SYNCORA HOLDINGS LTD.
Q3 2016 GAAP FINANCIAL RESULTS

Moderator: Sharon Smith
December 20, 2016
8:30 a.m. ET

Operator: Good morning. My name is Shannon, and I will be your conference operator today. At this time, I would like to welcome everyone to the Syncora Holdings Ltd. Q3 2016 GAAP Financial Results Conference Call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session for analysts. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad. If you would like to withdraw your question, you may press the pound key. Thank you.

Ms. Sharon Smith, you may begin your conference.

Sharon Smith: Good morning. And thank you for joining us today for our Third Quarter GAAP Financial Results Conference Call. I'm Sharon Smith, the new head of Investor Relations for Syncora.

I've spoken with many of you already and hope to speak with many more of you in the coming weeks and months. I am excited to assume the role of head of Investor Relations as Syncora continues its stakeholder outreach activities, with regular earnings calls and resources dedicated to stakeholder engagements.

Please feel free to reach out to me by e-mail at investorrelations@scafg.com, or you may reach me by phone at 212-478-3413 with any questions or comments.

With that, let's turn to today's call.

Participating with me on the call today are Susan Comparato, Chief Executive Officer, David Grande, our new Chief Financial Officer, and Fred Hnat, our soon-to-be Chief Operating Officer, who is expected to assume the role of CEO upon Susan's departure next year.

Before I turn the call over to my colleagues, I will remind everyone that during our call or the Q&A session, management will reference certain documents that we posted to the Investor Relations section of our Web Site, www.syncora.com, specifically, on the Investor Events page after the market closed yesterday.

These documents, which I hope you have had an opportunity to review, include the Syncora Holdings Ltd. Consolidated GAAP financial statements as of September 30, 2016 and December 31, 2015 and for the nine months ended September 30, 2016 and 2015. And the associated earnings release together with a financial highlights deck.

Please note, that while we will not be reviewing the presentation slide by slide during the call, we will make reference to a number of the slides as we discuss our financial results. I would also like to remind everyone that during the call or the Q&A session for analysts, we may make projections or other forward-looking statements about future results, plans and events.

We caution that these forward-looking statements are not a guarantee of future events and that actual events may differ materially from those in these statements. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond the company's control, which include but are not limited to the factors described in our historical filings with the New York State Department of Financial Services, and in Syncora Holdings Ltd., Syncora Guarantee Inc. and Syncora Capital Assurance Inc.'s GAAP and statutory financial statements, as applicable, which are posted on our Web Site.

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. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date they are made.

The Company assumes no obligation to update forward-looking statements, information in the press release or as presented on the call to reflect the impact of circumstances or events that arise after the date that forward-looking statements are made.

Finally, references throughout the call to SHL, SGI and SCAI refer to Syncora Holdings Ltd., Syncora Guarantee Inc. and Syncora Capital Assurance Inc. respectively and the NYDFS refers to the New York State Department of Financial Services. Also, references to numbers on the call are generally stated as approximations.

And with that introduction, I would now like to turn the call over to Susan Comparato, Syncora's CEO. Susan?

Susan Comparato: Thanks, Sharon. Before I begin my remarks, I want to take a moment to officially welcome Sharon. We are delighted to have her as our new head of Investor Relations. I also want to thank all of you on the call for joining us.

Sharon knows our company and it's complexity as well, having worked at Syncora for nearly a decade as a lawyer on many of our important strategic and restructuring efforts. In that role, she has already interacted with many of our stakeholders. As part of our communications plan, we are holding regular quarterly earnings calls and have increased our stakeholder dialogue.

On today's call, I will make some comments regarding the key areas of focus for Syncora and provide some third quarter financial highlights. Following that, David Grande will provide a more detailed discussion of our financial performance. Fred Hnat will then provide more details with respect to our ongoing strategic efforts.

Since the completion of the restructuring transactions in August, the Company has remained focused on further enhancing value to its stakeholders. To that end, the management team has made significant progress in the following key areas.

First, implementation of leadership and governance changes. Second, reduction in operating expenses across the entire organization. Third, identification and assessment of value creating initiatives. Fourth, continued focus on risk reduction and asset recovery. And lastly, ongoing consideration of various opportunities to utilize our net operating losses.

