SYNCORA HOLDINGS LTD.

CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Auditors

To the Board of Directors and Shareholders of Syncora Holdings Ltd.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and shareholders' deficit and of cash flows present fairly, in all material respects, the financial position of Syncora Holdings Ltd. and its subsidiaries (the “Company”) at December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 3 to the consolidated financial statements, the risk of adverse loss development on the Company's remaining in-force business and the Company's ability to maintain adequate liquidity represent significant uncertainties, accordingly there is substantial doubt about the Company’s ability to continue as a going concern. Management’s plans in regard to this matter are described in Note 3. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

As discussed in Note 5 to the consolidated financial statements, the Company changed the manner in which it accounts for variable interest entities effective January 1, 2010, and for financial guaranty insurance contracts effective January 1, 2009.

PricewaterhouseCoopers LLP

New York, New York
June 7, 2011

SYNCORA HOLDINGS LTD.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2010 and 2009
(U.S. dollars in thousands, except share and per share amounts)

	2010	2009
ASSETS		
Debt securities available for sale, at fair value (amortized cost: $696,867 and $896,654)	$ 736,990	$ 952,098
Cash and cash equivalents	413,292	630,345
Total cash and invested assets	1,150,282	1,582,443
Restricted cash and cash equivalents	102,219	102,495
Accrued investment income	7,102	8,520
Deferred acquisition costs	125,459	137,844
Prepaid reinsurance premiums	6,581	10,664
Premiums receivable	365,385	454,948
Reinsurance balances recoverable on unpaid losses	5,472	17,972
Credit default swap contracts, at fair value	176,014	81,590
Receivables on Insurance Cash Flow Certificates, net	275,851	709,609
Replacement Bank Warrants, at fair value (face value: $171,692 and $184,191)	94,431	66,309
Interest rate derivative instrument, at fair value	3,801	—
Other assets	25,274	40,129
Assets of consolidated variable interest entities, at fair value	745,492	—
Total assets	$ 3,083,363	$ 3,212,523
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Liabilities		
Unpaid losses and loss adjustment expenses	$ 1,006,831	$ 2,118,388
Unearned premium revenue	902,179	1,053,002
Credit default swap contracts, at fair value	1,339,113	1,206,100
Notes payable (par value: $679,731 and $641,700)	217,822	164,205
Reinsurance premiums payable	2,089	2,748
Accounts payable, accrued expenses and other liabilities	38,643	34,326
Liabilities of consolidated variable interest entities, at fair value	591,823	—
Total liabilities	4,098,500	4,578,769
Shareholders' deficit		
Non-controlling interest in subsidiary- Series B non-cumulative preferred shares of Syncora Guarantee Inc. ($200,000 liquidation preference)	20,000	20,000
Series A perpetual non-cumulative preferred shares (250,000 shares authorized, issued and outstanding, $0.01 par value) and additional paid-in capital ($250,000 liquidation preference)	246,593	246,593
Common shares (500,000,000 shares authorized; 59,336,686 shares issued; $0.01 par value) and additional paid-in capital	2,675,166	2,675,166
Accumulated deficit	(4,024,392)	(4,362,614)
Accumulated other comprehensive income	67,496	54,609
Total Syncora Holdings Ltd. common shareholders' deficit	(1,281,730)	(1,632,839)
Total Syncora Holdings Ltd. shareholders' deficit	(1,035,137)	(1,386,246)
Total shareholders' deficit	(1,015,137)	(1,366,246)
Total liabilities and shareholders' deficit	$ 3,083,363	$ 3,212,523

See accompanying Notes to Consolidated Financial Statements.

SYNCORA HOLDINGS LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND SHAREHOLDERS' DEFICIT
YEARS ENDED DECEMBER 31, 2010 and 2009
(U.S. dollars in thousands, except share and per share amounts)

	2010	2009
Revenues		
Net premiums earned	$ 104,108	$ 135,374
Net investment income	52,512	92,631
Net realized gains on investments, net of other-than-temporary impairment losses of $(2,646) and $(78,635).	57,371	46,079
Net earnings on Insurance Cash Flow Certificates	300,188	316,196
Unrealized foreign exchange gain	1,677	22,816
Fee income and other	10,723	16,016
Net change in variable interest entities	141,536	—
Total revenues	668,115	629,112
Expenses		
Change in fair value of credit default swap contracts		
Realized losses and other settlements	25,448	1,351,030
Unrealized losses	41,228	383,453
Net change in fair value of credit default swap contracts	66,676	1,734,483
Net losses and loss adjustment expenses	126,875	519,348
Realized loss on Replacement Bank Warrants	—	95,484
Acquisition costs, net	12,385	18,427
Realized loss on interest rate derivative instrument	16,349	—
Loss on commutation of reinsurance agreements	—	3,753
Operating expenses	140,069	140,423
Total expenses	362,354	2,511,918
Income (loss) before income tax	305,761	(1,882,806)
Income tax expense (benefit)	128	(3,393)
Net income (loss)	305,633	(1,879,413)
Other comprehensive income (loss):		
Net unrealized gains on investments	12,887	258
Comprehensive income (loss)	318,520	(1,879,155)
Cumulative effect of change in accounting principles for consolidation of variable interest entities.	32,589	—
Cumulative effect of change in accounting principles for financial guarantee insurance contracts.	—	(224,430)
Reissuance of shares to counterparties	—	48,660
Loss on reissuance of shares to counterparties	—	(41,301)
Restricted stock and stock options	—	21
Change in shareholders' (deficit) equity	351,109	(2,096,205)
Total shareholders' (deficit) equity—beginning of period	(1,366,246)	729,959
Total shareholders' deficit—end of period	$ (1,015,137)	$ (1,366,246)
Basic and diluted income (loss) per common share:		
Net income (loss)	$ 5.15	$ (40.51)
Comprehensive income (loss)	$ 5.37	$ (40.50)
Weighted average common shares outstanding	59,336,686	46,393,796

See accompanying Notes to Consolidated Financial Statements.

SYNCORA HOLDINGS LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 and 2009
(U.S. dollars in thousands)

	2010	2009
Cash flows from operating activities:		
Premiums collected	$ 48,297	$ 57,194
Investment income collected	53,089	119,014
Investment income collected by variable interest entities	46,841	—
Interest and other expenses paid by variable interest entities	(46,137)	—
Fees received on credit default swaps	40,664	28,075
Losses paid on credit default swaps	(66,250)	—
Interest collected on Replacement Bank Warrants	13,352	704
Recoveries collected on paid losses	14,830	10,863
Claims paid to policyholders	(1,150,574)	(241,620)
Operating expenses paid	(116,762)	(144,735)
Income taxes paid	(37)	—
Cash paid for Replacement Bank Warrants	—	(77,677)
Cash paid for Insurance Cash Flow Certificates	(152,175)	(380,152)
Cash received on Insurance Cash Flow Certificates	765,746	—
Cash paid for interest rate derivative instrument	(20,150)	—
Cash paid for remediation settlements	—	(1,337,880)
Transfers from restricted cash	276	856,964
Other cash receipts	9,123	9,188
Net cash used in operating activities	(559,867)	(1,100,062)
Cash flows from investing activities:		
Proceeds from sales of debt securities	357,230	970,312
Proceeds from maturity of debt securities	131,189	256,672
Proceeds from sale of equity securities	—	132,568
Purchases of debt securities	(270,701)	(231,243)
Purchases of fixed assets	—	(190)
Proceeds from consolidated variable interest entities' assets	283,169	—
Net cash provided by investing activities	500,887	1,128,119
Cash flows from financing activities:		
Net paydowns of consolidated variable interest entity liabilities	(158,073)	—
Net cash used in financing activities	(158,073)	—
(Decrease) increase in cash and cash equivalents	(217,053)	28,057
Cash and cash equivalents—beginning of year	630,345	602,288
Cash and cash equivalents—end of year	$ 413,292	$ 630,345

See accompanying Notes to Consolidated Financial Statements.

1. Organization and Business

Syncora Holdings Ltd. ("Syncora Holdings", formerly known as Security Capital Assurance Ltd) was formed by XL Group plc ("XL Group", formerly known as XL Capital Ltd) on March 17, 2006 as a wholly-owned Bermuda based subsidiary holding company. Syncora Holdings collectively with its consolidated subsidiaries is hereafter referred to as the "Company". On July 1, 2006, XL Group contributed all its ownership interests in its financial guarantee insurance and financial guarantee reinsurance operating businesses to Syncora Holdings. The aforementioned operating businesses consisted of: (i) Syncora Guarantee Inc. ("Syncora Guarantee", a New York domiciled financial guarantee insurance company formerly known as XL Capital Assurance Inc.) and its wholly-owned subsidiary, Syncora Guarantee (U.K.) Ltd (formerly known as XL Capital Assurance (U.K.) Limited) and (ii) Syncora Guarantee Re Ltd. (a Bermuda domiciled financial guarantee reinsurance company formerly known as XL Financial Assurance Ltd.). Syncora Guarantee was an indirect, wholly-owned subsidiary of XL Group and all of Syncora Guarantee Re was indirectly owned by XL Group, except for a preferred stock interest that was owned by Assured Guaranty Municipal Holdings Inc., formerly known as Financial Security Assurance Holdings Ltd. ("FSA"), an entity that is otherwise not related to XL Group or the Company. On August 4, 2006, Syncora Holdings completed an initial public offering. In addition, XL Group sold common shares of Syncora Holdings from its holdings directly to the public in a secondary offering concurrent with the initial public offering. Immediately after the initial public offering and the secondary offering, XL Group, through its wholly-owned subsidiary XL Insurance (Bermuda) Ltd ("XL Insurance"), owned approximately a 63% interest in Syncora Holdings. In June 2007, XL Insurance completed the sale of additional common shares of Syncora Holdings Ltd. from its holdings. Immediately after such sale, XL Insurance owned approximately a 46% interest in Syncora Holdings. On August 5, 2008, the Company, XL Group, certain counterparties to its guarantees and other parties consummated several restructuring transactions (combined known as the "2008 MTA") pursuant to which, among other things, XL Group transferred all of the common shares of Syncora Holdings Ltd. it then owned to be held in trust for the benefit of Syncora Guarantee. On September 4, 2008, Syncora Guarantee Re merged with and into Syncora Guarantee, with Syncora Guarantee being the surviving company. On July 15, 2009, in connection with the restructuring of the Company discussed in Note 4, all the shares of Syncora Holdings held in the aforementioned trust were distributed from the trust or cancelled and Syncora Guarantee formed a new, wholly-owned, financial guarantee insurance subsidiary known as Syncora Capital Assurance Inc. ("Syncora Capital Assurance").

Syncora Guarantee is an insurance company domiciled in the State of New York and was licensed to conduct financial guarantee insurance business throughout all 50 of the United States, as well as in the Commonwealth of Puerto Rico, the District of Columbia, and the U.S. Virgin Islands. However, because of the events discussed in Note 2, as of June 7, 2011, 26 states have suspended Syncora Guarantee's license to conduct insurance business in such states or jurisdiction, placed an order of impairment against it, or Syncora Guarantee voluntarily agreed to cease writing business in such states, though management anticipates that Syncora Guarantee will be able to continue to collect premiums on existing business in such states. Syncora Guarantee was previously licensed and suspended in the U.S. Virgin Islands, however, Syncora Guarantee opted not to renew its license. In addition, Syncora Guarantee opted not to renew its license in the Commonwealth of Puerto Rico. Syncora Guarantee, however, continues to collect premiums on existing business in such states and jurisdictions. Management anticipates that it will be able to continue to collect such premiums. Additional states may suspend Syncora Guarantee's license, place an order of impairment against it or, in lieu of a suspension or order, Syncora Guarantee may voluntarily agree to cease writing business in additional jurisdictions. See Note 19 for further discussion.

Prior to January 2008, the Company was primarily engaged in the business of providing (i) credit enhancement on fixed and variable rate debt obligations through the issuance of financial guarantee insurance policies and (ii) credit protection on specific referenced credits or on pools of specific referenced credits through the issuance of financial guarantee insurance policies covering the obligations under credit default swap ("CDS") contracts issued by trusts established to comply with the Insurance Law of the State of New York (the "New York Insurance Law"). These trusts are consolidated by the Company.

Financial guarantee insurance policies obligate the insurer to provide an unconditional and irrevocable guarantee to the holder of a debt obligation of full and timely payment of certain principal and interest when due. In the event of a default under the debt obligation, the insurer has recourse against the issuer and/or any related collateral (which is more common in the case of insured asset-backed obligations or other non-municipal debt) for amounts paid under the terms of the policy. CDS contracts are derivative contracts that offer credit protection relating to a particular security or pools of specified securities. Under the terms of a CDS contract, the seller of credit protection makes a specified payment to the buyer of credit protection upon the occurrence of one or more specified credit events with respect to a referenced security. Credit derivatives typically provide protection to a buyer rather than credit enhancement of a debt security as in traditional financial guarantee insurance.

2. Developments

During the first quarter of 2009, the Company recorded a material increase in adverse development relating to anticipated claims on its guarantees of asset-backed securities collateralized debt obligations ("ABS CDOs"), as well as CDO squared transactions, and reserves for unpaid losses and loss adjustment expenses on its guarantees of residential mortgage-backed securities ("RMBS"), causing Syncora Guarantee to report a policyholders' deficit of $3.8 billion at March 31, 2009. The policyholders' deficit reported reflects the approval of the New York Insurance Department ("NYID") to apply certain accounting practices which, absent such approvals, would have resulted in Syncora Guarantee reporting a policyholders' deficit of $4.0 billion as of March 31, 2009.

On April 10, 2009, pursuant to Section 1310 of the New York Insurance Law ("NYIL"), the NYID issued an order directing that Syncora Guarantee take such steps as may be necessary to remove its previously reported impairment of its capital and return to compliance with its regulatory required minimum surplus to policyholders. Additionally, as set forth in the order, Syncora Guarantee was not to write any new business and, as of April 26, 2009, Syncora Guarantee suspended payment of any and all claims and otherwise operate only in the ordinary course and as necessary to effectuate a restructuring. On April 27, 2009, pursuant to the aforementioned order, Syncora Guarantee announced that it had suspended the payment of all claims from and after April 26, 2009 and was operating only in the ordinary course.

On July 15, 2009, the Company consummated the 2009 MTA (as defined and discussed in Note 4) resulting in Syncora Guarantee's return to compliance with its regulatory minimum surplus to policyholders. On April 12, 2010, the Company announced that it had closed the outstanding transaction that formed part of the 2009 MTA. However, the order issued by the NYID temporarily prohibiting Syncora Guarantee from paying claims remained in effect as a result of significant near term liquidity and surplus issues which it confronted. On June 17, 2010, the NYID issued a supplemental order withdrawing its order prohibiting Syncora Guarantee from paying claims in light of progress it made in completing certain actions to address its short and medium term liquidity needs, the completion of which was announced by the Company on July 20, 2010. In connection with the NYID's supplemental order, Syncora Guarantee was ordered to provide the NYID with a plan for the payment of accrued and unpaid claims and for the payment of new claims as they become due in the ordinary course of business. Syncora Guarantee submitted the plan to the NYID in early July 2010, and on July 19, 2010, the NYID approved the plan for the payment of claims, resulting in the recommencement of claim payments by Syncora Guarantee pursuant to the plan described below.

In accordance with the plan, current claims were to be paid in full on their regularly scheduled payment dates as they occurred on or after July 21, 2010 ("Current Claims"). Accrued and unpaid claims from and including April 26, 2009 to and including July 20, 2010 ("Accrued Claims") were to be paid over a six month period as follows: (i) up to twenty percent of the aggregate outstanding unpaid amount of the accrued claims for a given transaction (measured on July 21, 2010) were to be paid on the first payment date occurring on or after July 21, 2010; and (ii) up to forty percent of the aggregate outstanding unpaid amount of the accrued claims for a given transaction (measured on July 21, 2010) were to be paid on each succeeding payment date, with the complete payment of these accrued claims expected to be made on or before January 21, 2011.

As of December 31, 2010, the amount of claims which Syncora Guarantee has paid aggregated $1.1 billion, of which $930.9 million, including variable interest entities' intercompany activities, was returned to it as a result of receipts from Insurance Cash Flow Certificates, which are defined and discussed in Note 4. The aforementioned amount of claims paid as of December 31, 2010 consisted of Current Claims of $224.4 million and Accrued Claims of $888.3 million. As of December 31, 2010, there were no Accrued Claims remaining unpaid by the Company.

On October 25, 2010, the Company announced that in connection with Syncora Guarantee's estimate of its reserves for unpaid losses as of September 30, 2010 that it identified a potential liquidity mismatch between expected future long-term claim payments and recoveries of such claims, which if not mitigated could have a material adverse effect on Syncora Guarantee's ability to satisfy its future long-term obligations, including policyholder claims, interest and principal payments on its surplus notes, and other obligations. Because of the inherent uncertainty in estimating future long-term claim payments and recoveries, as discussed in regard to risks in estimating loss reserves (see Note 3), no assurance can be given that the actual severity or timing of claims payments, related recoveries, or ultimate losses will not be different than Syncora Guarantee's estimates, and such differences could be material. Syncora Guarantee is actively seeking to enhance its liquidity and remediate the aforementioned liquidity mismatch. As of December 31, 2010, absent any significant future adverse developments associated with its future claim payments, recoveries, or reserves for losses, the Company expects to be able to satisfy its anticipated liquidity needs over the next twelve months. However, no assurance can be given that the Company will be successful in further enhancing liquidity or mitigating adverse developments associated with its future claim payments, recoveries, reserves for losses or the aforementioned liquidity mismatch between expected future long-term claim payments and recoveries of such claims. In addition, the Company continues to be exposed to certain significant risks and uncertainties discussed in Note 3 that could materially adversely affect its results of operations, financial condition and liquidity.

