summary Results of Consolidated Operations (Unaudited)
Nine Months Ended September 30, 2016 and 2015
(U.S. dollars in millions, except per share amounts)

	2016	2015
Net premiums earned	$ 52.2	$ 47.8
Net investment income	36.3	31.5
Net (loss) on insurance cash flow certificates	(43.2)	(49.8)
Net (loss) earnings on credit default and other swap contracts	(52.3)	114.3
Net recoveries (losses) and loss adjustment expenses	101.4	128.1
Operating expenses	70.0	62.4
Net income attributable to controlling interest	$ 12.6	$ 178.7
GAAP earnings per common share	$ 2.07 [2]	$ 4.66 [2]
Non-GAAP operating income [(1)]	$ 101.4	$ 107.3
Non-GAAP operating income per common share [(1)]	$ 1.64	$ 1.91

	As of September 30, 2016	As of December 31, 2015
Adjusted Book Value [(1)]	$ 541.5	$ 283.3
Common shares outstanding at end of period	86.6	56.3
Adjusted Book Value per common share [(1)]	$ 6.25	$ 5.03

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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 Slide 5 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 is included for 2016 and 2015, respectively, which related to the extinguishment of the Series A perpetual non-cumulative preference shares.

Third Quarter Results

Consolidated Statements of Operations

Net premiums earned were $52.2 million for the nine months ended September 30, 2016, as compared to $47.8 million for the nine months ended September 30, 2015. The increase was due to higher premium accelerations from remediation activities and refundings, primarily from the purchase of the remaining insured obligations related to American Roads. Total premium accelerations were $25.7 million for the nine months ended September 30, 2016, as compared to $14.2 million for the nine months ended September 30, 2015.

Net recoveries (losses) and loss adjustment expenses were $101.4 million for the nine months ended September 30, 2016, as compared to $128.1 million for the nine months ended September 30, 2015. The decrease was primarily due to a significant benefit received in 2015 from the commutation of the Skyway Concession Company LLC insured obligations, which was greater than the benefits from the American Roads remediation as discussed above and the $40.0 million settlement of a dispute with an RMBS originator related to an insured RMBS-related transaction in 2016.

Net (loss) earnings on credit default and other swap contracts was $(52.3) million for the nine months ended September 30, 2016, as compared to $114.3 million in 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.

Operating expenses were $70.0 million for the nine months ended September 30, 2016, as compared to $62.4 million for the nine months ended September 30, 2015. The increase was primarily due to additional professional fees incurred in connection with the August 12, 2016 restructuring transactions.

Consolidated Balance Sheets

Total assets decreased by $155.0 million from $2,625.7 million as of December 31, 2015 to $2,470.7 million as of September 30, 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 $178.4 million from $2,110.4 million as of December 31, 2015 to $1,932.0 million as of September 30, 2016. The decrease resulted primarily 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, and lower unearned premium revenue from the continued run-off of our insured portfolio and from our ongoing remediation activities. The 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, and the continued accretion of Syncora Guarantee Inc.'s surplus notes.

Syncora Holdings Ltd.
Consolidated Statements of Operations (Unaudited)
Nine Months Ended September 30, 2016 and 2015
(U.S. dollars in thousands)

	2016	2015
Revenues		
Net premiums earned	$ 52,224	$ 47,839
Net investment income	36,280	31,488
Net realized losses on investments	(9,386)	(3,695)
Net loss on insurance cash flow certificates	(43,238)	(49,777)
Toll revenue	21,195	19,486
Fees and other income	21,755	9,919
Net (loss) earnings on credit default and other swap contracts	(52,270)	114,287
Net change in fair value of consolidated variable interest entities	18,699	9,117
Total revenues	45,259	178,664
Expenses		
Net (recoveries) losses and loss adjustment expenses	(101,416)	(128,090)
Amortization of deferred acquisition costs, net	5,414	6,454
Realized loss on interest rate derivative instrument	501	2,678
Interest expense, including accretion of $15,731 and $18,335	53,571	53,918
Operating expenses	70,022	62,448
Total expenses	28,092	(2,592)
Income before income tax expense	17,167	181,256
Income tax expense	4,137	1,767
Net income	13,030	179,489
Net income attributable to non-controlling interest	393	801
Net income attributable to controlling interest	$ 12,637	$ 178,688

Syncora Holdings Ltd.
Consolidated Balance Sheets
September 30, 2016 (Unaudited) and December 31, 2015
(U.S. dollars in thousands)

	2016	2015
ASSETS		
Debt securities, available-for-sale, at fair value	$ 1,309,724	$ 1,355,985
Other invested assets, at fair value	74,201	57,470
Cash and cash equivalents	186,274	245,743
Total cash and invested assets	1,570,199	1,659,198
Restricted cash and cash equivalents	3,380	26,101
Accrued investment income	12,932	8,317
Deferred acquisition costs, net	48,829	54,243
Premiums receivable	122,391	133,516
Salvage and subrogation recoverable	93,970	87,829
Receivables on insurance cash flow certificates, net	262,043	314,412
Property and equipment, net	49,142	50,781
Leasehold rights and other definite-lived intangible assets, net	19,012	21,544
Toll rights and other indefinite-lived intangible assets, net	97,726	97,726
Other assets	65,005	46,437
Assets of consolidated variable interest entities, at fair value	126,065	125,608
Total assets	$ 2,470,694	$ 2,625,712
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Unpaid losses and loss adjustment expenses	$ 815,889	$ 1,007,186
Unearned premium revenue	318,705	366,821
Credit default and other swap contracts, at fair value	155,453	97,962
Notes payable (par value: $685,551 and $719,142)	389,650	366,237
Accrued interest on notes payable	114,828	129,592
Reinsurance premiums payable	13,160	15,239
Accounts payable, accrued expenses and other liabilities	46,298	42,452
Pension and other post-retirement liabilities	11,370	11,200
Liabilities of consolidated variable interest entities, at fair value	66,687	73,726
Total liabilities	1,932,040	2,110,415
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	3,052	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	(2,215,369)	(2,343,216)
Accumulated other comprehensive income	21,298	406
Total Syncora Holdings Ltd. common shareholders' equity	522,149	335,536
Total Syncora Holdings Ltd. shareholders' equity	522,149	498,698
Total shareholders' equity	538,654	515,297
Total liabilities and shareholders' equity	$ 2,470,694	$ 2,625,712