Fred will discuss some of these areas of key focus and the progress made in greater detail later in the call. But I would like to provide some further updates on the leadership and governance changes. As you all know from our early October announcement, we have instituted a number of leadership changes. I will be leading Syncora in mid 2017, following the transition of my duties and responsibilities to Fred.

I am pleased that after many years of successful risk reductions and asset recoveries, as well as the very successful restructuring transactions, Syncora is on much founder financial footing and is ready to move to the next phase of its transformation with a new management team and reconstituted board.

Since the announcement, Fred and I have been working closely to ensure a smooth transition upon my departure and I am pleased to report that this transition is going well, including the new teams relationship with the NYDFS. We continue to believe that a relationship with our regulator is strong and an important component of our ongoing strategic efforts.

Fred has been with Syncora since 2000 in a variety of executive positions and was formally the Chief Operating Officer of Syncora's U.K. operations. He has played an instrumental role in multiple restructurings to delever the U.K. platform through commutations to package the portfolio for regulatory transfer of the U.K. assets back to the U.S. This Part VII transfer was a first of its kind transaction for monoline bond insurers that involved extensive dealings with policy holders and regulators in the U.K. and New York. Fred's experience and deep knowledge of Syncora will serve him well; initially in his role of COO and later as CEO. As COO, Fred will have oversight for risk reduction and remediation as well as surveillance functions.

Similarly, I want to acknowledge another part of that October announcement, Claude LeBlanc, our former CFO and CRO, has transitioned his duties to David Grande and Mary Jane Constant, part of the new leadership team. David, Syncora's new CFO, has been a strong contributor to the Syncora team since he joined us in 2013.

David brings more than 16 years of finance experience to the CFO role. With strong capabilities in financial reporting, developing financial processes, controls and reporting systems, and determining the financial and accounting effect of complex transactions. As CFO, David will have responsibility for all finance, accounting, investments, financial planning and analysis and treasury functions.

Mary Jane Constant, Syncora's new Chief Remediation Officer, was a managing director in risk management. She has successfully led many remediations and work outs at Syncora since 2005. Mary Jane will be responsible for managing our ongoing remediations and many of our asset recovery efforts to optimize value for all our stakeholders.

In addition to the management changes, we are pleased that the NYDFS has approved the appointments of Fred Arnold and Robert Mills, who are now seated as board members of SHL, as previously reported. We've been working with Fred and Bob since August. We look forward to their continued contributions as the newly reconstituted board considers the various components of our strategic plan.

In addition, Syncora's Nominating and Governance Committee determined that as Syncora enters its next phase a smaller, more dynamic board with fewer board committees is more in line with the Company's future strategic goals and long term success. As a result, the board has eliminated the finance and risk oversight committee and the board size of SHL and its principal operating facilities has been reduced by five non-management directors.

The director changes will become effective on January 1 for four directors and May 1 for another director. When all of these changes take place, SHL will have nine directors on its board. I should highlight that some directors on SHL's board will serve on the boards of SHL's principal operating subsidiaries.

We thank our outgoing board members for all their contributions and their role in Syncora's significant achievements to date. Please see our website for details about the new board composition for SHL. We will continue to assess the structure and composition of the board as the Company's plans evolve.

I'm confident that this new management team and soon to be reconstituted board are well qualified to continue Syncora's transformation and execute on plans designed to create value for all of our stakeholders. Before I turn the call over to David to discuss the financial results in more detail, I'd like to provide a few highlights.

Syncora's financial condition continues to improve. This period we saw positive GAAP earnings and non-GAAP operating income, an improvement in our book value and adjusted book value, and an overall reduction to our net par outstanding and below investment grade exposures.

I will now turn the call over to David.

David Grande: Thank you, Susan, and thanks to everyone for joining us on today's call. As Sharon mentioned, last night we posted to our website our third quarter GAAP earnings release and financial statements. In addition, we have again posted a supplement titled Third Quarter 2016 Highlights, which we refer to as the financial highlights deck.

This deck contains various financial and portfolio information, including the expanded portfolio disclosure for all credits with par exposure greater than $40 million together with the GAAP loss reserve roll forward. Moving onto some of our key earnings highlights for this period, as outlined on slide two of our third quarter 2016 highlights deck, our overall performance continues to be driven by our active remediation, loss recovery efforts and positive loss developments primarily in RMBS sector.