3. Description of Significant Risks and Uncertainties, Assessment of the Company's Ability to Continue as a Going Concern, and Description of the Company's On-Going Strategic Plan

Significant Risks and Uncertainties

Given the significant risks and uncertainties discussed below and the fact that the Company has a $1,015 million shareholders' deficit and its capitalization includes debt with a par value of $680 million, as well as preferred stock with an aggregate liquidation value of $450 million, the Company believes that there will likely be very little, if any, residual value available to the common shareholders of Syncora Holdings and cautions investors that an investment in Syncora Holdings common shares is extremely speculative and is likely to result in a loss of substantially all of their investment. Additionally, given the risks outlined below, including those with respect to Syncora Guarantee's liquidity and surplus position, the Company cautions investors that investment in the preferred shares of Syncora Holdings or Syncora Guarantee or an investment in Syncora Guarantee's surplus notes should also be considered speculative.

Syncora Guarantee continues to be exposed to certain significant risks and uncertainties that could materially adversely affect its results of operations, financial condition and liquidity and, in turn, materially adversely affect the results of operations, financial condition and liquidity of Syncora Holdings by virtue of Syncora Guarantee being its only direct operating subsidiary. The aforementioned risks and uncertainties are discussed below.

- Syncora Guarantee's policyholders' surplus at December 31, 2010 of $132.6 million exceeds the statutory minimum by $67.6 million. Future adverse loss development may have a material adverse effect on Syncora Guarantee's financial position and results of operations, potentially causing it to report a policyholders' deficit or not to comply with the statutory minimum policyholders' surplus. There can be no assurance that, were such adverse loss development to occur, Syncora Guarantee would be able to remediate any losses or restore such policyholders' surplus in a timely manner or at all. In addition, because of Syncora Guarantee's limited surplus and liquidity as of December 31, 2010, it is possible that, were such adverse loss development to occur, Syncora Guarantee could become insolvent in the near term. Since the closing of the 2009 MTA, Syncora Guarantee has continued to experience significant adverse development on its insured obligations that has placed further demands on its near term liquidity. Due to the significant constraints on Syncora Guarantee's liquid resources and the modest margin by which Syncora Guarantee's policyholders' surplus exceeds the statutory minimum, the Company cannot provide any assurance that were Syncora Guarantee to experience further adverse loss development the NYID would not take regulatory action, which may include commencement of rehabilitation or liquidation proceedings.

- Syncora Guarantee continues to be materially exposed to risks associated with any continuing deterioration in the residential mortgage market through its guarantees of RMBS, as well as the spread of such deterioration to other bond sectors to which it has material exposure, including the structured single risk, public finance, commercial mortgage, and corporate loan bond sectors. The extent and duration of any continued deterioration of the credit markets is unknown, as is the effect, if any, on: (i) potential claim payments and the ultimate amount of losses Syncora Guarantee may incur on obligations it has guaranteed and (ii) potential losses the Company may incur on its invested assets.

- As discussed in more detail in Note 15, Syncora Guarantee has exercised rights available to it in connection with certain RMBS it insures to require the sponsors of such securities to repurchase mortgage loans which back the securities and has recorded a reduction in its statutory reserves for losses of $168.5 million at December 31, 2010, reflecting an estimate of its ultimate recovery from such repurchases. The sponsors have disputed Syncora Guarantee's right to require them to repurchase the aforementioned mortgages and Syncora Guarantee is involved in litigation with the sponsors to enforce its rights. If Syncora Guarantee is unsuccessful in enforcing its rights and does not realize the benefit it recorded through the aforementioned reduction in its reserves, it will have a material adverse effect on its policyholders' surplus causing it not to be in compliance with its regulatory minimum policyholder surplus requirement, which may cause the NYID to commence regulatory action, which may include commencement of rehabilitation or liquidation proceedings. The aforementioned benefit recorded as a reduction in statutory reserves of $168.5 million compares to Syncora Guarantee's policyholders' surplus at December 31, 2010 of $132.6 million.

- As a result of the RMBS Offer (discussed and defined in Note 4), alternative transactions effectively replicating the RMBS Offer and direct purchases of RMBS following the completion of the 2009 MTA, Syncora Guarantee has effectively defeased or, in substance, commuted its exposure to certain insured RMBS transactions. The effectiveness of these structures is dependent upon the ability of Syncora Guarantee to receive payments on its Insurance Cash Flow Certificates (see Note 4). Failure of Syncora Guarantee to receive these payments would have a material adverse effect on the Company.

- Establishment of case basis reserves for unpaid losses and loss adjustment expenses on the Company's in-force business requires the use and exercise of significant judgment by management, including estimates regarding the likelihood of occurrence, timing and amount of a loss on a guaranteed obligation. A material portion of the Company's case basis reserves reflect certain assumptions respecting recoveries on rights available to the Company in connection with certain residential mortgage-backed securities it insures that require the sponsors of such securities to repurchase mortgage loans that breached certain representations and warranties. Actual experience may, and likely will, differ from those estimates and such difference may be material due to the fact that the ultimate dispositions of claims are subject to the outcome of events that have not yet occurred and, in certain cases, will occur over many years in the future. Examples of these events include changes in the level of interest rates, credit deterioration of guaranteed obligations, changes in the value of specific assets supporting guaranteed obligations, and changes in the timing, level of success and collectability of the aforementioned mortgage loan repurchases. Both qualitative and quantitative factors are used in making such estimates. From time to time the Company reevaluates all such estimates. Changes in these estimates may be material and may result in material changes in Syncora Guarantee's policyholders' surplus. Any estimate of future costs is subject to the inherent limitation on management's ability to predict the aggregate course of future events. It should, therefore, be expected that the actual emergence of losses and claims will vary, perhaps materially, from any estimate. The risk of loss under the Company's guarantees extends to the full amount of unpaid principal and interest on all debt obligations it has guaranteed (see Note 17).

- Failure to make claim payments by the Company in the future could have a number of material adverse consequences, including, but not limited, to litigation, potential loss of control rights, the potential assertion of mark-to-market termination payments by counterparties to CDS contracts guaranteed by the Company on which the Company fails to pay a claim, and policyholders potentially withholding premium payments. There can be no assurance that there would not be other material adverse consequences of the Company's failure to make claim payments.

- The Company is involved in a number of legal proceedings, both as plaintiff and defendant. Management cannot predict the outcomes of these legal proceedings and other contingencies with certainty. The outcome of some of these legal proceedings and other contingencies could require the Company to take or refrain from taking actions which could adversely affect its business or could require the Company to pay (or fail to receive) substantial amounts of money. Additionally, prosecuting and defending these lawsuits and proceedings may involve significant expense and diversion of management's attention and resources from other matters (see Note 19).

- Notwithstanding the settlement relating to a portion of its exposure to sewer revenue warrants issued by Jefferson County, Syncora Guarantee continues to have significant exposure to Jefferson County (see Note 15). Syncora Guarantee's estimate of reserves for losses on this remaining exposure is based on certain assumptions. Changes in such assumptions could materially adversely affect such reserves estimates, including the amount and timing of any claims. Under certain conditions, many of which are event-driven and outside the control of the Company, this exposure may result in a significant increase in claims beyond that assumed in the Syncora Guarantee's reserve estimate (that may or may not result in an increase in such loss reserves) against Syncora Guarantee in the near to medium term.

- No assurance can be given that Syncora Capital Assurance will be able to: (i) repay its surplus notes, 100% of which are owned by Syncora Guarantee, (ii) pay interest on such surplus notes, or (iii) pay dividends on its common shares, 100% of which are owned by Syncora Guarantee. The aforementioned payments are subject to certain risks and uncertainties, as well as certain regulatory and contractual restrictions. To the extent that Syncora Capital Assurance is not able to make, or is restricted from making, payments to Syncora Guarantee, it may have a material adverse effect on Syncora Guarantee's liquidity. Refer to Note 4 for a discussion of Syncora Capital Assurance, as well as its surplus notes and common shares.

- The Company continues to be materially exposed (directly and indirectly) to risks associated with the financial condition of other financial guarantors, including the placement of a financial guarantor into rehabilitation or liquidation. Such exposure may arise as a result of (i) direct contractual dealings with a financial guarantor such as reinsurance (whether as ceding company or reinsurer) or (ii) indirectly by means of (a) "wrapping over" another financial guarantor (which exposes the Company to the credit risks of the insured transaction directly) or (b) participating in an insured transaction with such other financial guarantor (where such rehabilitation or liquidation could have an effect on the insured transaction or the rights and remedies available to the Company). The precise effects of any such rehabilitation or liquidation are unknown, as is the effect, if any, on potential claim payments and the ultimate amount of losses the Company may incur on obligations it has guaranteed and such effects may be materially adverse to the Company's financial position.

- In addition to exposure to general economic factors, the Company is exposed to the specific risks faced by the particular businesses, municipalities or pools of assets covered by its financial guarantee products. In light of the economic and financial crisis, various businesses and municipalities continue to face financial difficulties. In addition, catastrophic events or terrorist acts could adversely affect the ability of public sector issuers to meet their obligations with respect to securities insured by the Company and the Company may incur material losses due to these exposures if the economic stress caused by these events is more severe than the Company currently foresees. Other events, such as interest rate changes or volatility, could also materially affect the Company or its insured obligations.

- Changes in laws and regulations affecting insurance companies, the municipal and structured securities markets, the financial guarantee insurance and reinsurance markets and the credit derivatives markets, as well as other governmental regulations, may also subject the Company and its insurance subsidiaries to additional legal liability and regulatory requirements, affect the credit performance of the securities that the insurance subsidiaries insure and otherwise affect the Company's financial condition.

Assessment of the Company's Ability to Continue as a Going Concern

In management's opinion, the principal factors affecting Syncora Holdings Ltd. and its consolidated subsidiaries' ability to continue as a going concern are the Company's ability to maintain adequate liquidity and mitigate the risk of adverse loss development on Syncora Guarantee's and, or, Syncora Capital Assurance's remaining in-force business.

As a result of uncertainties associated with the aforementioned factors affecting Syncora Holdings Ltd. and its consolidated subsidiaries' ability to continue as a going concern, management has concluded that there is substantial doubt about the ability of Syncora Holdings Ltd. and its consolidated subsidiaries to continue as a going concern. The Company's financial statements as of and for the years ended December 31, 2010 and 2009 are prepared assuming Syncora Holdings Ltd. and its consolidated subsidiaries continue as a going concern and does not include any adjustment that might result from their inability to continue as a going concern.

Description of the Company's On-Going Strategic Plan

Management is actively seeking to (i) remediate deteriorated insured exposures (through their purchase on the open market or otherwise, commutation, defeasance or other restructure) to minimize claim payments, maximize recoveries and mitigate ultimate expected losses, (ii) increase Syncora Guarantee's and Syncora Capital Assurance's capital, surplus, liquidity and claims paying resources (including through additional third-party capital), (iii) realize maximum value from its illiquid assets and various legal proceedings described in Note 19, and from any other rights and remedies the Company may have, and (iv) take other actions to enhance its financial position (hereafter collectively referred to as "Strategic Actions").

In regard to the Strategic Actions, the Company, working with its external advisors, is actively pursuing or exploring a number of options available to it which, individually or in the aggregate, may materially affect (favorably or adversely) the Company's capital structure, or liquidity position or address other challenges that the Company faces. No assurances can be given that the Company will be successful in completing any of the aforementioned actions. Furthermore, certain of the Strategic Actions contemplated by the Company may be outside the ordinary course of the Company's operations or its control and may require consents or approvals of parties outside of the Company, including the NYID.

4. Description of the Transactions Comprising the 2009 MTA and Related Transactions

On July 15, 2009, the Company consummated a master transaction agreement with certain financial institutions that were counterparties to CDS contracts with the Company (the "Counterparties"), as well as certain related transactions (hereafter referred to collectively as the "2009 MTA") which, along with approval of the NYID to apply certain accounting practices in connection with the preparation of Syncora Guarantee's statutory financial statements to certain of the transactions comprising the 2009 MTA, resulted in Syncora Guarantee's return to compliance with its regulatory minimum surplus to policyholders. At September 30, 2009, Syncora Guarantee reported policyholders' surplus of $181.7 million. Absent the aforementioned approval by the NYID to apply certain accounting practices, Syncora Guarantee would have reported a policyholders' deficit at September 30, 2009 of $3.5 billion. The approval by the NYID allowed Syncora Guarantee to among other things: (i) immediately recognize the effect of transactions which economically defeased or, in-substance, commuted certain of Syncora Guarantee's obligations, whereas such recognition would otherwise have been made over the life of the underlying guarantees, and (ii) de-recognize statutory mandated contingency reserves on guarantees which were terminated or where such reserves were redundant with case basis reserves carried by Syncora Guarantee.

At December 31, 2009, Syncora Guarantee reported policyholders' surplus of $99.7 million. Absent the aforementioned approval by the NYID to apply the accounting practices discussed above, Syncora Guarantee would have reported a policyholders' deficit at December 31, 2009 of $3.5 billion.

The 2009 MTA consisted of the following primary components, all of which are more fully discussed below: (1) the restructuring, effective defeasance or, in-substance, commutation of substantially all of Syncora Guarantee's exposure to CDS contracts, (2) the reinsurance or novation of certain of Syncora Guarantee's business to Syncora Capital Assurance, a newly formed, wholly-owned insurance subsidiary of Syncora Guarantee, (3) the effective defeasance or, in-substance, commutation of certain of Syncora Guarantee's exposure to insured RMBS securities, and (4) certain other transactions to remediate loss exposure. A discussion of each of the principal components of the 2009 MTA, as well as certain summary financial information illustrating the effect of the transactions comprising the 2009 MTA on the Company's financial position and results of operations, is set forth below. Also, see Note 17 for a table summarizing the Company's in-force principal exposure before and after the transactions comprising the 2009 MTA.

Effective Defeasance or In-Substance Commutation of CDS Contracts

Pursuant to the 2009 MTA, Syncora Guarantee effectively defeased or, in-substance, commuted (in whole or in part) certain CDS contracts insured by it (representing substantially all of Syncora Guarantee's anticipated claims on CDS contracts) by having the counterparties to such CDS contracts assign them to a newly formed, wholly-owned subsidiary of Syncora Guarantee, known as Syncora CDS Corp., in exchange for which the Company paid the Counterparties consideration comprised of cash, surplus notes of Syncora Guarantee, and common shares of Syncora Holdings as more fully discussed below. Syncora CDS Corp. was formed for the sole purpose of the aforementioned assignments and conducted no other business. On October 15, 2010, Syncora CDS Corp. was dissolved.

The consideration paid by Syncora Guarantee to the Counterparties included approximately $1.2 billion in cash and the issuance of surplus notes of Syncora Guarantee in the aggregate principal amount of $625.0 million and a fair value as of the date of their issuance of $141.0 million (see Note 8). Syncora Guarantee also transferred to the Counterparties or their designees common shares of Syncora Holdings beneficially owned by Syncora Guarantee representing approximately 40% of Syncora Holdings' common shares outstanding immediately after the restructuring (after giving effect to the cancellation on July 15, 2009 of the remaining Syncora Holdings' shares beneficially owned by the Company).

Reinsurance and Novation of Certain Business to a Newly Formed Wholly-Owned Insurance Subsidiary of Syncora Guarantee

Pursuant to the 2009 MTA, Syncora Guarantee formed Syncora Capital Assurance for the sole purpose of (i) reinsuring certain guarantees of public finance and global infrastructure debt obligations written by Syncora Guarantee, and (ii) assuming, through novation, certain guarantees of non-public finance debt obligations and obligations of affiliates under CDS contracts written by Syncora Guarantee. In connection therewith, Syncora Guarantee issued back-up guarantees on the novated CDS contracts (the "Back-Up Guarantees") which would cover claims on such policies to the extent not satisfied by Syncora Capital Assurance, subject to certain limitations and conditions. Syncora Capital Assurance was incorporated on April 1, 2009, became a New York domiciled financial guarantee insurance company on July 14, 2009, commenced its operations on July 15, 2009, and is prohibited from writing new business and, therefore, does not intend to seek to obtain licenses to transact insurance business in any other state or jurisdiction. Syncora Guarantee capitalized Syncora Capital Assurance with $541.5 million in exchange for Syncora Capital Assurance's common stock and two surplus notes in the aggregate principal amount of $350.0 million. Payments of principal and interest on these surplus notes are subject to the provisions of the 2009 MTA and prior approval by the NYID.