Non-GAAP Financial Measures

This earnings release references Non-GAAP operating income (loss) and adjusted book value ("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 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 (loss) 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 (loss) and Adjusted Book Value or similarly titled measures differently, or may not be subject to the restrictions noted above, Non-GAAP operating income (loss) and Adjusted Book Value may not necessarily be comparable to similarly titled measures reported by other financial guarantors. Non-GAAP operating income (loss) 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 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)	Nine Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
GAAP net income	**$**	**12.6**	**$**	**178.7**
Extinguishment of Series A perpetual non-cumulative preference shares		115.2		83.4
GAAP earnings attributable to common shareholders of Syncora Holdings Ltd.	**$**	**127.8**	**$**	**262.1**
GAAP net income	**$**	**12.6**	**$**	**178.7**
Pre-tax adjustments:				
Effect of consolidating VIEs [1]		(7.8)		10.3
Non-credit impairment of net realized and unrealized fair value losses and (gains) on credit derivatives [2]		55.1		(103.7)
Surplus note accretion [3]		15.7		18.3
Net realized (gains) and losses on investments [4]		13.4		3.7
Non-recurring transaction related expenses [5]		12.3		-
Total pre-tax adjustments		88.7		(71.4)
Less tax effect on pre-tax adjustments [6]		-		-
Non-GAAP operating income	**$**	**101.4**	**$**	**107.3**
Basic and diluted weighted average common shares		61.7		56.3
GAAP earnings per common share	$	2.07	$	4.66
Non-GAAP operating income per common share	$	1.64	$	1.91

Non-GAAP operating income (loss) adjustments:

1. Elimination of the effects of consolidating VIEs. 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. Excluding the effects of consolidating VIEs presents all financial guaranty contracts and remediation transactions on a more consistent basis of accounting, whether or not GAAP requires consolidation.

2. 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.

3. 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.

4. Elimination of 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.

5. 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.

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, we utilize 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
(in millions)

	As of September 30, 2016	As of December 31, 2015
GAAP common shareholders' equity	**$ 522.1**	**$ 335.5**
Series A preferred stock [(1)]	-	(2.3)
Series B preferred stock [(1)]	(121.0)	(121.0)
Adjusted GAAP common shareholders' equity	**$ 401.1**	**$ 212.2**
Pre-tax adjustments:		
Deferred acquisition costs [(2)]	(48.8)	(54.2)
Effect of deconsolidating VIEs [(3)]	63.1	69.9
Net credit derivative liability [(4)]	108.5	53.4
Net present value of estimated net future credit derivative revenue [(5)]	75.5	80.9
Net unearned premium reserve on financial guaranty contracts in excess of expected loss to be expensed [(6)]	297.4	317.7
Notes payable [(7)]	(295.9)	(352.9)
Unrealized gains on investments [(8)]	(34.0)	(15.8)
Taxes [(9)]	(25.4)	(27.9)
Adjusted Book Value	**$ 541.5**	**$ 283.3**
Common shares outstanding at end of the period	86.6	56.3
Book value per common share	$ 4.63	$ 3.77
Adjusted book value per common share	$ 6.25	$ 5.03

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 effects of consolidating VIEs, as 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. Excluding the effects of consolidating VIEs presents all financial guaranty contracts and remediation transactions on a more consistent basis of accounting, whether or not GAAP requires consolidation.

4. 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.

5. 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.

6. 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.

7. 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.

8. Elimination of the pre-tax unrealized gains (losses) 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.

9. 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.

Board Composition Changes

The Company also announced that the various Syncora boards will be reduced by a total of five individuals – four at SHL and one at an insurance subsidiary board. Four of these reductions will be effective on January 1, 2017, and one will be effective on May 1, 2017. Effective January 1, 2017, the SHL board will consist of: Michael P. Esposito (Chairman), Frederick Arnold, Alan Carr, Susan Comparato (current CEO and management director)[1], Dr. Grant Gibbons (Chair, Nominating and Governance Committee), Robert Lichten (Chair, Compensation Committee), Robert Mills, Thomas Norsworthy (current chair, Audit Committee)[2], Coleman Ross (future Chair, Audit Committee)[2], and Robert White.

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# 264-73-940. 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# 264-73-940.

[1] Frederick Hnat will replace Susan Comparato following her departure from the Company.
[2] Thomas Norsworthy's resignation will become effective on April 30, 2017, following the completion of the Company's 2016 audit. Coleman Ross will assume the duties of Audit Committee Chair at that time.

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.