For the nine months ended September 30, GAAP net income attributable to SHL was $12.6 million or $2.07 per common share, as compared to GAAP net income attributable to SHL of $178.7 million or $4.66 per common share for the same period last year. For purposes of our earnings per share calculation, we include $115.2 million and $83.4 million for 2016 and 2015 respectively, which related to the extinguishment of the Series A perpetual non-cumulative preference shares.

Non-GAAP operating income of $101.4 million or a $1.64 per common share for the nine months ended September 30, as compared to $107.3 million or $1.91 per common share for the same period last year. A full description of the limitations in using non-GAAP measures and the adjustments made to derive our non-GAAP operating income and adjusted book value is included in the earnings release.

To spend a little time on the drivers of our results, GAAP net income attributable to SHL for the nine months ended September 30 was primarily due to the following; first, $52.2 million of net premiums earned, which increased as a result of premium accelerations from remediation activities and refundings given the age of our portfolio and the continued low interest rate environments.

Total premium accelerations were $25.7 million for the nine months ended September 30, as compared to $14.2 million for the same period last year. Second, the successful remediation of our insured obligations related to American Roads, which resulted in a net benefit of $65 million. As a result of this transaction, we have fully remediated all of our American Roads insured obligations. Third, two settlements; the first of which settled a dispute with an RMBS originator and resulted in a $40 million benefit and the other settlement related to the Lehman Brothers proof of claim for $14.1 million.

And then lastly, we continue to experience positive reserve developments on our RMBS exposures. These drivers were partially offset by higher operating expenses primarily as a result of the non-recurring restructuring-related expenses incurred during the year and by losses on our insurance cash flow certificates as a result of expecting to pay fewer claims on remediated policies due to the positive RMBS developments.

In addition, as shown on page seven of the third quarter financial highlights deck, SHL's common shareholders equity increased from year end 2015 by $186.6 million to $522.1 million or $4.63 of GAAP book value for common share as of September 30. This is primarily driven by a $115.2 million gain on the extinguishment of the series A preferred shares, other positive effects in connection with the August restructuring transactions, and net unrealized gains on investments.

Similarly, SHL's adjusted book value increased by $258.2 million to $541.5 million or $6.25 per common share. I'd like to now cover some highlights of our insured portfolio. As Susan mentioned during her remarks earlier, and as outlined on pages eight and nine of the financial highlights deck, for the nine months ended September 30, SHL reduced its total net par exposure by 20 percent to $22.8 billion. The reduction in total net par exposure was driven mainly by $2.1 billion in public finance refundings, $1.9 billion in amortizations, $1.1 billion in terminations and commutations, and $0.5 billion in foreign currency exchange adjustments.

The average internal rating of our portfolio was unchanged from year end 2015 at bbb+ and total credit count decreased 23.9 percent from 1,197 credits as of December 31 to 911 credits as of September 30. Our below investment grade credits or BIG exposures decreased slightly to $2.9 billion or 13 percent of Syncora's total insured portfolio. In addition, our BIG flag list leverage ratio as shown on slide 12 of the deck and defined as our BIG exposure divided by our claims paying resources decreased in total by four percent which was driven by a decrease at SCAI partially offset by a slight increase at SGI due to a downgrade of a large global infrastructure credit in the first quarter.

With that, let me turn the call over to Fred to provide you with an update on certain aspects of the company's strategy.

Fred Hnat: Thank you, David. And thank you to those joining the call today. I know many of you are interested in the company's go-forward strategy following the successful completion of the restructuring transactions. As we stated in our third quarter financial statements, the company is engaged in a comprehensive review of its strategic options. In the meantime, as Susan discussed earlier, we have made significant progress in certain key areas.

Susan has already discussed leadership and governance changes. I will now discuss the other key areas of focus and the progress we have made. In terms of reducing operating expenses, this quarter we have implemented management changes and reductions in board size along with additional staff reductions which are expected to materially reduce the ongoing operating expense run rate.

In addition, we will be looking to reduce advisory and professional fees as we move forward and will continue to assess areas to further reduce operating expenses being mindful of the need to balance the reduction in overall operating expenses with maintenance of a workforce appropriately scaled to implement the company's various initiatives. As part of our ongoing efforts to optimize value to stakeholders, we have been reviewing and this quarter we identified value-creating initiatives including a variety of potential reinsurance alternatives.