Effective Defeasance or In-Substance Commutation of Syncora Guarantee's Exposure to Insured RMBS Securities

In connection with the 2009 MTA, Syncora Guarantee invested in a fund (the "RMBS Fund") that executed certain transactions designed to effectively defease or, in-substance, commute its exposure on certain of its financial guarantee insurance policies written on RMBS. The RMBS Fund offered (the "RMBS Offer") to purchase certain of such RMBS ("Purchased RMBS") in return for a trust certificate of an owner trust representing the uninsured cash flows of such RMBS ("Uninsured Cash Flow Certificate") plus a cash payment. In general, the RMBS Fund contributed any such Purchased RMBS (and certain of Syncora Guarantee's reimbursement rights) to separate owner trusts in return for certificates representing the cash flows consisting of insurance payments made on the policies insuring such RMBS ("Insurance Cash Flow Certificates"). Syncora Guarantee's investment in the RMBS Fund was used to fund the cash payments for the Purchased RMBS. In return for such investment (including contribution of its reimbursement rights), the Insurance Cash Flow Certificates were distributed to Syncora Guarantee. The Insurance Cash Flow Certificates represent the right to receive the payments on Syncora Guarantee's financial guarantee insurance policies covering such RMBS. In addition, and as part of the transaction, Syncora Guarantee will, should the cash flows from the underlying RMBS be sufficient, receive certain reimbursement payments in respect of insurance payments previously made by Syncora Guarantee on such RMBS. Syncora Guarantee also entered into several alternative transactions effectively replicating the economics of the RMBS Offer. The RMBS Offer closed on July 15, 2009 and the Insurance Cash Flow Certificates were distributed to Syncora Guarantee on July 22, 2009.

In addition to the RMBS Offer, Syncora Guarantee directly purchased certain RMBS that it had insured. Such directly purchased RMBS were generally exchanged by Syncora Guarantee for Insurance Cash Flow Certificates and Uninsured Cash Flow Certificates using the mechanics described above. The Uninsured Cash Flow Certificate may either be held or resold by Syncora Guarantee. In connection with the closing of the 2009 MTA, Syncora Guarantee expended $386.5 million related to Insurance Cash Flow Certificates and related alternative structures, which are recorded in "Receivables on Insurance Cash Flow Certificates, net" on the accompanying consolidated balance sheets, $21.6 million related to the reinsurance of a particular transaction (which was novated to FSA in December 2009 – see Note 15 (d)), $5.7 million related to the termination of certain insurance contracts and $105.1 million relating to the cost of Uninsured Cash Flow Certificates, which are recorded in "Debt securities available for sale" on the accompanying consolidated balance sheets. Subsequent to the closing of the 2009 MTA, the Company continued to directly purchase certain RMBS that it had insured. Subsequent to the closing of the 2009 MTA through December 31, 2009, the Company purchased eight such RMBS with an aggregate principal exposure of approximately $51.2 million for consideration of approximately $17.2 million; $3.6 million of this amount has been recorded as "Receivables on Insurance Cash Flow Certificates, net" and $2.4 million related to a commutation on the accompanying consolidated balance sheets, $11.2 million has been attributed to the cost basis of Uninsured Cash Flow Certificates, which are recorded in "Debt securities available for sale" on the accompanying consolidated balance sheets. During the year ended December 31, 2010, the Company purchased additional RMBS and effected an alternative transaction, as described above, with an aggregate principal exposure of approximately $413.8 million for consideration of approximately $239.3 million; $167.8 million of this amount was recorded as Insurance Cash Flow Certificates, and $71.5 million was attributed to the cost of the Uninsured Cash Flow Certificates. See Note 10 for further information regarding sales of Uninsured Cash Flow Certificates and net realized losses recognized relating to sales thereof and other than temporary impairment charges.

In addition, while the insurance policies to which the Insurance Cash Flow Certificates relate have been effectively defeased or, in-substance, commuted by virtue of the Company's ownership of the certificates, such policies have not actually been extinguished. Accordingly, reserves for unpaid losses, which aggregated approximately $1.4 billion at December 31, 2009, related to such policies may not be de-recognized and the remaining unearned premium revenue relating thereto may not be earned immediately. Instead, the Company will continue to recognize reserve development and earn premiums on these policies as it would any other in-force policy.

As the Insurance Cash Flow Certificates do not legally extinguish the RMBS, the Company regards the effective purchase of the Insurance Cash Flow Certificates as providing protection on the underlying RMBS upon the occurrence of an event of default and consequently follows reinsurance accounting principles. Upon the indirect or direct purchase of insured RMBS a deferred gain is recorded that represents the excess of the estimated ultimate claim payments relating to the insured RMBS at the time of the transaction over the cost the Company paid for those Insurance Cash Flow Certificates. The deferred gain is recognized in the consolidated statements of operations in "Net earnings on Insurance Cash Flow Certificates" based on the anticipated claim payments at the time of the transaction. The assumptions used in estimating the receivables on the Insurance Cash Flow Certificates for any given period are recognized in a manner consistent with the measurement and recognition of the loss reserves associated with the insured RMBS.

The following table illustrates the components of the Net Receivable on Insurance Cash Flow Certificates on the accompanying consolidated balance sheets at December 31, 2010 and 2009:

(U.S. dollars in thousands)

	2010	2009
Receivables on Insurance Cash Flow Certificates	$ 696,858	$ 1,384,288
Deferred gain	(421,007)	(674,679)
Receivables on Insurance Cash Flow Certificates, net	$ 275,851	$ 709,609

The following table illustrates the components of the Net earnings on Insurance Cash Flow Certificates in the accompanying consolidated statement of operations for the years ended December 31, 2010 and 2009:

(U.S. dollars in thousands)

	2010	2009
Amortization of deferred gain, net	$ 272,037	$ 213,900
Change in loss reserves, net of reimbursements	28,151	102,296
Net earnings on Insurance Cash Flow Certificates (1)	$ 300,188	$ 316,196

(1) Net earnings on Insurance Cash Flow Certificates during 2010 include an immaterial amount of $2.0 million of deferred gain amortization that was not reflected in 2009.

Certain Other Transactions to Remediate Loss Exposure

In connection with the 2009 MTA, the Company also consummated the transactions discussed in Note 15 (d), and is in negotiations to consummate the transaction described in Note 15 (b). In addition, on July 1, 2009, the Company entered into an agreement to terminate its office premises lease for its headquarters. Pursuant to the lease termination agreement, the Company made a payment of $13.5 million to settle its remaining obligations under the lease, and, accordingly, recognized such amount as a loss on lease abandonment during the year ended December 31, 2009.

Summary Financial Information

The following tables illustrate the effect of the transactions comprising the 2009 MTA on the accompanying consolidated balance sheet as of December 31, 2009 and the accompanying consolidated statement of operations for the year ended December 31, 2009.

Summary Balance Sheet Information
Increase (Decrease)

(U.S. dollars in millions)	(1)	(2)	(3)	(4)	(5)	Total
Assets						
Debt securities available for sale, at fair value……….	$ -	$ 104.6	$ -	$ -	$ -	$ 104.6
Cash and cash equivalents and restricted cash and cash equivalents………………...……………………….	(1,251.9)	(496.7)	(61.6)	(30.5)	-	(1,840.7)
Premiums receivable……………………………….	(8.2)	-	-	-	-	(8.2)
Insurance Cash Flow Certificates………………………	-	386.4	-	-	-	386.4
Other assets………………………………………..	-	-	-	(2.2)	-	(2.2)
Total assets…………………………………..	$ (1,260.1)	$ (5.7)	$ (61.6)	$ (32.7)	$ -	$ (1,360.1)
Liabilities						
Unpaid losses and loss adjustment expenses…….….	$ (112.9)	$ (60.8)	$ (119.2)	$ 19.1	$ -	$ (273.8)
Unearned premium revenue………………………….	-	(0.2)	(27.1)	(1.9)	-	(29.2)
Credit default swap contracts, at fair value …………	(1,261.7)	-	-	-	1,260.9	(0.8)
Notes payable……………………………………….	141.0	-	-	-	-	141.0
Accounts payable, accrued expenses and other liabilities………………………………………..….	0.1	-	-	(12.1)	-	(12.0)
Total liabilities………………………………….	(1,233.5)	(61.0)	(146.3)	5.1	1,260.9	(174.8)
Shareholders' (deficit) equity						
Common shares and additional paid-in capital……….	(13.0)	-	-	-	-	(13.0)
Accumulated deficit………………………………..	(75.2)	55.3	84.7	(37.8)	(1,260.9)	(1,233.9)
Treasury stock, at cost……………………………….	61.6	-	-	-	-	61.6
Total Syncora Holdings Ltd. common shareholders' (deficit) equity……..………..…...…………………	(26.6)	55.3	84.7	(37.8)	(1,260.9)	(1,185.3)
Total Syncora Holdings Ltd. shareholders' (deficit) equity……………………………………….……	(26.6)	55.3	84.7	(37.8)	(1,260.9)	(1,185.3)
Total shareholders' (deficit) equity…….….……...	(26.6)	55.3	84.7	(37.8)	(1,260.9)	(1,185.3)
Total liabilities and shareholders' (deficit) equity…..	$ (1,260.1)	$ (5.7)	$ (61.6)	$ (32.7)	$ -	$ (1,360.1)

(U.S. dollars in millions)	Summary Income Statement Information Year Ended December 31, 2009 (1)	(2)	(3)	(4)	(5)	Total
Revenues						
Net premiums earned……………….………………	$ (8.3)	$ 0.2	$ 27.1	$ -	$ -	$ 19.0
Total revenues………………………………	(8.3)	0.2	27.1	-	-	19.0
Expenses						
Net losses and loss adjustment expenses…………….	(88.9)	(55.1)	(57.6)	34.2	-	(167.4)
Change in fair value of CDS contracts						
Realized losses and other settlements……..……….	1,376.2	-	-	-	-	1,376.2
Unrealized (gains) losses…………………………..	(1,261.7)	-	-	-	1,260.9	(0.8)
Net realized and unrealized losses on CDS contracts………………………………………...	114.5	-	-	-	1,260.9	1,375.4
Operating expenses………………………………..	-	-	-	3.6	-	3.6
Total expenses…………………………..…....	25.6	(55.1)	(57.6)	37.8	1,260.9	1,211.6
Net (loss) income available to common shareholders	$ (33.9)	$ 55.3	$ 84.7	$ (37.8)	$ (1,260.9)	$ (1,192.6)

(1) To record the effective defeasance or, in-substance, commutation of certain of the Company's guarantees of CDS contracts and policies.
(2) To record the effective defeasance or, in-substance, commutation of certain of the Company's guarantees of RMBS resulting from its acquisition of Insurance Cash Flow Certificates or alternative structures. As discussed above, GAAP requires that reserves for unpaid losses and loss adjustment expenses related to such guarantees not be de-recognized, nor any unearned premium revenue relating thereto earned because the policies to which such Insurance Cash Flow Certificates relate have not been extinguished.
(3) To record the novation of certain transactions to FSA - See Note 15 (d).
(4) To record other transactions comprising the 2009 MTA.
(5) To record the effect on the fair value of the Company's CDS contracts resulting from application of the Non-Performance Risk of Syncora Capital Assurance (as compared to that of Syncora Guarantee) to CDS contracts that were novated to it from Syncora Guarantee as discussed above.

Total expenses (consisting of legal, investment advisory, accounting and consulting fees) incurred during 2009 in connection with the transactions comprising the 2009 MTA were $32.3 million. These expenses are not included in the summary financial information presented in the tables above.

5. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may, and likely will, differ from those estimates and such differences may be material. Accounting policies requiring significant estimates consist of those relating to the Company's CDS contracts, variable interest entities' assets and liabilities, deferred acquisition costs, investments, and reserves for losses and loss adjustment expenses, as discussed in this note. All intercompany accounts and transactions have been eliminated. Certain reclassifications have been made to prior period consolidated financial statement amounts to conform to the current period presentation. There was no effect on net loss or shareholders' (deficit) equity as a result of these reclassifications. The Company has evaluated all subsequent events through June 7, 2011, the date the financial statements were issued.

Adoption of Accounting Pronouncement on Consolidation of Variable Interest Entities ("VIEs")

The Company has exposure to VIEs through the issuance of financial guaranty insurance contracts that typically ensure the timely payment of principal and interest to the holders of VIE. As part of the terms of its insurance contracts, at the outset of a contract, the Company obtains certain protective rights with respect to the VIE that are triggered by the occurrence of certain events, such as failure to be in compliance with a covenant due to poor deal performance or a deterioration in a servicer or collateral manager's financial condition. At deal inception, the Company typically is not deemed to control a VIE; however, once a trigger event occurs, the Company's control of the VIE typically increases. In addition, the Company has exposure to VIEs through the ownership of Uninsured Cash Flow Certificates (see Note 4).

Under accounting rules previously in effect, the Company determined whether it was the primary beneficiary of a VIE (i.e., the variable interest holder required to consolidate a VIE) by first performing a qualitative analysis of the VIE that included, among other factors, its capital structure, contractual terms, which variable interests create or absorb variability, related party relationships and the design of the VIE. The Company performed a quantitative analysis when qualitative analysis was not conclusive.

New accounting guidance promulgated by the Financial Accounting Standards Board ("FASB"), which became effective January 1, 2010, requires the Company to perform an analysis to determine whether its variable interests give it a controlling financial interest in a VIE. This analysis identifies the primary beneficiary of a VIE as the enterprise that has both (1) the power to direct the activities of a VIE that most significantly impact the entity's economic performance; and (2) the obligation to absorb losses of the entity that could potentially be significant to the VIE or the right to receive benefits from the entity that could potentially be significant to the VIE. Additionally, this guidance requires an ongoing reassessment of whether the Company is the primary beneficiary of a VIE.

The new guidance mandates that its adoption be recognized as a cumulative effect adjustment to retained earnings as of January 1, 2010. The cumulative transition adjustment represents the recognized changes in assets and liabilities resulting from the adoption, including the effect of the fair value option election for the financial assets and liabilities, offset in part by the elimination of intercompany balances with the consolidated VIEs. The effect of the adoption of the new guidance on the Company's consolidated assets and liabilities as of January 1, 2010 and the cumulative effect thereof on the Company's accumulated deficit at such date is set forth below.

(U.S. dollars in thousands)	December 31, 2009 As Reported	Transition Adjustment	January 1, 2010 As Adjusted
Assets:			
Total cash, invested assets and restricted cash and cash equivalents	$1,684,938	$(35,358)	$1,649,580
Deferred acquisition costs	137,844	-	137,844
Prepaid reinsurance premiums	10,664	-	10,664
Reinsurance balances recoverable on unpaid losses	17,972	-	17,972
Premiums receivable	454,948	(9,670)	445,278
Assets of consolidated variable interest entities, at fair value	-	794,286	794,286
All other assets	906,157	(99,943)	806,214
Total assets	$3,212,523	$649,315	$3,861,838
Liabilities and Shareholders' (Deficit) Equity:			
Liabilities			
Unpaid losses and loss adjustment expenses	$2,118,388	$(70,581)	$2,047,807
Unearned premium revenue	1,053,002	(9,910)	1,043,092
Liabilities of consolidated variable interest entities, at fair value	-	697,217	697,217
All other liabilities	1,407,379	-	1,407,379
Total liabilities	4,578,769	616,726	5,195,495
Shareholders' (deficit) equity			
Non-controlling interest - Series B perpetual non-cumulative preferred shares of subsidiary	20,000	-	20,000
Series A perpetual non-cumulative preferred shares	246,593	-	246,593
Common shares and additional paid-in-capital	2,675,166	-	2,675,166
Accumulated deficit	(4,362,614)	32,589	(4,330,025)
Accumulated other comprehensive income	54,609	-	54,609
Total common shareholders' (deficit) equity	(1,632,839)	32,589	(1,600,250)
Total shareholders' (deficit) equity	(1,386,246)	32,589	(1,353,657)
Total shareholders'(deficit) equity	(1,366,246)	32,589	(1,333,657)
Total liabilities and shareholders' (deficit) equity	$3,212,523	$649,315	$3,861,838

The Company has elected to fair value the assets and liabilities of VIEs it consolidates because the amortized cost transition method was not practical. Refer to Note 6 for disclosures regarding VIEs consolidated as of December 31, 2010, as well as revenues and expenses of VIEs, which were consolidated by the Company during the year ended December 31, 2010 and, accordingly, reflected in the accompanying consolidated statements of operations.

Adoption of Accounting Pronouncement of Financial Guarantee Insurance Contracts

In May 2008, the FASB issued new accounting guidance for financial guarantee insurance and reinsurance contracts which was effective prospectively as of January 1, 2009. This accounting guidance amends accounting and reporting by insurance enterprises to clarify how existing guidance applies to financial guarantee insurance and reinsurance contracts. The accounting guidance amends the recognition and measurement of premium revenue, and reserves for unpaid losses and loss adjustment expenses on financial guarantee insurance and reinsurance contracts, and expands disclosure requirements. The recognition and measurement of receivables for future premiums and the related unearned premium revenue associated therewith are also amended by the standard. However, the standard does not apply to financial guarantee insurance contracts that are derivative instruments. Refer to Note 9 for disclosures related to premiums and Note 15 for disclosures related to loss reserves.

The effect of the adoption of this new accounting pronouncement on the Company's consolidated assets and liabilities as of January 1, 2009 and the cumulative effect thereof on the Company's accumulated deficit at such date is set forth below.

(U.S. dollars in thousands)	December 31, 2008 As Reported	Transition Adjustment	January 1, 2009 As Adjusted
Assets:			
Total cash, invested assets and restricted cash and cash equivalents	$ 3,582,534	$ -	$ 3,582,534
Deferred acquisition costs	110,062	50,514	160,576
Prepaid reinsurance premiums	7,791	4,443	12,234
Reinsurance balances recoverable on unpaid losses	6,011	-	6,011
Premiums receivable	6,909	495,525	502,434
All other assets	187,627	-	187,627
Total assets	$ 3,900,934	$ 550,482	$ 4,451,416
Liabilities and Shareholders' (Deficit) Equity:			
Liabilities			
Unpaid losses and loss adjustment expenses	$ 1,686,187	$ 194,928	$ 1,881,115
Unearned premium revenue	628,845	568,528	1,197,373
All other liabilities	855,943	11,456	867,399
Total liabilities	3,170,975	774,912	3,945,887
Shareholders' equity (deficit)			
Non-controlling interest - Series B perpetual non-cumulative preferred shares of subsidiary	20,000	-	20,000
Series A perpetual non-cumulative preferred shares	246,593	-	246,593
Common shares and additional paid-in-capital	2,688,127	-	2,688,127
Accumulated deficit	(2,217,470)	(224,430)	(2,441,900)
Accumulated other comprehensive income	54,351	-	54,351
Treasury stock	(61,642)	-	(61,642)
Total common shareholders' equity (deficit)	463,366	(224,430)	238,936
Total shareholders' equity (deficit)	709,959	(224,430)	485,529
Total shareholders' equity (deficit)	729,959	(224,430)	505,529
Total liabilities and shareholders' equity (deficit)	$ 3,900,934	$ 550,482	$ 4,451,416

A description of the Company's other significant accounting policies are set forth below.

Investments

All of the Company's investments in debt (including Uninsured Cash Flow Certificates) and equity securities are considered available-for-sale and accordingly are carried at fair value. The fair value of investments is based on quoted market prices received from nationally recognized pricing services or, in the absence of quoted market prices, dealer quotes or matrix pricing. The net unrealized gains or losses on investments, net of deferred income taxes, is included in accumulated other comprehensive income (loss). Any unrealized loss in value considered by management to be other-than-temporary is charged to income in the period that such determination is made. See Note 10 for the criteria used by management in assessing whether an other-than-temporary impairment has occurred.

With respect to securities where the decline in value is determined to be temporary and the security's value is not written down, a subsequent decision may be made to sell that security and realize a loss. Subsequent decisions on security sales are made within the context of overall risk monitoring, changing information, general market conditions and assessing value relative to other comparable securities.

Bond discounts and premiums are amortized on a level-yield basis over the remaining terms of securities acquired. For pre-refunded bonds, the remaining term is determined based on the contractual refunding date. For mortgage-backed securities, and any other holdings for which prepayment risk may be significant, assumptions regarding prepayments are evaluated periodically and revised as necessary. Any adjustments required due to the resulting change in effective yields are recognized in income.

Cash equivalents include fixed-interest and money market fund deposits with a maturity of less than 90 days when purchased.

All investment transactions are recorded on a trade date basis. Realized gains and losses on sales of debt securities are determined on the basis of average cost. Investment income is recognized when earned.

Unearned Premium Revenue and Receivable for Future Premiums

The Company recognizes a liability for unearned premium revenue at the inception of financial guarantee insurance and reinsurance contracts on a contract-by-contract basis. Unearned premium revenue recognized at inception of a contract is measured at the present value of the premium due or expected to be collected. For certain financial guarantee insurance contracts, the Company receives the entire premium due at the inception of the contract, and recognizes unearned premium revenue liability at that time. For other financial guarantee contracts, the Company receives premiums in installments over the term of the contract at stipulated due dates. Unearned premium revenue and a receivable for future premiums are recognized at the inception of an installment contract, and measured at the present value of premiums expected to be collected over the contract period or expected period using a risk-free discount rate. The expected period is used in the present value determination of unearned premium revenue and receivable for future premiums for contracts where (a) the insured obligation is contractually prepayable, (b) prepayments are probable, (c) the amount and timing of prepayments are reasonably estimable, and (d) a homogenous pool of assets is the underlying collateral for the insured obligation. The Company has determined that substantially all of its installment contracts are required to be measured based on contract period. The receivable for future premiums is reduced as installment premiums are collected. The Company reports the accretion of the discount on installment premiums receivable as premium revenue. The Company assesses the receivable for future premiums for collectability each reporting period, adjusts the receivable for uncollectible amounts and recognizes any write-off as operating expense. Prior to the adoption of the new accounting pronouncement, which was effective prospectively as of January 1, 2009, recognition of unearned premium revenue was the same as under the new accounting pronouncement, except that premiums on installment contracts were only recognized when due under an installment premium contract as compared to when they are expected to be collected. Accordingly, prior to the adoption of the new accounting pronouncement, there was no recognition of receivables for future premiums that were not due.

Premium Revenue Recognition

In accordance with the new accounting pronouncement, financial guarantee insurance and reinsurance enterprises recognize the premium from a financial guarantee insurance contract as revenue over the period of the contract in proportion to the amount of insurance protection provided. As premium revenue is recognized, a corresponding decrease in the unearned premium revenue occurs. The amount of insurance protection provided is a function of the insured exposure outstanding. Therefore, the proportionate share of premium revenue to be recognized in a given reporting period is a constant rate calculated based on the relationship between the insured exposure outstanding in a given reporting period compared with the sum of each of the insured exposure amounts outstanding for all periods. Prior to the adoption of the new accounting pronouncement, which was effective prospectively as of January 1, 2009, premiums were recognized as written when due. Installment premiums written were earned ratably over the installment period, generally one to three months, which is consistent with the expiration of the underlying risk or amortization of the underlying insured par. Upfront premiums written were earned in proportion to the expiration of the related risk. The methodology employed to earn upfront premiums required that such premiums be apportioned to individual sinking fund payments of a bond issue according to the bond issue's amortization schedule. The apportionment was based on the ratio of the principal amount of each sinking fund payment to the total principal amount of the bond issue. After the premium was allocated to each scheduled sinking fund payment, such allocated premium was earned on a straight-line basis over the period of that sinking fund payment. As a result, for upfront premiums on amortizing insured obligations, premium revenue recognition tended to be greater in the earlier periods of the transaction when there was a higher amount of risk or principal outstanding. For upfront premiums on non-amortizing bullet maturity debt obligations, premium revenue recognition was recognized on a straight-line basis over the life of the underlying insured obligation.

The Company's accounting policies for the recognition of ceded premiums, ceding commissions and ceded losses and loss adjustment expenses under its ceded reinsurance contracts mirror the policies described herein for premium revenue recognition, deferred ceding commissions, and reserves for losses and loss adjustment expenses.

An issuer of an insured financial obligation may retire the obligation prior to its scheduled maturity through an outright extinguishment, which terminates the Company's obligation under its insurance policy. In accordance with the new accounting pronouncement, any retirement which results in the extinguishment of the Company's obligation under the financial guarantee contract will cause the Company to recognize any remaining unearned premium revenue on the insured obligation as premium revenue in the period the contract is extinguished to the extent the unearned premium revenue has been collected (such retirements are hereafter referred to as "Refundings"). Prior to the adoption of the new accounting pronouncement, under certain circumstances (such as defeasances) Refundings were recognized even though they did not result in an extinguishment of the Company's obligation under the financial guarantee contract.

Fee Income and Other

The Company has collected, and may collect in the future, certain fees in connection with its guaranteed transactions. Depending upon the type of fee received, the fee is either earned when services are rendered or deferred and earned over the life of the related transaction. Termination fees are earned when due and are included in the accompanying statements of operations under the caption "Fee Income and Other." Structuring, waiver and consent, and commitment fees are included in the accompanying consolidated statements of operations as premiums and earned on a straight-line basis over the life of the related transaction.

Loss and Loss Adjustment Expenses

In accordance with the new accounting pronouncement, a claim liability (loss reserve) is recognized at the measurement date on a contract-by-contract basis based on the weighted average probability of net cash outflows to be paid under the contract, on a present value basis, to the extent that the claim liability so determined exceeds the unearned premium revenue attributable to such contract at the measurement date (see Note 15). Prior to the adoption of the new accounting pronouncement, the Company established reserves for losses and loss adjustment expenses on such business based on its best estimate of the ultimate expected incurred losses on a present value basis.

Establishment of reserves losses and loss adjustment expenses requires the use and exercise of significant judgment by management, including estimates regarding the occurrence and amount of a loss on an insured obligation. Actual experience may differ from estimates and such difference may be material, due to the fact that the ultimate dispositions of claims are subject to the outcome of events that have not yet occurred. Examples of these events include changes in the level of interest rates, credit deterioration of insured obligations, and changes in the value of specific assets supporting insured obligations. Both qualitative and quantitative factors are used in establishing such reserves. In determining the reserves, management considers all factors in the aggregate, and does not attribute the reserve provisions or any portion thereof to any specific factor. Any estimate of future costs is subject to the inherent limitation on the Company's ability to predict the aggregate course of future events. It should, therefore, be expected that the actual emergence of losses and loss adjustment expenses will vary, perhaps materially, from any estimate.

In accordance with the new accounting pronouncement, the present value of net cash outflows is determined based on a risk free rate of interest commensurate with the expected duration of the related contract. For this purpose, the Company uses the rate on U.S. Treasury obligations with a duration consistent with the duration of the underlying insured obligation for U.S. dollar denominated insured obligations or the comparable risk free rate on foreign government obligations relating to insured obligations denominated in foreign currencies. The weighted average risk free rate upon adoption of the standard and at December 31, 2010 was 1.4% and 1.5%, respectively. In accordance with the new accounting pronouncement, a claim liability is subsequently remeasured each reporting period for increases or decreases due to changes in the magnitude and likelihood of default and potential recoveries, as well as changes in the risk free rate of interest. Subsequent changes to the measurement of claim liability are recognized as loss expense in the period of change. Measurement and recognition of loss liability is reported gross of any reinsurance. For periods since the adoption of the new accounting pronouncement, the Company estimates the likelihood of possible claims payments and possible recoveries using probability-weighted expected cash flows based on information available as of the measurement date, including market information. Accretion of the discount on a claim liability, as well as any changes in the risk free rate of interest, are included in loss expense. Prior to the adoption of the new accounting pronouncement, the present value of net cash outflows was determined based on the yield of the Company's investment portfolio. The Company believed this rate of return is an appropriate rate to discount its reserves because it reflects the rate of return on the assets supporting such business.

As previously discussed, in accordance with the new accounting pronouncement, loss reserves represent the Company's: (i) probability weighted average estimate of the net present value of claims to be paid subsequent to the balance sheet date, less (ii) its probability weighted average estimate of the net present value of recoveries subsequent to the balance sheet date and (iii) any unearned premium revenue relating to such guarantees at the end of the reporting period.

Loss reserves are generally determined using cash flow models to estimate the net present value of the anticipated shortfall between (i) scheduled payments on the insured obligation plus anticipated loss adjustment expenses and (ii) anticipated cash flow from the collateral supporting the obligation and other anticipated recoveries. A number of quantitative and qualitative factors are considered when determining or assessing the need for a case basis reserve. These factors may include the creditworthiness of the underlying issuer of the insured obligation, whether the obligation is secured or unsecured, the projected cash flow or market value of any assets that collateralize or secure the insured obligation, and the historical and projected loss rates on such assets. Other factors that may affect the actual ultimate loss include the state of the economy, changes in interest rates, rates of inflation and the salvage values of specific collateral. Such factors and the Company's assessment thereof will be subject to the specific facts and circumstances associated with the specific insured transaction being considered for loss reserve establishment.

Loss reserves on financial guarantee reinsurance assumed are generally established by the Company upon quarterly current notifications from ceding companies. There historically has been no time lag between the time the Company records an assumed case basis reserve and the time the Company's ceding companies record such reserves. For each notification of a ceded loss reserve from ceding companies, the Company conducts an examination of the basis of the ceding company's reserve estimate to ensure that the Company concurs with the ceding company's evaluation and conclusions. In certain instances, the Company may develop its own estimates of losses on assumed business. In general, when the Company has assumed loss reserves, it has concurred with the ceding companies' evaluation and conclusions with respect to such reserves and, accordingly, there has been no difference between the amount of loss reserves reported to the Company by its ceding companies and the amount it has recorded in its financial statements.

In assessing whether a loss is probable, the Company considers all available qualitative and quantitative evidence. Qualitative evidence may take various forms and the nature of such evidence will depend upon the type of insured obligation and the nature and sources of cash flows to fund the insured obligation's debt service. For example, such evidence with respect to an insured special revenue obligation such as an obligation supported by cash flows from a toll road would consider traffic statistics such as highway volume and related demographic information, whereas an insured mortgage-backed securitization would consider the quality of the mortgage loans supporting the insured obligation including delinquency, default and foreclosure rates, loan to value statistics, market valuation of the mortgaged properties and other pertinent information. In addition, the Company will make qualitative judgments with respect to the amount by which certain other structural protections built into the transaction are expected to limit the Company's loss exposure. Examples of such structural protections may include: (i) rate covenants, which generally stipulate that issuers (i.e., public finance issuers) set rates for services at certain predetermined levels (i.e., water and sewer rates which support debt obligations supported by such revenues), (ii) springing liens, which generally require the issuer to provide additional collateral upon the breach of a covenant or trigger incorporated into the terms of the transaction, (iii) consultant call-in rights, which provide, under certain circumstances, for a consultant to be engaged to make certain binding recommendations, such as raising rates or reducing expenses, (iv) the ability to transfer servicing of collateral assets to another party, and (v) other legal rights and remedies pursuant to representations and warranties made by the issuer and written into the terms of such transactions. Quantitative information may take the form of cash flow projections of the assets supporting the insured debt obligation (which may include, in addition to collateral assets supporting the obligation, structural protections subordinate to the attachment point of the Company's risk, such as cash reserve accounts and letters of credit), as well as (to the extent applicable) other metrics indicative of the performance of such assets and the trends therein. The Company's ability to make a reasonable estimate of its expected loss depends upon its evaluation of the totality of both the available quantitative and qualitative evidence, and no one quantitative or qualitative factor is dispositive.

Deferred Acquisition Costs and Deferred Ceding Commission

Policy acquisition costs include those expenses that primarily relate to, and vary with, the production of new business. These costs include direct and indirect expenses related to underwriting, marketing and policy issuance, rating agency fees and premium taxes, and are reduced by ceding commission income on premiums ceded to reinsurers. Policy acquisition costs are deferred and amortized over the period in which the related premiums are earned.

The Company will recognize a charge to reduce deferred acquisition costs, and establish a liability if necessary, to the extent the sum of expected losses and loss adjustment expenses, maintenance costs and unamortized policy acquisition costs exceeds the related unearned premiums and anticipated investment income. For policies reinsured with third parties, the Company receives ceding commissions to compensate for acquisition costs incurred. The Company nets ceding commissions received against deferred acquisition costs and earns these ceding commissions over the period in which the related premiums are earned.

In the event of a Refunding, the remaining net amount of deferred acquisition costs with respect to refunded insured issue is recognized at such time.

Reinsurance

Reinsurance premiums ceded are earned over the period the reinsurance coverage is provided. Prepaid reinsurance premiums represent the portion of premiums ceded which is applicable to the unexpired term of reinsured policies in-force. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Provision is made for any estimated uncollectible reinsurance.

Earnings Per Share

Basic earnings per share amounts are calculated by dividing net (loss) or income by the weighted average number of common shares outstanding during the year excluding the dilutive effect of stock option and restricted stock awards outstanding. Diluted earnings per share amounts are calculated by dividing net income by the sum of the weighted average number of common shares outstanding during the year plus additional shares from all potential dilutive securities. There were no dilutive securities outstanding at December 31, 2010 and 2009, respectively.

Recent Accounting Pronouncements

In June 2009, the FASB issued accounting guidance to remove the concept of a qualifying special purpose entity. The accounting guidance also clarifies whether a transferor has surrendered control over transferred financial assets and meets the conditions to derecognize transferred financial assets or a portion of an entire financial asset that meets the definition of a participating interest. The accounting guidance requires enhanced disclosures about transfers of financial assets and a transferor’s continuing involvement with transferred financial assets. The guidance is effective for the Company as of January 1, 2010 and earlier application is prohibited. The guidance did not have any effect on the Company’s financial position, results of operations or cash flows.

In July 2010, the FASB issued accounting guidance to provide amended disclosure requirements related to certain financing receivables and related allowance for credit losses. The disclosure provisions are effective for the Company for the year ended December 31, 2010. These amended requirements are related only to disclosures, and do not affect the Company’s financial position, results of operations or cash flows. The Company accounts for its insurance premiums receivable in accordance with the accounting guidance for financial guarantee insurance and reinsurance contracts. Refer to Note 9 for disclosures related to the Company’s receivable for insurance premiums.