We are now in the process of analyzing these options. Our analysis considers the drivers of value, one of which is the timing of return to stakeholders. While we recognize that timing is an important factor, we also focus on making prudent economic decisions. In addition, we continue to focus on risk reduction and asset recovery and this year, Syncora has made substantial progress on its remediation activities. As Syncora's financial condition has improved and there is less stress on our credits, we expect there will be fewer opportunities for remediation purchases and commutations than we have had in the past.

As we move forward in the next phase of our strategic plan in 2017 and 2018, our remediation focus will be in part on addressing the refinancing risk credits. Because we are constrained by confidentiality agreements and because of the sensitive nature of the information, I cannot provide specific credit names but will discuss certain credits more generally. As you can see in the financial highlights deck, liquidity mismatch as shown on slides 14 and 15 of the deck continues to be an area of focus for the company from a remediation perspective.

The liquidity mismatch is a function of expected claims payments of approximately $203.2 million between 2017 and 2029 and also the risk we face from credits subject to refinancing which may fail to refinance due to a variety of factors including the underlying credit, market conditions, or the structure of the deal. We have made significant progress in addressing the liquidity mismatch primarily as a result of the commutation in 2015 of a large structured single-risk credit with refinancing risk and the American roads remediations through 2016.

We continue to aggressively pursue multiple avenues to address our liquidity mismatch. Also, as part of our asset recovery activities, we perform ongoing evaluations of the potential to monetize assets that we have received or acquired as part of our remediation activities. These assets are generally illiquid due to a variety of reasons such as continuing credit issues, structure of the security, or other issues that affect marketability and value.

Finally, the right to utilize our $1.7 billion of NOLs was reallocated to Syncora Holdings U.S. Inc, the U.S. tax filer, as part of the restructuring transactions. Management and the board continue to review various options for NOL utilization. Management and our newly constituted board will continue to work together to determine the best course for Syncora's future.

We look forward to providing you with additional updates on our progress as our strategy is crystallized.

Sharon Smith: Thank you, Fred. With that, operator, let's open the call to questions. Operator, would you please provide instructions for those analysts on the call?

Male: Hello?

Sharon Smith: Operator?

Operator: At this time, I would remind our analysts that if they have a question, they may press star followed by the number on their telephone keypad. You're first question comes from the line of Andrew Gadlin from Odeon Capital Group. Your line is open, please go ahead.

Andrew Gadlin: Hey, good morning, thank you for taking my question. I had a quick question starting with Fred, your last -- one of your last comments about exploring reinsurance transactions. And I was wondering if you could talk about the scope of what you'd look at. Would you be looking at the entire company, would you look at SCAI in its entirety, would you look at individual transactions or classes of credits? Any color you can shed there would be helpful.

Fred Hnat: Thanks, Andrew. We're currently conducting a broad review and analysis of all of potential reinsurance options available to us. We're considering many different potential structures, portfolio stratifications that could be reinsured with a view towards which of those structures would be -- would be able to deliver the most value back to our stakeholders. That's the objective. We understand timing and speed is important to some of our stakeholders; at the same time, we want to make prudent economic decisions. But at this point we're not in a position to say which legal entities we would be looking to reinsure risk from. But we do have a review underway at this time.

Andrew Gadlin: Got it, thank you. Along those lines, can you share any expectations you may have or conversations you're having with DFS regarding the next payment on surplus notes; whether we should expect the similar amount, or if there's any alternatives for maybe capturing some of the discounts and some notes that have traded at a big discount. Is there any ability to capture that over the next 12 months?

David Grande: Thanks, Andrew. This is David, I'll cover that question. I guess I'd say that our financial condition continues to improve since the August 12 restructuring transactions, where as you indicated, we did make a $55 million net payment on our surplus notes. You know, we also continue to take steps to improve

SGI's liquidity and surplus position in advance of our next payment date, which is for June of 2017. So I think that's going to help in our discussions with the NYDFS.

I think it also comes down to our relationship with the NYDFS, which as Susan had mentioned, we do believe that we have an excellent relationship with them. And we continue to have active dialog with them as well. I'd say, prior to the August 12 restructuring, we were in regular contact with them. During the restructuring, that was even stepped up more and we were in more frequent dialog with them, and this is definitely something that the new management team is focused on as well. However, I do want to – we have said this before and we will say it again, that the surplus note payment is really ultimately up to the NYDFS, as their approval is required for any such payments.