In March 2010, the FASB issued accounting guidance to clarify that embedded credit derivatives created by the subordination of one financial instrument to another qualifies for the scope exception and should not be subject to potential bifurcation and separate accounting. Other embedded credit derivative features are considered embedded derivatives and subject to potential bifurcation, provided that the contract is not a derivative in its entirety. The Company adopted this standard in the third quarter of 2010. The adoption of this standard did not have a material effect on the Company’s financial position, results of operations, or cash flows.

In January 2010, the FASB issued accounting guidance to require additional disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. The standard also clarifies existing disclosures about the level of disaggregation, valuation techniques and inputs to fair value measurements. The Company adopted this standard as of the first quarter of 2010 except for the requirement to provide the Level 3 activity of purchases, sales issuances and settlements on a gross basis, which will be effective for the Company as of the first quarter of 2011. As this standard only affects disclosures related to fair value, the adoption of this standard did not affect the Company’s financial position, results of operations, or cash flows. Refer to Notes 7 and 10 for these disclosures.

6. Consolidation of VIEs

Pursuant to the new accounting guidance promulgated by the FASB and adopted by the Company effective January 1, 2010 (see Note 5), the Company determined that it is the primary beneficiary of 20 VIEs at December 31, 2010. Seven VIEs are due to its insurance contracts based on the assessment of its control rights over servicer or collateral manager replacement, given that servicing/managing collateral were deemed to be the VIEs' most significant activities. Thirteen VIEs are due to the Company’s majority ownership of Uninsured Cash Flow Certificates. As a result of changes in control rights and ownership of Uninsured Cash Flow Certificates during the year ended December 31, 2010, fourteen additional VIEs were consolidated and five VIEs were de-consolidated, as compared to that at January 1, 2010 (see details of cumulative transition adjustment in Note 5). The net result of such activity during the year was a decrease in assets of consolidated variable interest entities of $48.8 million and a decrease in liabilities of consolidated variable interest entities of $105.4 million. The Company is not primarily liable for the debt obligations issued by the

VIEs; however, where the Company has issued an insurance contract, the Company would only be required to make payments on the debt obligations in the event that the issuer of such debt obligations defaults on any principal or interest due. The Company's creditors do not have any rights with regard to the assets of the VIEs.

The table below shows the fair value of the consolidated VIE assets and liabilities in the Company's consolidated balance sheets, segregated by the types of assets held by VIEs that collateralize their respective debt obligations:

	As of December 31, 2010		As of January 1, 2010	
(U.S. dollars in thousands)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
CDOs	$ 355,214	$ 355,214	$ 443,141	$ 443,141
Power & Utility	107,631	114,632	114,114	114,876
Subprime (1st lien)	115,276	115,276	65,540	65,540
HELOC (Prime)	87,625	2,798	90,730	33,744
Prime and Alt-A (2nd lien)	49,211	3,787	80,761	39,916
Alt-A (1st lien)	30,535	116	-	-
	$ 745,492	$ 591,823	$ 794,286	$ 697,217

The following table presents the revenues and expenses of consolidated VIEs included in the Company's consolidated statements of operations for the year ended December 31, 2010.

(U.S. dollars in thousands)	
Interest income	$ 46,635
Interest expense	(33,668)
Other expenses	(12,164)
Net realized and unrealized gains (losses)	140,733
Net change in variable interest entities	$ 141,536

All of the Company's VIE assets and liabilities as of December 31, 2010 were categorized within Level 3 based on the fair value hierarchy level of the inputs used to determine the fair value of such assets and liabilities. See Note 7 for a description of the fair value hierarchy requirements.

(U.S. dollars in thousands)	**As of December 31, 2010**	**Significant Other Unobservable Inputs (Level 3)**
Assets of consolidated variable interest entities	$ 745,492	$ 745,492
Liabilities of consolidated variable interest entities	$ (591,823)	$ (591,823)
Total..	$ 153,669	$ 153,669

The fair value of the Company's VIE liabilities reflects the risk that the Company will not be able to honor VIE obligations where VIE liabilities exceed the value of the related pledged assets ("Non-Performance Risk"). Generally, the Company would measure Non-Performance Risk as implied by the market price of buying credit protection on the Company. However, the market for credit protection on the Company ceased operating (see Note 2). As a result, as of December 31, 2010, the Company measured its Non-Performance Risk based on proxy spreads of companies with similar credit quality in the financial guaranty industry.

Set forth below is certain information regarding the Company's VIE liabilities as of December 31, 2010, including the fair value, the Non-Performance Risk discount on such liabilities which is embedded in the net VIE liability on the accompanying balance sheet.

(U.S. dollars in thousands)

Fair value of VIE liabilities, before giving effect to Non-Performance Risk	$	593,792
Less:		
Non-Performance Risk		1,969
Fair value of VIE liabilities, after giving effect to Non-Performance Risk	$	591,823

Set forth below is the cumulative effect of consolidating VIEs on net income (loss) and shareholders' deficit as of December 31, 2010.

(U.S. dollars in thousands)

Net premiums earned	$	(2,055)
Net investment income		(13,119)
Earnings on Insurance Cash Flow Certificates		(64,242)
Net realized losses on investments		252
Net losses and loss adjustment expenses		2,583
Net change in Variable Interest Entities		141,536
Total effect on net income	$	64,955
Total effect on other comprehensive income (loss)		(29,844)
Total effect on comprehensive income		35,111
Cumulative transition adjustment		32,589
Total effect on shareholders' deficit	$	67,700

Non-Consolidated VIEs

As of December 31, 2010, the results of qualitative and quantitative analyses have indicated that the Company does not have a majority of the variability in any other VIEs and, as a result, are not consolidated in the Company's consolidated financial statements. The principal amount of debt obligations guaranteed by the Company which were issued by VIEs that were not consolidated by the Company as of December 31, 2010 is included within net par outstanding in Note 17.

7. Credit Default Swap Contracts

Prior to suspending writing substantially all new business (see Note 2), the Company issued CDS contracts and entered into arrangements with other issuers of CDS contracts to assume, all or a portion, of the risks in the CDS contracts they issued ("back-to-back arrangements") and, in certain cases, the Company purchased back-to-back credit protection on all or a portion of the risk from the CDS contracts it issued or assumed. Such back-to-back arrangements were generally structured on a proportional basis.

CDS contracts are derivative contracts which offer credit protection relating to a particular security or pools of securities, which are specifically referenced in the CDS contract. Under the terms of a CDS contract, the seller of credit protection (the issuer of the CDS contract) makes a specified payment to the buyer of such protection (the CDS contract counterparty) upon the occurrence of one or more credit events specified in the CDS contract with respect to a referenced security or securities. The terms of the CDS contracts issued by the Company generally only require the Company to make a payment upon the occurrence of one or more specified credit events after exhaustion of various levels of subordination or first-loss protection. In addition, pursuant to the terms of the Company's CDS contracts, the Company is precluded from transferring such contracts to other market participants without the consent of the counterparty.

Securities or assets referenced in the Company's in-force CDS contracts include structured pools of obligations, such as collateralized loan obligations, corporate CDOs, CDO squareds and commercial mortgage-backed securities ("CMBS") and, prior to the 2009 MTA, ABS CDOs. Such pools were rated investment-grade or better at the issuance of the CDS contract.

The Company's policy has been to hold its CDS contracts to maturity and not to manage such contracts to realize gains or losses from periodic market fluctuations. However, in certain circumstances, the Company may enter into an off-setting position or back-to-back arrangement, commute, terminate or restructure a CDS contract prior to maturity for risk management purposes (for example, upon a deterioration in underlying credit quality or for the purposes of managing its capital). In connection with the 2008 MTA discussed in Note 1, the Company commuted several of its CDS contracts and substantially all of its back-to-back arrangements and in connection with the 2009 MTA discussed in Note 4, the Company commuted (in whole or in part) certain of its CDS contracts representing substantially all of Syncora Guarantee's anticipated claims on CDS contracts.

As derivative financial instruments, CDS contracts are required under GAAP to be reported at fair value and, effective January 1, 2008, measured in accordance with a fair value hierarchy based on whether the inputs to valuation techniques used to measure fair value are observable or unobservable. Changes in fair value during the period are included in earnings. This hierarchy requires the use of observable market data when available. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect assumptions about market data based on management's judgment. The fair value hierarchy prioritizes model inputs into three broad levels as follows:

Level 1—Quoted prices for identical instruments in active markets.

Level 2—Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations in which all significant inputs and valuation drivers are observable in active markets.

Level 3—Model-derived valuations in which one or more significant inputs or significant value drivers are unobservable.

The principal drivers of the fair value of the Company's CDS contracts include: (i) general market credit spreads for the type(s) of assets referenced in CDS contracts, (ii) the specific quality and performance of the actual assets referenced in the contracts, (iii) the amount of subordination in the transaction before the Company's liability attaches, (iv) other customized structural features of such contracts (*e.g.,* terms, conditions, covenants), (v) supply and demand factors, including the volume of new issuance and financial guarantee market penetration, as well as the level of competition in the marketplace, and (vi) the market perception of the Company's ability to meet its obligations under its CDS contracts which is factored into the Company's fair value estimates as discussed further below.

The fair value of the Company's in-force portfolio of CDS contracts other than CDS on ABS CDOs, which are discussed below, represents the net present value of the difference between the remaining uncollected premiums that the Company originally charged for credit protection and management's best estimate of what a financial guarantor of a comparable credit worthiness would hypothetically charge to provide the same protection as of the measurement date. The hypothetical nature of this exit value is representative of the lack of a principal market for the Company's CDS contracts. In the absence of such a principal market, the Company believes other financial guarantors of comparable credit quality to the Company best represent the hypothetical exit market for the Company's CDS contracts. Fair value is defined as the price at which an asset or a liability could be bought or transferred in a current transaction between willing parties. Fair value is determined based on quoted market prices, if available. Quoted market prices are available only on a limited portion of the Company's in-force portfolio of CDS contracts. If quoted market prices are not available, fair value is estimated based on valuation techniques involving management's judgment. In determining the fair value of its CDS contracts, the Company uses various valuation approaches with priority given to observable market prices when they are available. Market prices are generally available for traded securities and market standard CDS contracts but are less available or unavailable for highly-customized CDS contracts. Most of the Company's CDS contracts are highly customized structured credit derivative transactions that are not traded and do not have observable market prices. Due to the significance of unobservable inputs required to value such CDS contracts, they are considered to be Level 3 under the ASC 820 fair value hierarchy.

Typical market CDS contracts are standardized, liquid instruments that reference tradable securities such as corporate bonds that also have observable prices. These market standard CDS contracts also involve collateral posting, and upon a default of the referenced obligation, can be settled in cash. In contrast, the Company's CDS contracts do not contain the typical CDS market standard features as described above but have been customized to replicate the Company's financial guarantee insurance. The Company's CDS contracts provide protection on specified obligations, such as those described above and, generally, contain some form of subordination prior to the attachment of the Company's liability. The Company is not required to post collateral and, upon an underlying default, the Company generally makes payments on a "pay-as-you-go" basis after the subordination in a transaction is exhausted.

The Company's payment obligations after a default vary by deal type. There are three primary types of policy payment requirements:

(i) timely interest and ultimate principal;

(ii) ultimate principal only at final maturity; and

(iii) payments upon settlement of individual collateral losses as they occur upon erosion of subordination.

The Company's CDS contracts are generally governed by a single transaction International Swaps and Dealers Association ("ISDA") Master Agreement relating only to that particular transaction/contract. Under most monoline financial guarantee standard termination provisions, there is no requirement for mark-to-market termination payments upon the early termination of a guaranteed CDS contract. However, substantially all of the Company's CDS contracts provided for mark-to-market termination payments following the occurrence of events that are outside the Company's control, such as Syncora Guarantee being placed into receivership or rehabilitation or a regulator taking control of Syncora Guarantee or, in some instances, Syncora Guarantee's insolvency. Pursuant to the 2009 MTA, substantially all of the Company's guarantees of CDS contracts that were not commuted were novated to Syncora Capital Assurance and amended to remove any events triggering mark-to-market termination payments except for Syncora Capital Assurance failing to make payment under the applicable contract or being placed into receivership or rehabilitation or a regulator taking control of Syncora Capital Assurance. Under current market conditions, if the Company were required to pay such termination payments, it would result in a liability to the Company which would be substantially in excess of that currently recorded by the Company and its ability to pay (see Note 3). An additional difference between the Company's CDS contracts and the typical market standard CDS contracts is that, except in the circumstances noted above, there is no acceleration of the payment to be made under the Company's CDS contracts unless the Company, at its option, elects to accelerate. Furthermore, by law, the Company's guarantees are unconditional and irrevocable, and cannot be transferred to most other capital market participants as they are not licensed to write such business. However, through the purchase of back-to-back credit protection, the risk of loss (but not counterparty risk) on these contracts can be transferred to other financial guarantee insurance and reinsurance companies.

Key variables used in the Company's valuation of substantially all of its CDS contracts include the balance of unpaid notional, expected term, fair values of the underlying reference obligations, reference obligation credit ratings, assumptions about current financial guarantee CDS fee levels relative to reference obligation spreads, the Non-Performance Risk (as defined and described below) of its subsidiaries with in-force CDS contract exposure, and other factors. Fair values of the underlying reference obligations are obtained from broker quotes when available, or are derived from other market indications such as new issuance and secondary spreads and quoted values for similar transactions and indices, such as ABX (which index is comprised of non-agency mortgage-backed securities), CDX (which index is comprised of investment grade corporate credits), or CMBX (which is comprised of commercial mortgage-backed securities). The Company's valuation of such CDS contracts does not generally provide for any adjustment to broker quotes. While such broker quotes are non-binding, the brokers from whom the Company obtains such quotes actively monitor and participate in the markets where such collateral is traded. Accordingly, the Company believes that such brokers rely on observable market information to the greatest extent possible when determining such quotes; however, such brokers may also rely on their internal models and unobservable inputs in making such determinations.

Implicit in the fair values obtained by the Company on the underlying reference obligations are the market's assumptions about default probabilities, default timing, correlation, recovery rates and collateral values. In general, the Company is using a percentage of the credit spread over LIBOR (the "premium percentage") that management believes is consistent with (i) historical premium pricing for high credit spread transactions and (ii) levels attainable in the market just prior to the collapse of the market for CDS from financial guarantors. This data indicates that this premium percentage decreases as a function of increasing underlying credit spreads. A significant component of this relationship is driven by the lack of liquidity reflected in the credit spread (the liquidity premium) that has historically flowed directly to the CDS counterparty as the funding institution and to cover the funders' additional funding costs and risks. Using the historical data available, a regression analysis was completed to determine the approximate rate of change of the premium percentage as underlying credit spreads move up and down. The resulting relationship from these analyses were applied to the current credit spread levels of the underlying reference securities, or there proxy index, to generate the expected current premium for each outstanding CDS.

The fair value of the CDS contracts is calculated as the difference between (i) the present value (using a counterparty specific discount rate) of expected contractual payments and (ii) the present value (using a discounted rate based on the Company's credit) of calculated current market premiums.

The basis of management's estimate of the fair value of the Company's CDS contracts at December 31, 2010 described above reflects the absence of observable transactions in the Company's principal market. Should such transactions occur in the future, it may significantly affect the Company's estimate of the fair value of its CDS contracts.

In addition to that discussed above, the fair value of the Company's CDS contracts reflects the risk that Syncora Guarantee or Syncora Capital Assurance, as applicable, will not be able to honor their obligations under their CDS contracts, or its Non-Performance Risk. Generally, the Company would measure Non-Performance Risk as implied by the market price of buying credit protection on Syncora Guarantee or Syncora Capital Assurance, as applicable. However, the market for credit protection on Syncora Guarantee ceased operating (see Note 2), and there has been no market for credit protection on Syncora Capital Assurance since its commencement of operations on July 15, 2009. As a result:

- During 2009, Syncora Guarantee measured its Non-Performance Risk based on: (i) the settlement or recovery value determined by an auction conducted by ISDA in regard to certain credit protection on Syncora Guarantee, and (ii) dealer indications of the amount of the settlement or recovery value that is attributable to the underlying reference obligations in that auction and the Syncora Guarantee's guarantee. During 2010, due to the resumption of claims payments, Syncora Guarantee measured its Non-Performance Risk based on market observable credit spreads of a comparable financial guarantee insurance company, and

- Syncora Capital Assurance measured its Non-Performance Risk based on market observable credit spreads of a comparable financial guarantee insurance company.

Such Non-Performance Risk was reflected in the fair value of the companies' CDS contracts by incorporating the estimated spreads at which the CDS contracts would trade on the companies, as discussed above, into the discount rate used. The companies estimated a discount rate for each CDS contract based on the swap rate and the companies' estimated credit spread for the duration that is the closest to the remaining weighted average life of the obligation referenced in the CDS contract.

Set forth below is certain information regarding the Company's in-force CDS contracts as of December 31, 2010 and December 31, 2009, including the fair value of such contracts, the Non-Performance Risk discount on such contracts which is embedded in the net derivative liability on the accompanying balance sheet, the aggregate notional amount of such contracts, the weighted average life of such contracts, and the ratings of obligations referenced in such contracts.