Andrew Gadlin: That’s helpful, thank you. Also, regarding the board related changes, I know some shareholders have been looking for data on what the board fees have been, whether there is a possibility for a change in the fact that its a staggered board. Is there any changes or potential update you can provide there?

Susan Comparato: Sure, Andrew, I'll take that question. In terms of board fees, I think it's a helpful to learn a little bit more about our process. On a regular basis, the Nominating & Governance Committee considers our board fees and compares them to other F.G. companies as well as other financial institutions and insurance companies of comparable size.

I can assure you that those board fees are really in line with industry norms and actually quite modest. But we are considering some further disclosures of those fees. I'm sure you recognize we're not a public company; we're not required to make such disclosures. But we've been asked a number of questions and we think that might be helpful in the coming quarters.

And in terms of the staggered board, it's certainly something that we've thought about. We do believe it's the right structure for the company now. I really want to emphasize two reasons. First, there's a lot of expertise that's required for a company like Syncora. This highly specialized knowledge is important and a staggered board provides us with that continuity. And second, the continuity also allows us to have a long-term focus on strategic plans.

I think that for now, staggered board is the right governance structure. But I really do want to emphasis with governance that it's a dynamic process. The nominating and governance committee continues to review and assess what makes sense for Syncora. And as we develop and progress our strategic options, there is a potential for further changes.

Andrew Gadlin: All right, thank you so much.

Operator: Your next question comes from the line of Brian Charles from R.W. Pressprich. Your line is open, please go ahead.

Brian Charles: Hi, good morning. You've made a lot of progress on this liquidity mismatch that you've referenced in your financials for the last couple of years. But I wonder if you -- do you have any color -- and I know you have a nice slide on how that liquidity mismatch might materialize over the next few years, but do you have any color on how you're continuing to go after that, how you're continuing to reduce that in terms of if there are a number of credits that you are working on? Or do you have any color on how many credits make up that mismatch and how you're attacking those?

Fred Hnat: Thank you, Brian. We don't have a specific number of credits that accounts for this liquidity mismatch. There are a few that are more significant than others. They're basically comprised of three different buckets; one being gross claim payments that we expect to happen through 2030. There's one significant refinancing risk credit with a heightened risk of material claim payments. And then there are also other credits that have financing risk and principal repayments.

We have over time aggressively worked to reduce risk in our portfolio through negotiations with policy holders and issuers and other counterparties. And that's an area that we're going to have to continue to work on to mitigate the liquidity mismatch risk.

It's an area that, you know, it's gotten more difficult for Syncora as we've improved our financial condition. We're not able to commute policies and buy in bonds at levels that we used to. So it's certainly more of a challenge, but an area we'll be continuing to focus on.

Brian Charles: OK, I guess with the one refinancing risk credit that you mentioned, is that the one that was in the financials for Syncora guarantee of about $850 million just...

Fred Hnat: Yes. This is -- that's right. There's...

Fred Hnat: ...that would relate to Reliance Rail.

Brian Charles: OK, OK.

Fred Hnat: And you'll notice that the liquidity mismatch number has come down and the primary reason for that is we commuted a significant credit last year -- a reinsurance credit of a structured single risk transaction.

Brian Charles: OK. And the progress I guess you've made since the end of 2015, that's been mostly American Roads. Is that what you had mentioned?

Fred Hnat: Yes. American Roads and there's this other structured single-risk credit that we can't identify because it's subject to confidentiality under our reinsurance contract.

David Grande: Yes, 2015 has to do with the credit that Fred just mentioned. And then 2016, a lot of -- most of that was driven by American Road remediation.

Brian Charles: OK, so, what's left now -- I guess what the $119 million at least at SGI, that should -- that's a certain number of credits. You can't go into too much detail how much that is. But I guess it's -- I don't know if I want to get too far ahead of myself, but just given the progress you've made so far, it's been substantial. I just -- I'm wondering to what extent I could -- if I were to model this, what --

how I could see that coming down over the next year. I don't know if I have enough information to try to extrapolate that, though.

Fred Hnat: Yes, I think you know we would be reluctant to comment on projecting out how that number would come down.

Brian Charles: OK. All right, fair enough. Actually it has been very good progress so far though, so thank you. OK, thanks.

Fred Hnat: Thank you, Brian.