	2010			2009		
(U.S. dollars in millions)	**Syncora Guarantee**	**Syncora Capital Assurance**	**Consolidated**	**Syncora Guarantee**	**Syncora Capital Assurance**	**Consolidated**
Fair value of CDS contracts, before giving effect to Non-Performance Risk	$ 136.9	$ 1,664.6	$ 1,801.5	$ 73.2	$ 1,574.5	$ 1,647.7
Less:						
Non-Performance Risk	33.6	604.8	638.4	60.6	462.6	523.2
Fair value of CDS contracts, after giving effect to Non-Performance Risk [1] [2]	$ 103.3	$ 1,059.8	$ 1,163.1	$ 12.6	$ 1,111.9	$ 1,124.5
Notional amount outstanding	$ 864	$ 36,426	$ 37,290	$ 2,951	$ 39,467	$ 42,418
Weighted average life (years)	4.4	8.6	8.6	4.4	9.2	8.9
Percentage of referenced assets by rating [3]						
AAA	0.0%	18.9%	18.4%	57.8%	68.3%	66.7%
At or above investment grade but below AAA	0.0%	59.6%	58.2%	0.0%	26.2%	24.8%
Below investment grade	100.0%	21.5%	23.4%	42.2%	5.5%	8.5%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

[1] The effect on the fair value of the Company's CDS contracts at July 15, 2009 resulting from application of the Non-Performance Risk of Syncora Capital Assurance (as compared to that of Syncora Guarantee) to CDS contracts that were novated to it from Syncora Guarantee is presented in item (5) to the Summary Financial Information table in Note 4.

[2] During 2011, the Company terminated $9.0 billion notional and $495.1 million of fair value outstanding as of December 31, 2010.

[3] Based on S&P ratings. If not rated by S&P, the Moody's rating is used. If not rated by S&P or Moody's, the Syncora internal rating is used.

The following tables set forth the Company's financial assets and liabilities related to credit derivatives that were accounted for at fair value as of December 31, 2010 and December 31, 2009, respectively, all of which were classified as Level 3 under the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

(U.S. dollars in thousands)	2010 Level 3	2010 Total
Financial assets:		
Credit default swap contracts	$ 176,014	$ 176,014
Financial liabilities:		
Credit default swap contracts	$ 1,339,113	$ 1,339,113

(U.S. dollars in thousands)	2009 Level 3	2009 Total
Financial assets:		
Credit default swap contracts	$ 81,590	$ 81,590
Financial liabilities:		
Credit default swap contracts	$ 1,206,100	$ 1,206,100

The following table presents the changes in the net liability for CDS contracts for the years ended December 31, 2010 and 2009:

(U.S. dollars in thousands)	2010	2009
Balance, beginning of period	$ (1,124,510)	$ (751,758)
Total realized and unrealized gains/(losses) included in earnings	(66,676)	(1,734,483) [1]
Purchases, issuances, and settlements	25,448	1,351,030
Other	2,639	10,701
Balance, end of period	$ (1,163,099)	$ (1,124,510)
The amount of total gains and losses for the period included in earnings which are attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$ (41,228)	$ (383,453)

(1) Includes a $1,261.7 million decrease in net unrealized losses relating to CDS contracts effectively defeased or, in-substance, commuted in connection with the 2009 MTA, offset by the consideration paid by the Company to effect such transactions of $1,259.3 million and an increase in net unrealized losses on CDS contracts of $1,260.9 million related to CDS contracts novated from Syncora Guarantee to Syncora Capital Assurance. See items "(1) and "(5)" in the Summary Financial Information table in Note 4.

The following table provides the components of the income statement line item entitled, "Change in fair value of credit default swap contracts" related to derivative contracts for the years ended December 31, 2010 and December 31, 2009, respectively:

(U.S. dollars in thousands)	2010 Realized Gains and Losses and Other Settlements	2010 Unrealized Gains and Losses	2009 Realized Gains and Losses and Other Settlements	2009 Unrealized Gains and Losses
Realized and unrealized gains and losses included in earnings for the period are reported as follows:				
Total gains or losses included in earnings for the period	$ (25,448) [1]	$ (41,228) [2]	$ (1,351,030) [1]	$ (383,453) [2]
Change in realized/unrealized gains or losses relating to the assets still held at the reporting date	$ (36,635)	$ (41,228)	$ (42,911)	$ (383,453)

(1) Includes premiums received and receivable on CDS contracts issued net of premiums paid or payable on purchased contracts and claims paid on issued CDS.

(2) Includes losses paid and payable on issued CDS contracts net of losses recovered and recoverable on purchased contracts.

The following table provides the components of the income statement line item entitled, "Net change in fair value of credit default swap contracts" for the years ended December 31, 2010 and 2009:

(U.S. dollars in thousands)	2010	2009
Change in fair value of credit default swap contracts :		
Realized gains (losses) and other settlements:		
Net CDS contract premiums received and receivable	$ 36,635	$ 42,911
Net CDS contract losses paid and payable	(62,083)	(1,393,941)
Total realized gains and losses and other settlements	(25,448)	(1,351,030) [1]
Unrealized losses:		
Change in fair value of CDS contracts	(41,228) [3]	(383,453) [2]
Net change in fair value of credit default swap contracts[4]	$ (66,676)	$ (1,734,483)

(1) Includes $1,259.3 million paid to the Counterparties to defease or, in-substance, commute CDS contracts in connection with the 2009 MTA. See Note 4.

(2) Includes a $1,261.7 million decrease in net unrealized losses relating to CDS contracts effectively defeased or, in-substance, commuted in connection with the 2009 MTA, offset by an increase in net unrealized losses on CDS contracts of $1,260.9 million relating to CDS contracts novated from Syncora Guarantee to Syncora Capital Assurance. See items (1) and (5) in the Summary Financial Information table in Note 4.

(3) The change in fair value of CDS contracts during 2010 includes $9.7 million of CDS liabilities that were not fair valued as of December 31, 2009.

(4) Change in realized/unrealized gains or losses relating to the assets still held was $77.9 million for the year ended December 31, 2010 and $426.4 million for the year ended December 31, 2009.

8. Notes Payable

As part of the consideration paid in connection with the effective defeasance, or in-substance commutation, of certain of the Company's guarantees of CDS contracts pursuant to the 2009 MTA discussed in Note 4, Syncora Guarantee issued the notes described in the table below to the counterparties of such CDS contracts. In accordance with GAAP, the Company recorded the notes at their estimated fair value of $141.0 million at the date of their issuance and accretes the discount from the face amount of the notes over the term of the notes on a level basis using the interest method. Such accretion is recorded as interest expense which is reflected in other "Operating expenses" in the accompanying consolidated statement of operations. The fair value of such notes represents a level 3 estimate within the fair value hierarchy, as discussed in Note 7. This estimate was based on models of the Company's cash flows and management's resultant expectations regarding the timing of the payment of principal and interest on the notes, discounted to reflect market observable credit spreads of similar instruments issued by a comparable company.

The table below sets forth certain information regarding the aforementioned notes.

Date Issued	Interest Rate	Date of Maturity	Par Value (Face Amount of Notes)	Estimated Fair Value At Issuance	Total Interest Expense Year Ended December 31, 2010	Total Interest Expense Year Ended December 31, 2009	Carrying Value At December 31, 2010	Carrying Value At December 31, 2009	Estimated Yield to Maturity
7/15/2009	5.00% **(a)**	12/28/2011	$ 161,358,309	$ 91,155,000	$ 31,242,497	$ 6,232,163	$ 128,629,660	$ 97,387,163	31.88%
7/15/2009	6.00% **(b)**	6/27/2024	518,372,593	49,875,000	22,374,126	16,943,083	89,192,209	66,818,083	31.88%
			$ 679,730,902	$ 141,030,000	$ 53,616,623	$ 23,175,246	$ 217,821,869	$ 164,205,246	

(a) Interest is payable semi-annually on June 27th and December 28th of each year commencing December 28, 2009. Such interest is payable in cash or in-kind at the election of the Company through June 27, 2011. Thereafter, interest must be paid in cash through the maturity of the notes. Principal is payable at maturity and does not amortize.

(b) Interest is payable semi-annually on June 27th and December 28th of each year commencing December 28, 2009. Such interest is payable in cash or in-kind at the election of the Company through June 27, 2013; thereafter, interest must be paid in cash through the maturity of the notes. Commencing on December 28, 2018, principal amortizes in twelve equal installments payable semi-annually on June 27th and December 28th through the maturity of the notes.

Each payment of interest on (other than that paid-in-kind) or principal of the notes is subject to restrictions under the 2009 MTA and may be made only with the prior approval of the Superintendent of Insurance of the State of New York and only to the extent the Company has sufficient eligible regulatory surplus to make such payment. Each of the notes noted in the table above ranks *pari passu*. In the event the Company is subject to liquidation or other such proceeding, policyholder claims would be afforded greater priority than that of noteholders, and the noteholders' claims would be afforded greater priority than claims of Syncora Guarantee's or the Company's stockholders.

9. Insurance Premiums

Refer to Note 5 for a description of the Company's accounting policy for insurance premiums and the effect of the adoption of a new accounting pronouncement as of January 1, 2009 on the Company's financial statements.

As of December 31, 2010, the Company reported a premium receivable of $365.4 million primarily related to installment policies for which premiums will be collected over the term of the contracts. Premiums are discounted at a risk-free rate that considers the expected maturity of each contract. The weighted average risk-free rate used to discount future installment premiums was 2.3% and the weighted average collection term of the premium receivable was 14.1 years. For the year ended December 31, 2010, the accretion of the premium receivable was $10.6 million and is reported in "Premiums earned" on the accompanying consolidated statement of operations. As of December 31, 2010, the Company reported a reinsurance premium payable of $2.1 million, which represents the portion of the Company's premium receivable that is due to reinsurers. The reinsurance premium payable will be accreted and paid, as premiums due to the Company are accreted and collected. The following table presents a roll forward of the Company's premium receivable for the year ended December 31, 2010:

(U.S. dollars in thousands)

				Adjustments			
Premium Receivable as of December 31, 2009	**Transition Adjustment for VIE Consolidation Guidance**	**Premium Payments Received**	**Premiums from New Business Written**	**Changes in Expected Term of Policies**	**Accretion of Premium Receivable Discount**	**Other**	**Premium Receivable as of December 31, 2010**
$ 454,948	$ (9,670)	$ (51,064)	$ -	$ (39,426)	$ 10,597	$ -	$ 365,385

The following table presents, as of December 31, 2010, the Company's installment premiums on direct business (on an undiscounted basis) expected to be collected in the future and the periods in which such collections are expected to occur. In addition to that presented in the table below, the Company had installment premiums receivable of $45.8 million (on a present value basis) relating to assumed reinsurance business at December 31, 2010:

(U.S. dollars in thousands)	
Three months ended:	
March 31, 2011	$ 7,179
June 30, 2011	7,828
September 30, 2011	6,669
December 31, 2011	5,006
Twelve months ended:	
December 31, 2011	26,682
December 31, 2012	23,446
December 31, 2013	21,604
December 31, 2014	19,817
December 31, 2015	18,803
Five years ended:	
December 31, 2015	110,352
December 31, 2020	71,958
December 31, 2025	52,585
December 31, 2030	35,741
December 31, 2035	26,377
December 31, 2040	13,008
December 31, 2045	2,329
December 31, 2050	367
Total	$ 312,717

The following table presents the expected unearned premium revenue balance and the expected future premium earnings of the Company's direct in-force business as of and for the periods presented. In addition to that presented in the table below, the Company had unearned premium revenue of $114.9 million relating to assumed reinsurance business at December 31, 2010.

		Expected Premium Earnings			
(U.S. dollars in thousands)	Unearned Premium Revenue	Upfront	Installments	Accretion	Total
Three months ended:					
March 31, 2011	$ 776,853	$ 8,480	$ 7,427	$ 2,340	$ 18,247
June 30, 2011	761,155	8,536	7,163	2,295	17,994
September 30, 2011	745,714	8,515	6,926	2,247	17,688
December 31, 2011	730,585	8,445	6,685	2,200	17,330
Twelve months ended:					
December 31, 2011	730,585	33,976	28,201	9,082	71,259
December 31, 2012	673,061	32,729	24,795	8,388	65,912
December 31, 2013	619,404	30,987	22,670	7,722	61,379
December 31, 2014	569,310	29,543	20,551	7,099	57,193
December 31, 2015	521,803	28,323	19,183	6,534	54,040
Five years ended:					
December 31, 2015	521,803	155,558	115,400	38,825	309,783
December 31, 2020	329,129	120,468	72,206	25,097	217,771
December 31, 2025	195,515	85,084	48,530	15,490	149,104
December 31, 2030	109,198	55,610	30,707	8,818	95,135
December 31, 2035	55,920	33,421	19,857	4,088	57,366
December 31, 2040	30,298	16,634	8,988	1,087	26,709
December 31, 2045	19,960	8,703	1,635	197	10,535
December 31, 2050	11,465	8,165	330	8	8,503
December 31, 2055	2,470	8,995	-	-	8,995
December 31, 2060	-	2,470	-	-	2,470
Total		$ 495,108	$ 297,653	$ 93,610	$ 886,371

The following sets forth the components of premiums earned for the years ended December 31, 2010 and 2009:

(U.S. dollars in thousands)	2010	2009
Gross premiums written	$ (25,522)	$ (32,572)
Reinsurance premiums assumed	(9,359)	(584)
Total premiums written	(34,881)	(33,156)
Change in direct unearned premium revenue	119,663	156,945
Change in assumed unearned premium revenue	21,114	12,759
Gross premiums earned	105,896	136,548
Reinsurance premiums ceded	2,296	(873)
Change in prepaid reinsurance premiums	(4,084)	(301)
Ceded premiums earned	(1,788)	(1,174)
Net premiums earned	$ 104,108	$ 135,374

For the years ended December 31, 2010 and 2009, net premiums earned include $11.8 million and $17.3 million, respectively, of earned premium relating to Refundings. In addition, net premiums earned in 2009 include $27.1 million from the novation of certain business to FSA (see Note 4).

10. Investments

The Company's primary investment objective is the preservation of principal through maintenance of high-quality investments with adequate liquidity. A secondary objective is optimizing long-term, total returns.

The amortized cost and fair value of investments as of December 31, 2010 and 2009 are as follows:

(U.S. dollars in thousands)	December 31, 2010 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
Mortgage and asset-backed securities [(1)]	$ 274,630	$ 12,681	$ (2,425)	$ 284,886
U.S. Government and government agencies	157,815	8,732	—	166,547
Corporate	259,193	21,636	(849)	279,980
Non-U.S. sovereign government	4,485	300	—	4,785
U.S. states and political subdivisions of the states	744	48	—	792
Total debt securities	$ 696,867	$ 43,397	$ (3,274)	$ 736,990

(1) Mortgage and asset-backed securities include $4.8 million related to Uninsured Cash Flow Certificates which represent both the fair value and carrying value of such securities at December 31, 2010 and reflects an other than temporary impairment charge of $2.0 million.

(U.S. dollars in thousands)	December 31, 2009 Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
Mortgage and asset-backed securities [(1)]	$ 326,341	$ 19,020	$ (303)	$ 345,058
U.S. Government and government agencies	252,185	11,884	(24)	264,045
Corporate	312,897	25,006	(329)	337,574
Non-U.S. sovereign government	4,484	155	(11)	4,628
U.S. states and political subdivisions of the states	747	46	—	793
Total debt securities	$ 896,654	$ 56,111	$ (667)	$ 952,098

(1) Mortgage and asset-backed securities include $54.8 million related to Uninsured Cash Flow Certificates which represent both the fair value and carrying value of such securities at December 31, 2009 and reflects an other than temporary impairment charge of $69.3 million.

The change in net unrealized gains consists of changes in the valuation and holdings of debt securities of ($15.3) million and $0.1 million for the years ended December 31, 2010 and 2009, respectively.

Proceeds from sales of debt securities for the years ended December 31, 2010 and 2009 were $357.2 million and $970.3 million, respectively.

The gross realized gains and gross realized (losses) for the years ended December 31, 2010 and 2009 were $65.2 million and ($7.8) million and $164.3 million and ($118.2) million, respectively.

The amortized cost and fair value of bonds at December 31, 2010 and 2009 by contractual maturity are shown below. Actual maturity may differ from contractual maturity because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities are generally more likely to be prepaid than other fixed-maturity securities. As the stated maturities of such securities may not be indicative of actual maturities, the totals for mortgage-backed securities are shown separately.

(U.S. dollars in thousands)	2010 Amortized Cost	2010 Fair Value	2009 Amortized Cost	2009 Fair Value
Due within one year	$ 120,464	$ 121,117	$ 28,044	$ 28,609
Due after one through five years	153,626	165,520	292,491	309,469
Due after five through ten years	136,324	152,065	216,116	233,505
Due after ten years	11,823	13,402	33,662	35,457
Subtotal	422,237	452,104	570,313	607,040
Mortgage- and asset-backed securities	274,630	284,886	326,341	345,058
Total	$ 696,867	$ 736,990	$ 896,654	$ 952,098

Net investment income is derived from the following sources:

(U.S. dollars in thousands)	2010	2009
Debt securities and cash and cash equivalents	$ 53,337	$ 94,320
Less: Investment expenses	(825)	(1,689)
Net investment income	$ 52,512	$ 92,631

The Company has a formal review process for all securities in the Company's investment portfolio, including a review for impairment losses. Factors considered when assessing impairment include:

- a decline in the market value of a security by 20% or more below amortized cost for a continuous period of at least six months;
- a decline in the market value of a security for a continuous period of 12 months;
- recent credit downgrades of the applicable security or the issuer by rating agencies;
- the financial condition of the applicable issuer;
- whether loss of investment principal is anticipated;
- whether scheduled interest payments are past due; and
- whether the Company intends to sell the security prior to its recovery in fair value.

If the Company believes a decline in the value of a particular investment is temporary, the Company records the decline as an unrealized loss on the Company's consolidated balance sheets in "accumulated other comprehensive income" in shareholders' equity. The Company recognizes an other-than-temporary impairment loss in the consolidated statements of operations for a debt security in an unrealized loss position when either the Company has the intent to sell the debt security or it is more-likely-than not that the Company will be required to sell the debt security before its anticipated recovery.

Any credit-related impairment on debt securities the Company does not plan to sell and more-likely-than-not will not be required to sell is recognized in the consolidated statement of operations, with the non-credit-related impairment recognized in other comprehensive income. For other impaired debt securities, where the Company has the intent to sell the security or where the Company will more-likely-than not be required to sell or where the entire impairment is deemed by the Company to be credit-related, the entire impairment is recognized in the consolidated statements of operations.

The Company's assessment of a decline in value includes management's current assessment of the factors noted above. If that assessment changes in the future, the Company may ultimately record a loss after having originally concluded that the decline in value was temporary.

For the years ended December 31, 2010 and 2009, the Company recorded other than temporary impairment charges of $2.6 million and $78.6 million, respectively. The other-than-temporary impairment charges recorded by the Company during the years ended December 31, 2010 and December 31, 2009, were primarily due to the Company’s conclusion, resulting from its near term anticipated cash needs, that it was more-likely-than not that the Company would be required to sell certain securities (including its Uninsured Cash Flow Certificates) before recovering their cost.

The following tables present the aggregate gross unrealized losses and fair value by investment category, all of which have been in an unrealized loss position for fewer than 12 months at December 31, 2010 and 2009, respectively:

	2010			2009		
(U.S. dollars in thousands)	Fair Value	Unrealized Loss	Number of Securities	Fair Value	Unrealized Loss	Number of Securities
Description of securities						
Mortgage and asset-backed securities	$ 142,995	$ (2,425)	35	$ 17,270	$ (303)	11
U.S. Government and government agencies	—	—	—	2,978	(24)	1
Corporate	67,594	(849)	15	13,165	(329)	3
U.S. states and political subdivisions	—	—	—	—	—	—
Non-U.S. sovereign government	—	—	—	2,980	(11)	1
Total debt securities	$ 210,589	$ (3,274)	50	$ 36,393	$ (667)	16

The following tables present the fair value of the Company's investments as of December 31, 2010 and 2009 based on the fair value hierarchy level of the inputs used to determine the fair value of such investments. See Note 7 for a description of the fair value hierarchy requirements.

(U.S. dollars in thousands)	As of December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Debt securities available for sale:				
Mortgage and asset-backed securities	$ 284,886	$ —	$ 280,050	$ 4,836
U.S. Government and government agencies	166,547	151,258	15,289	—
Corporate	279,980	10	279,970	—
U.S. states and political subdivisions	4,785	—	4,785	—
Non-U.S. sovereign government	793	—	793	—
Cash equivalents and restricted cash equivalents	431,913	431,913	—	—
Total	$ 1,168,904	$ 583,181	$ 580,887	$ 4,836

(U.S. dollars in thousands)	As of December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Debt securities available for sale:				
Mortgage and asset-backed securities	$ 345,058	$ —	$ 290,210	$ 54,848
U.S. Government and government agencies	264,045	245,872	18,173	—
Corporate	337,574	—	337,574	—
U.S. states and political subdivisions	793	—	793	—
Non-U.S. sovereign government	4,628	—	4,628	—
Cash equivalents and restricted cash equivalents	628,085	229,673	398,412	—
Total	$ 1,580,183	$ 475,545	$ 1,049,790	$ 54,848

Changes in Level 3 Assets Measured at Fair Value on a Recurring Basis for the Years Ended December 31, 2010 and 2009:

	2010		2009		
(U.S. Dollars in thousands)	**Mortgage and-Asset-Backed Securities**	**Total**	**Mortgage and-Asset-Backed Securities**	**Corporate**	**Total**
Balance, beginning of Period	$ 54,848	$ 54,848	$ -	$ 2,098	$ 2,098
Realized gains/(losses)	27,375	27,375	(69,243)	1,242	(68,001)
Unrealized gains/(losses) included in earnings	-	-	-	-	-
Unrealized gains/(losses) included in OCI	2,045	2,045	-	-	-
Purchases, sales, issuances and settlements, net	(79,432)	(79,432)	124,091	(3,340)	120,751
Transfers in (out) of Level 3, net	-	-	-	-	-
Ending balance	$ 4,836	$ 4,836	$ 54,848	$ -	$ 54,848
Change in unrealized gains/(losses) for the period included in earnings for assets still held as of December 31, 2010 and 2009	$ -	$ -	$ -	$ -	$ -

During the year ended December 31, 2009, the Company sold all the ordinary shares of XL Group it owned, which aggregated 8,000,000 shares. As a result of such sale, the Company received net proceeds of $132.5 million and recognized a gain of $109.8 million. The aforementioned shares were received by the Company in connection with the 2008 MTA (see Note 1).

Debt securities with an amortized cost and fair value of $6.3 million and $6.8 million at December 31, 2010 and $6.8 million and $7.4 million at December 31, 2009, respectively, were on deposit with various regulatory authorities as required by insurance laws.

11. Information Concerning Parent, Affiliates, Former Affiliates, and Capital Transactions

XL Insurance guarantees to third parties the obligations of the Company to Syncora Guarantee-UK in connection with certain reinsurance protection provided by the Company to Syncora Guarantee-UK. As of December 31, 2010 and 2009, the gross principal reinsured by the Company which was subject to the aforementioned guarantee of XL Insurance was approximately $6.4 billion ($5.7 billion net of reinsurance) and $7.3 billion ($6.6 billion net of reinsurance), respectively.

12. Deferred Acquisition Costs and Deferred Ceding Commissions

Deferred acquisition costs, net of deferred ceding commission revenue, as well as related amortization, as of and for the years ended December 31, 2010 and 2009 are as follows:

(U.S. dollars in thousands)	**2010**	**2009**
Deferred acquisition costs, net—beginning of year	$ 137,844	$ 110,062
Costs and ceding commission revenues deferred due to the implementation of accounting pronouncement of financial guarantee insurance contracts	—	50,514
Acquisition costs and ceding commission revenue amortized:		
Acquisition costs amortized	(12,729)	(18,541)
Ceding commission revenue amortized	344	114
Net acquisition costs amortized	(12,385)	(18,427)
Commutations	—	(4,305)
Deferred acquisition costs, net—end of year	$ 125,459	$ 137,844

Accelerated amortization of deferred acquisition costs due to Refundings was $1.5 million and $6.0 million for the years ended December 31, 2010 and 2009, respectively.

13. Reinsurance

The Company enters into ceded reinsurance arrangements principally to manage its risk guidelines and to reduce the risk of loss on business written or assumed. Reinsurance does not relieve the Company of its obligations under its guarantees. Accordingly, the Company is still liable under its guarantees in the event reinsuring companies do not meet their obligations to the Company under reinsurance agreements. The Company regularly monitors the financial condition of its reinsurers. For the years ended December 31, 2010 and 2009 there were no amounts provided by the Company for uncollectible reinsurance recoverable. The following table sets forth certain amounts ceded to reinsurers as of and for the years ended December 31, 2010 and 2009.

(U.S. dollars in thousands)	2010	2009
Year Ended December 31		
Ceded premiums written	$ (2,296)	$ 873
Ceded premiums earned	1,788	1,174
Ceding commission revenue	344	114
Ceded losses and loss adjustment expenses	2,658	17,000
As of December 31		
Par exposure ceded	$ 967,271	$ 1,381,093
Reinsurance balances recoverable on unpaid losses and loss adjustment expenses	5,472	17,972

The following table sets forth reinsurance balances recoverable on unpaid losses and loss adjustment expenses by reinsurer as of December 31, 2010 and 2009:

(U.S. dollars in thousands)	2010	2009
Radian Asset Assurance Inc.	$ 1,690	$ 6,541
CIFG Assurance North America Inc.	1,560	—
RAM Reinsurance Co. Ltd	1,134	2,469
Assured Guaranty Corp	1,088	8,962
Total	$ 5,472	$ 17,972

14. Income Taxes

Syncora Holdings is not subject to any taxes in Bermuda on either income or capital gains under current Bermuda law. In the event that there is a change such that these taxes are imposed, Syncora Holdings would be exempted from any such tax until March 2016 pursuant to Bermuda law.

Syncora Guarantee has subsidiary and branch operations in certain international jurisdictions that are subject to relevant taxes in those jurisdictions. Syncora Guarantee and Syncora Capital Assurance file a consolidated tax return with Syncora Holdings U.S. Inc. (the U.S. common parent of the Syncora Holdings' group) and its subsidiaries (which consists of Syncora Guarantee, Syncora Capital Assurance and Syncora Holdings U.S. Inc.'s other U.S. based subsidiaries). Syncora Holdings U.S. Inc. maintains a tax sharing agreement with its subsidiaries, whereby the consolidated income tax liability is allocated among affiliates in the ratio that each affiliate's separate return liability bears to the sum of the separate return liabilities of all affiliates that are members of the consolidated group. In addition, a complementary method is used which results in reimbursement by profitable affiliates to loss affiliates for tax benefits generated by loss affiliates.

Management has concluded that results from operations forecasted to be generated in the future are more likely than not insufficient to permit realization of the deferred tax assets, thus a valuation allowance has been established against the entire deferred tax assets of the Company at December 31, 2010 and December 31, 2009. The valuation allowance was calculated in accordance with the provisions of the accounting pronouncements for income taxes, which place primary importance on operating results in recent periods when assessing the need for a valuation allowance. The Company's cumulative loss in recent periods represents negative evidence sufficient to require a full valuation allowance under the provisions of this standard. The Company intends to maintain a full valuation allowance for its net deferred tax assets until sufficient positive evidence exists to support reversal of all or a portion of the valuation allowance.

At December 31, 2010, the Company's cumulative NOLs, which may be carried forward to offset future taxable income, are $3.1 billion. The Company's ability to utilize its NOLs at December 31, 2010 expires from 2027 through 2031. Approximately $161.0 million of the Company's NOLs as of December 31, 2010 are subject to limitation under Section 382 of the Internal Revenue Code as a result of an ownership change, as defined under that code section that occurred on August 5, 2008. An ownership change, as defined under the aforementioned code section, will occur if shareholders owning (or deemed under the aforementioned code section to own) 5% or more of Syncora Holdings' common shares increase their collective ownership of the aggregate amount of outstanding shares of Syncora Holdings by more than 50% over a defined period of time. To avoid an ownership change in the future and further limitation on the use of the Company's NOLs, on October 21, 2008, Syncora Holdings' Board of Directors approved changes to Syncora Holdings' bye-laws which were subsequently approved by the shareholders on February 9, 2009 to limit the transfer of shares prior to the expiration of certain time periods specified in such bye-laws. Reference should be made to the Company's website at www.syncora.com for more information regarding such limits. Information found on the Company's website does not constitute part of these financial statements and is not incorporated by reference herein.

As of December 31, 2010 and 2009, respectively, the Company had no material unrecognized tax benefit and no adjustments to liabilities or operations were required.

The Company recognizes interest and penalties related to uncertain tax provisions in income tax expense which were zero for the years ended 2010 and 2009. Tax years 2006 through 2010 are subject to examination by federal authorities. There is currently a federal income tax audit underway for the tax periods July 1, 2006 through December 31, 2008. There are no state or local tax audits underway for the Company as of December 31, 2010.

The Company is a Bermuda corporation and, except for gross basis withholding taxes on U.S. source investment income, neither it nor its non-U.S. subsidiaries have paid U.S. corporate income taxes, on the basis that they are not engaged in a trade or business or otherwise subject to taxation in the United States. However, because definitive identification of activities which constitute being engaged in a trade or business in the United States is not provided by the Internal Revenue Code of 1986, as amended, regulations or court decisions, there can be no assurance that the Internal Revenue Service would not contend that the Company or its non-U.S. subsidiaries are engaged in a trade or business or otherwise subject to taxation in the United States.

In addition to the foregoing, there is a risk that the Internal Revenue Service could disagree with a number of tax positions taken by the Company with respect to certain transactions, including but not limited to, certain transactions undertaken in connection with the 2008 MTA and the 2009 MTA. If any of the positions taken by the Company were successfully challenged by the Internal Revenue Service, there could be a material adverse effect on the amount of net operating losses available to the Company to offset taxable income.

The Company's income tax provision (benefit) for the years ended December 31, 2010 and 2009 were $0.1 million and ($3.4) million, respectively. The 2009 benefit is from prior period refunds.

The tax provision or benefit has been calculated using the pre-tax accounting income or loss in each jurisdiction multiplied by that jurisdiction's applicable statutory tax rate. The difference between the expected and actual tax benefit or expense for each of the years ending December 31, 2010 and 2009 is primarily attributable to the full valuation allowance recorded by the Company in such years, as discussed above.

The Company's net deferred income tax assets as of December 31, 2010 and 2009 were $1.8 billion and $2.2 billion, respectively. The gross deferred tax asset at December 31, 2010 was $2.0 billion, a decrease of $0.5 billion from $2.5 billion as of December 31, 2009. Gross deferred tax assets principally result from the Company's cumulative net operating loss, losses and loss adjustment expense reserves, and the mark-to-market on CDS contracts. The gross deferred tax liability at December 31, 2010 was $202.0 million, a decrease of $125.1 million from $327.1 million as of December 31, 2009. Gross deferred tax liabilities principally result from the Company's Insurance Cash Flow Certificates and deferred acquisition costs. As of December 31, 2010 and 2009, the Company recorded a full valuation allowance against its net deferred tax assets.

15. Liabilities for Unpaid Losses and Loss Adjustment Expenses

The Company's reserve for unpaid losses and loss adjustment expenses as of December 31, 2010 and 2009 consists of case basis reserves established in accordance with ASC 944-20. Such case basis reserves represent the probability weighted average of the Company's estimates of the present value, discounted at the risk free rate of interest, of expected losses on insured debt obligations that have defaulted or are expected to default. As of December 31, 2010, the range of risk free rates used to discount the Company's liability for losses and loss adjustment expenses was 0.54% to 4.16%. Refer to Note 5 for a description of the effect of the adoption of this new accounting standard on the Company's financial statements. Activity in the Company's liability for unpaid losses and loss adjustment expenses for the year ended December 31, 2010 and 2009 are summarized as follows:

(US dollars in thousands)	**2010**	**2009**
Gross unpaid losses and loss adjustment expenses at beginning of year	$ 2,118,388	$ 1,686,187
Unpaid losses and loss adjustment expenses recoverable	(17,972)	(6,011)
Accounting standards update for consolidation of VIEs transition adjustment, net	(70,581)	—
Accounting standards codification for financial guarantee insurance contracts transition adjustment, net	—	194,928
Net unpaid losses and loss adjustment expenses at beginning of year	2,029 ,835	1,875,104
Increase in net losses and loss adjustment expenses incurred in respect of losses occurring in:		
Current year	3,258	238,386
Prior years	123,617	280,962
Other	—	19,644
Current year effect of accounting standards update for consolidation of VIEs	53,862	—
Less net losses and loss adjustment expenses paid	1,209,213	313,680
Net unpaid losses and loss adjustment expenses at end of period	1,001,359	2,100,416
Unpaid losses and loss adjustment expenses recoverable	5,472	17,972
Gross unpaid losses and loss adjustment expenses at end of period	$ 1,006,831[(1)]	$ 2,118,388[(1)]

(1) See Note 2 for information regarding the Company's suspension and resumption of claims payments.

Case Basis Reserves for Losses and Loss Adjustment Expenses

A discussion of certain case basis reserves established by the Company as of December 31, 2010 and December 31, 2009 is set forth below.

(a) Reserves for unpaid losses and loss adjustment expenses on the Company's guarantees of obligations supported by HELOC, CES, and Alt-A mortgage loan collateral, after giving effect to reinsurance, were $899.1 million and $1,976.4 million as of December 31, 2010 and 2009, respectively ($901.5 million and $1,977.1 million, respectively, before giving effect to reinsurance). The change in reserves from December 31, 2009 to December 31, 2010 is primarily attributable to the resumption of paying claims (see Note 2) partially offset by adverse loss development of $71.7 million. Refer to Note 4 for information regarding the effect of the 2009 MTA on reserves for unpaid losses and loss adjustment expenses.