Operator: Your next question comes from the line of Chas Tyson from KBW. Your line is open. Please go ahead.

Chas Tyson: Hey guys, good morning. Just want to follow up on the potential reinsurance deals. How wide is the net you're thinking about in terms of who you'd be considering to do that type of transaction with, whether it be within the financial guarantee industry or kind of outside in a broader reinsurance pool. How imminent -- do you anticipate that that kind of transaction would allow a dividend of capital to the holdco?

Fred Hnat: As far as potential reinsurance counterparties, all options are on the table for us. We're still in the early stages of undertaking a broad review and analysis of the benefits back to our stakeholders. But we will keep an open mind and review all potential counterparties and all potential structures.

As far as timing, you know that's also a function of what timing provides the best benefit to Syncora and its stakeholders. So, I think it's premature at this stage as we're you know in the early phase of analysis to say exactly when a reinsurance could potentially happen.

Chas Tyson: OK. And then on Puerto Rico, could you talk about how you reserved against GO & PREPA exposures. I don't know if you can give a little color in terms of -- of how you think about it. I know you break out the public finance reserves for SGI and SCAI. But I was just kind of curious how those map to actual Puerto Rico reserves.

And then also just in terms of Puerto Rico maybe, you know, potentially not making more debt service payments and you guys making claims payments; can you talk about how that affects your liquidity at both those entities and how that's -- how that's contemplated in your forecast at the moment?

Fred Hnat: Well, we have exposures to PREPA and the general obligation bonds of the commonwealth. It's our policy not to discuss reserves with specificity. But, you know, we do think we're well positioned on both of those credits.

We have approximately $360 million of overall exposure and when you include the bonds that we've purchased, that number comes up to $460 million, which is approximately two percent of our overall insured portfolio.

So, we have -- we're part of the RSA creditor group. The RSA for PREPA was extended recently to the end of January. So, you know, we're -- we're working actively on that process. The G.O. bonds, you know, we understand that the governor-elect has announced recently that a statement is going to be made in the next few days about the Commonwealth's intentions with respect to the G.O.s and other bonds of the Commonwealth.

So, you know, that's an important initiative and we're -- we're following it closely. And, you know, we expect it to -- to pick up momentum early in 2017.

I don't know, David, if you have any other comments on...

David Grande: No. I would fully agree with that. I think we're, you know, as you mentioned, we are fully reserved on our Puerto Rico exposures.

Chas Tyson: OK. The public finance reserves in your supplement on page nine, is that -- what else would be in there? Is that just Detroit? Or are there other things in there? Or is it just mostly Puerto Rico?

David Grande: So, on page -- on page nine of the supplement, I guess I probably can't get into details of that as I would, you know, disclosing what our reserve position is on Puerto Rico. But suffice it to say, Puerto Rico is probably the largest number that is in those buckets.

Chas Tyson: OK. And then just on the management changes, I mean obviously there's been a significant amount of change at the entity over the last couple of months. I mean, could you talk about what the new management team is trying to do differently than the old management team? You know, maybe the fact that your -- the former chief restructuring officer is now at a different financial guarantor opened up some opportunities for you guys in terms of maximizing value of Syncora.

Just the overall relationship overall interaction between management and the board, if that's changed at all or if that's kind of operating similarly?

Susan Comparato: Sure. I'll take that question. You know, I'm happy to say that the management team -- the transition has gone very well. I'd expect this, though, because the new management team is all people who've been at Syncora, part of the many achievements and accomplishments of Syncora. So, I don't think there is something we're trying to do better than the former management team. It's just a matter of we want to keep the pace, keep the pressure on to keep delivering value to our stakeholders. Our relationship with our board is very good. Our relationship with our regulator is very good. And so I'm pleased with that.

In terms of potential opportunities with Ambac, I think maybe to go back to Fred's comments. We're open with respect to all counterparties, all potential transactions that create value. So there's potentially an opportunity. But really, it's too early to say. Our -- our review is ongoing.

Chas Tyson: OK. I guess just following off of that, I mean, is that -- Syncora's -- at this point, do you guys see yourself as an entity that's in liquidation and employees are kind of progressing? You know, as quickly as possible to wind things up and get value to stakeholders or is it more of kind of an ongoing entity with, you know, more time to resolve outstanding issues is the way you see yourself?

Fred Hnat: We don't view ourselves in liquidation. We are involved in a broad strategic review of all the options available to the company and want to deliberate on that process and make sure that we follow the path that delivers the most value back to our stakeholders. So that's how we view things at this stage.

Chas Tyson: Okay. Thank you very much guys.

Fred Hnat: Thank you.

Operator: And our final question comes from the line of Rob Halder from NatAlliance Securities. Your line is open. Please go ahead.

Rob Halder: Hi, guys. Thanks for doing the call this morning. Just a couple of quick follow-up questions.

First, I was hoping you guys could address -- I know you've addressed Puerto Rico, but your reserve methodology and adequacy, especially as it relates to some of the structured single-risk credits that you have out there, and I appreciate you guys putting that supplemental information at the back of your slide deck.

But I'm just wondering how you guys are reserving for some of the specific credit events that can happen in the structured single risk portfolio?

David Grande: OK. Thanks, Rob. Thanks for the question.

I guess first let me start off by saying that there's a lot work that goes into our reserving procedures. We do have robust processes and controls in place to look at our exposures and to develop our loss reserves each period. And ultimately, this is why, you know, we feel that our reserves are appropriate.

This is a question that we get from time to time, but you know, our procedures really start off with a ratings and review process for each deal, and then for credits, where we believe that there is a -- that a loss is probable and reasonably estimable, we then establish a loss reserve, usually after modeling out our expectations of future losses.

And you know, so this is how we do it for even the structured single risk credits that you pointed out.

I will add that, you know, for our RMBS exposures, we do have an added control. At least once per year, we also do engage an independent third party expert to look at material loss credits. And then, you know, based on those results, we then are benchmarked the amount that we have to them. And if it's not within a reasonable range, we usually will adjust our reserves up or down. Again that's specific to RMBS.

And then lastly, I'll also say, you know, not necessarily that our external auditors are part of our control environment, but you know, they do a lot of work during the year on a quarterly basis and some detail audit procedures at year-end as well, which you know, also provides us a comfort that our reserves are reasonable.

Rob Halder: Okay, great. Thank you.

And I guess the last question that I had, and I know you guys don't want to get into projecting, as you said before. But just on the amortization of the portfolio, right, on slide 13 of the presentation that you guys put out, it looks like you're expecting a moderation. And I'm wondering if some of that has to do with the kind of recently rising interest rate environment? And just wondering if you guys are seeing any impact from that on the amortization of the portfolio, particularly on the municipal side?

David Grande: Sure. I can talk to you about that.

Slide 13 is our expected amortization without regards to any refundings or remediations as we've indicated, I think, believe in the footnote. But I can maybe just talk a little bit about our refunding history and what our expectations are for going forward and how it relates to interest rates.

In 2015, we actually experienced probably the highest amount of refundings in the company’s history. This year we've also seen a high volume of refundings as well, but not quite at the same pace as 2015. As you eluded to, the level of refunding activity is very sensitive to interest rates. The low interest rate environment has really helped to drive this volume over the last couple of years.

But I should also mention that another significant factor driving refundings is the age of our book of business. So most of our public finance book was written between 2005 and 2007 and that the typical muni bond has a call date starting like 10 years from issuance. And so we're in that zone currently.

So our expectations are that -- for the remainder of 2016, we should still see some elevated levels of refunding, 2017 we believe also that there will be a high volume of refundings and then in 2018 and there on, we expect that level should significantly taper off.

Rob Halder: Okay. And I know that other monolines have talked about, kind of, helping to incentivize those refundings and working with the issuers to let them know about the call dates are you guys similarly being proactive about addressing those refundings.

Fred Hnat: Yes, we are. We deal directly with the different credits in our portfolio and make them aware of call dates on an ongoing basis.

Rob Halder: Great. Okay, thank you, guys. That's all I have for now.

Operator: It is now my pleasure to turn today's calls back to Ms. Sharon Smith.

Sharon Smith: Thank you, operator. And thanks everyone for joining us on the call. I hope you found it helpful. We look forward to talking with you again next quarter.

In the mean time, if you have any questions at all and as a means of continuing our dialogue, please feel free to reach out to me directly at 212-478-3413 or through our dedicated investor relations e-mail, investorrelations@scafg.com. A transcript and replay of this call will be available on our website later today.

Thank you all for listening.

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

END