The aforementioned reserves as of December 31, 2010 and 2009 represent the Company's probability weighted average estimate of the: (i) the net present value of claims to be paid subsequent to the balance sheet date, less (ii) the net present value of recoveries subsequent to the balance sheet date, and (iii) any unearned premium revenue relating to such guarantees at the balance sheet date. The Company's probability weighted average estimate of losses on the aforementioned guarantees is based on assumptions and estimates extending over many years into the future. Such assumptions and estimates are subject to the inherent limitation on management's ability to predict the aggregate course of future events. It should, therefore, be expected that the actual emergence of losses and loss adjustment expenses will vary, perhaps materially, from any estimate. Among other things, the assumptions could be affected by an increase in unemployment, further decreases in house prices, increase in consumer costs, lower advance rates by lenders or other parties, lower than expected revenues or other events or trends. The Company's estimates are determined based on an analysis of results of a cash flow model.

The cash flow model projects probability weighted average expected cash flows from the underlying mortgage notes. The model output is dependent on, and sensitive to, key input assumptions, including assumptions regarding default rates, draw rates, recoveries and prepayment rates. The cash flow from the mortgages is then run through the "waterfall" as set forth in the indenture for each transaction. Claims in respect of principal generally result when the outstanding principal balance of the mortgages is less than the outstanding principal balance of the insured notes. Recoveries result when cash flow from the mortgages is available for repayment, typically after the insured notes are paid off in full.

The Company bases its default assumptions for the second lien transactions (HELOCs and CESs) in large part on recent observed default rates and the current pipeline of delinquent loans. The losses for the second lien transactions (HELOCs and CESs) are estimated based on a model using a constant default rate curve. At both December 31, 2010 and 2009, the Company had assumed that the majority of the peak defaults occurred in mid-2009 and would continue until mid-2010. The Company extended the assumed ramp down of such defaults to steady state from nine months at December 31, 2009 to a range of eighteen to twenty-four months at December 31, 2010. Net losses will be greater if the time it takes the mortgage performance to stabilize is longer than currently anticipated or the ramp down period is extended beyond the Company's current assumption.

After the ramp down, the Company assumes a steady state constant default rate well above historical norms until approximately year seven of the deal. By year seven of the deal, for most transactions, the Company assumed another step down to a constant default rate to reflect lower default rates due to seasoning offset by recoveries on previously charged-off loans, based on shape of the constant default rate curve for a similar product. The constant default rate is a function of several factors, one of which is the state of the economy and unemployment. If economic conditions remain depressed for longer than expected, the plateau of peak constant default rate could be longer than modeled.

The Company's default assumptions for the first lien transactions at December 31, 2010 were based on current delinquent loans and analysis of historical defaults for loans with similar characteristics. A loss severity was applied to the first lien defaults ranging from 54% to 78% based upon actual loss severity observances and collateral characteristics to determine the expected loss on the collateral in those transactions.

The Company has exercised rights available to it in connection with its insurance of certain RMBS to require the sponsors of such securities to repurchase mortgage loans backing such securities that breached certain representations and warranties. While the sponsors have disputed, and may in the future dispute, their obligations to repurchase all or a portion of these mortgages, if the Company is successful in enforcing its rights, whether through litigation or otherwise, it will reduce the ultimate losses the Company expects to incur through its insurance of the aforementioned securities. As of December 31, 2010 and 2009, the amount of mortgage loans that the Company is seeking sponsors to repurchase aggregated approximately $1.3 billion and $1.0 billion, respectively; the sponsors of a substantial majority of such mortgage loans are Countrywide Home Loans, Inc. and affiliated entities ("Countrywide"), GreenPoint Mortgage Funding, Inc. ("GreenPoint"), and EMC Mortgage Corporation ("EMC"). No assurance can be given that the Company will be successful in enforcing its rights to require sponsors to repurchase the mortgages discussed above. If the Company were successful in enforcing these rights, its ability to realize a financial benefit from the repurchase by sponsors of the aforementioned mortgages is limited to the losses incurred by the Company through its insurance of the RMBS backed by such mortgages and by the financial ability of the sponsors to honor their obligations. In addition, no benefit is available to the Company to the extent it defeased such insured RMBS through the acquisition of Insurance Cash Flow Certificates or the use of alternative structures which mirror the economics of the Insurance Cash Flow Certificates (see Note 4). As of December 31, 2010 and 2009, the Company estimated that it would realize a net benefit from such recoveries aggregating $491.7 million and $158.3 million, respectively. This benefit is recorded in the Company's financial statements through a reduction in reserves for losses that it would otherwise have had to carry. The Company's estimate considers a variety of factors including its historical rate of success at requiring sponsors to repurchase mortgages, uncertainties associated with a favorable resolution to its disputes with the sponsors, as well as the aforementioned limits regarding the financial benefit it may realize from such repurchases. The actual salvage recovery may vary materially (favorably or unfavorably) from the Company's estimates.

Included in the Company's provision for losses and loss adjustment expenses for the years ended December 31, 2010 and 2009, is a net benefit of $333.4 million and $158.3 million, respectively, relating to changes in the Company's estimate of the benefit it expects to realize from the exercise of its rights to require sponsors to repurchase mortgages backing securities it has insured (see also Note 19).

(b) The Company insured payment of scheduled debt service on an aggregate of approximately $1.1 billion principal value of sewer revenue warrants issued by Jefferson County in 2002 and 2003 and, in addition, has provided a surety bond policy (with a notional exposure of $137.5 million at December 31, 2010) in connection therewith. On April 12, 2010, the Company commuted approximately $507 million of its principal exposure to such warrants. This commuted exposure was held by certain banking institutions that acquired the warrants pursuant to a liquidity facility they provided in connection with the issuance by Jefferson County of the sewer revenue warrants. There was no effect on the Company's financial position or results of operations from the commutation as a result of reserves previously established by the Company. However, pursuant to the agreement, the Company was required to make, and did make, cash payments to the aforementioned banking institutions aggregating $75.0 million. In addition, pursuant to the agreement, the Company is required to purchase $30.0 million of Replacement Bank Warrants (as defined below) on February 1, 2012. The Company has collateralized this purchase obligation with $45 million face amount of Replacement Bank Warrants, which it would forfeit if it were to default on the purchase.

As of December 31, 2010, the remaining outstanding principal amount of the warrants and related surety bond policy, after the aforementioned commutation, and the Company's exposure thereto, before giving effect to reinsurance and the Company's reserves for losses thereon discussed below, was $592.0 million (after giving effect to reinsurance and the Company reserves for losses thereon, the Company's exposure was $465.2 million). Such obligations are secured by a pledge of the net revenues of Jefferson County's sewer system. However, Jefferson County's sewer system is experiencing severe financial difficulties and on February 27, 2008, Jefferson County stated it can provide no assurance that net revenues from the sewer system will be sufficient to enable Jefferson County to pay, on a timely basis, the scheduled principal and interest obligations of the sewer revenue warrants.

During the years ended December 31, 2010 and 2009, the Company recorded a provision for losses and loss adjustment expenses, after giving effect to reinsurance, of $64.8 million and $109.5 million, respectively, on its guarantees of the sewer revenue warrants and the surety bond policy. The reserve on the Company's remaining exposure to the sewer revenue warrants and the surety bond policy was based on the Company's probability-weighted estimate of: (i) the net present value of claims previously paid and to be paid subsequent to the balance sheet date, less (ii) the net present value of recoveries subsequent to the balance sheet date, and (iii) any unearned premium revenue relating to such guarantees.

As of December 31, 2010 and 2009, the Company's reserves for losses and loss adjustment expenses, after giving effect to reinsurance, on the warrants and the surety bond policy was $115.5 million and $114.2 million ($118.5 million and $131.6 million before giving effect to reinsurance), respectively. The change in reserves from December

31, 2009 to December 31, 2010 is primarily due to the commuted exposure discussed above, offset in part by further adverse loss development on the Company's remaining exposure to the warrants.

In satisfaction of claims paid by the Company through April 26, 2009 (the date the Company ceased making claims payments pursuant to an order of the NYID – see Note 2) on its guarantees of the warrants, the Company has received $184.2 million face value of sewer revenue warrants (known as "Replacement Bank Warrants), of which approximately $35.0 million face value inures to the benefit or detriment of certain of the Company's reinsurers. During 2010, the Company commuted $12.5 million of the aforementioned reinsurance, transferred the reinsurers' share of the Replacement Bank Warrants to a trust for their benefit, and de-recognized such warrants on its balance sheet. As of December 31, 2010 and 2009, the face value of the Replacement Bank Warrants was $171.7 million and $184.2 million, respectively. As of December 31, 2010 and 2009, the fair value of the Replacement Bank Warrants was $94.4 million and $66.3 million, respectively. The fair value of the Replacement Bank Warrants was based on the fair value hierarchy level of inputs used, all of which were classified as Level 3. Net unrealized gains on the Replacement Bank Warrants of $28.3 million were recorded in accumulated other comprehensive income at December 31, 2010.

For the year ended December 31, 2009, an other than temporary impairment was recognized by the Company on the Replacement Bank Warrants of $95.5 million, which is reflected in "Realized loss on Bank Replacement Warrants" in the accompanying statement of operations.

The Company continues to monitor its remaining exposure to Jefferson County's sewer revenue warrants and, as new information becomes available, it may be required to increase its provision for loss reserves thereon in the future.

(c) In addition to that discussed above, the Company recorded a charge of $6.5 million during the year ended December 31, 2010 relating to losses and loss adjustment expense development on certain other insured transactions.

(d) As of December 31, 2008, the Company carried reserves for unpaid losses and loss adjustment expenses of $41.3 million and $86.9 million representing the Company's best estimate of the net present value losses expected to be incurred in the future with respect to an insured project financing and an obligation supported by CES mortgage collateral, respectively. In connection with the 2009 MTA, the Company reinsured 100% of its exposure to, and reserves on, such insured obligations to FSA in exchange for consideration of $61.6 million and in December 2009, these obligations were novated to FSA and the reinsurance agreement cancelled. As a result of this transaction, the Company recorded a gain of $84.7 million during the year ended December 31, 2009.

Schedule of Insured Financial Obligations with Credit Deterioration

The Company's surveillance department is responsible for monitoring the performance of its in-force portfolio. The surveillance department maintains a list of credits that it has determined need to be closely monitored and, for certain of those credits, the department undertakes remediation activities it determines to be appropriate in order to mitigate the likelihood and/or amount of any loss that it could incur with respect to such credits.

The Company's surveillance department focuses its review on monitoring lower rated bond sectors and potentially troubled sectors, which have included mortgages and CDOs. It tracks performance monthly to try to ensure that covenants have not been breached. If a covenant is breached, the Company may have the right to put the transaction into rapid amortization so that all cash flow generated from that transaction is used to pay down principal and stay current with interest or take other remedial action. Typically, the surveillance department reviews periodic servicing and trustee reports to track coverage levels, enhancement levels, delinquency levels, loss frequency, loss severity and total losses and compares such performance metrics with the metrics that were made available at the time the transaction was closed. If losses are above projections, the surveillance department will analyze the reasons for the deviation. In some cases, it may be an indication of servicing problems, where loans are delinquent and are not put into foreclosure in time to maximize recovery. Typically once per year, the surveillance department will audit servicers of loans and other assets supporting the Company's insured obligations to better understand their servicing practices and to identify potential servicing problems, if any. The Company believes that this is an important safeguard, as servicers are required to indemnify the Company against failure to adhere to the servicing standards set forth in the servicing agreements.

The Company's surveillance department estimates claims based on the probability weighted average of net cash outflows under the contract, on a present value basis, to the extent that the claim liability so determined exceeds the unearned premium revenue attributable to such contract at the measurement date. In some cases, the surveillance department will engage an outside consultant with appropriate expertise in the underlying collateral assets and respective industries to assist management in examining the underlying collateral and determining the projected loss frequency and loss severity. In such case, the surveillance department will use that information to run a cash flow model that includes enhancement levels and debt service to determine whether a claim is probable, possible or not likely.

The activities of the Company's surveillance department are integral to the identification of specific credits that have experienced deterioration in credit quality and the assessment of whether losses on such credits are probable, as well as any estimation of the amount of loss expected to be incurred with respect to such credits. Closely monitored credits are divided into four categories: (i) Special Monitoring List—low investment grade credits where a material covenant or trigger may be breached and closer monitoring is warranted; (ii) Yellow Flag List—credits that the Company determines to be non-investment grade but a loss is unlikely, including credits where claims may have been paid or may be paid but reimbursement is likely; (iii) Red Flag List—credits where a loss is possible but not probable or reasonably estimable, including credits where claims may have been paid or may be paid but full recovery is in doubt; and (iv) Loss List—credits where a loss is probable and reasonably estimable. Credits that are not closely monitored credits are considered to be fundamentally sound, normal risk.

The following table sets forth certain information in regard to the Company's closely monitored credits as of December 31, 2010. The number of policies, remaining weighted-average contract period, and insured contractual payments outstanding in the table below excludes exposures that were effectively defeased or, in-substance, commuted through the acquisition of Insurance Cash Flow Certificates and related alternative structures.

(U.S. dollars in millions)	Special Monitoring List	Yellow Flag List	Red Flag List	Loss List	Total
Number of policies	21	19	2	64	106
Remaining weighted-average contract period (in years)	13.6	12.3	8.5	14.1	13.6
Insured contractual payments outstanding:					
Principal	$ 2,775.1	$ 1,002.4	$ 34.6	$ 2,899.9	$ 6,712.0
Interest	1,360.1	612.2	—	1,505.8	3,478.1
Total	$ 4,135.2	$ 1,614.6	$ 34.6	$ 4,405.7	$ 10,190.1
Gross claim liability	$ —	$ —	$ —	$ 2,817.8	$ 2,817.8
Less:					
Gross potential recoveries	—	—	—	1,356.1	1,356.1
Unearned premium reserve (1)	—	—	—	42.4	42.4
Discount, net	—	—	—	448.0	448.0
Plus:					
Loss adjustment expenses	—	—	—	35.5	35.5
Claim liability reported in the balance sheet	$ —	$ —	$ —	$ 1,006.8	$ 1,006.8

(1) The claim liability is determined on a contract by contract basis. As such, instances may arise where the unearned premium revenue on a contract may exceed the present value of the expected net cash outflows. The unearned premium in the table above represents the aggregate of unearned premium revenue on each contract but not in excess of the associated present value of the expected net cash outflows on such contract.

16. Shareholders' Deficit Per Share

The following table sets forth the computation of shareholders' deficit per share as of December 31, 2010 and December 31, 2009:

(U.S. dollars in thousands except share and per share amounts)	2010	2009
Common shareholders' deficit, as reported	$ (1,281,730)	$ (1,632,839)
Less:		
Liquidation preference in excess of that recorded on the accompanying balance sheet:		
Series A perpetual non-cumulative preferred shares	3,407	3,407
Series B perpetual non-cumulative preferred shares	180,000	180,000
Common shareholders' deficit, as adjusted to exclude liquidation preferences on preferred shares	$ (1,465,137)	$ (1,816,246)
Common shares outstanding	59,336,686	59,336,686
Common shareholders' deficit per share	$ (24.69)	$ (30.61)

17. Exposures Under Guarantees

While the Company establishes reserves for losses and loss adjustment expenses on obligations it has guaranteed or reinsured to the extent it determines that losses are probable and reasonably estimable (see Note 15), the risk of loss under the Company's guarantees extends to the full amount of unpaid principal and interest on all debt obligations it has guaranteed. Set forth below are tables which reflect certain information regarding the Company's in-force principal and interest exposure at December 31, 2010. References in the tables below to "Gross" mean that the amounts are before the effect of ceded reinsurance and references to "Net" mean that the amounts are after the effect of ceded reinsurance.

	Principal Outstanding		Future Interest		Total	
(U.S. dollars in millions)	Gross	Net	Gross	Net	Gross	Net
Public Finance	$ 49,063	$ 48,191	$ 23,925	$ 23,688	$ 72,988	$ 71,879
Structured Single Risk	22,958	22,884	18,753	18,688	41,711	41,572
ABS CDOs	6	6	6	6	12	12
CDO squareds[1]	108	108	0	0	108	108
CMBS	2,481	2,481	8	8	2,489	2,489
CLOs	12,716	12,716	2,178	2,178	14,894	14,894
All other	9,887	9,866	884	881	10,771	10,747
	$ 97,219	$ 96,252	$ 45,754	$ 45,449	$ 142,973	$ 141,701

[1] $620.0 million of the Company's net principal outstanding at December 31, 2010 was commuted in February 2011, pursuant to an agreement made in connection with the restructuring consummated by Syncora Guarantee on July 15, 2009. The Company paid consideration of approximately $16.8 million in connection with such commutation.

The table below presents a summary of the Company's in-force principal exposure at July 15, 2009 both before and after the effect of the transactions comprising the 2009 MTA:

(U.S. dollars in millions)	Net Principal Outstanding July 15, 2009 BEFORE 2009 MTA	Effective Defeasance/ Commutation of Exposure Pursuant to 2009 MTA	Net Principal Outstanding AFTER 2009 MTA
Public Finance	$ 52,179	$ 477	$ 51,702
Structured Single Risk	23,849	113	23,736
RMBS	7,952	3,817	4,135
ABS CDOs	14,038	13,783	255
CDO squareds	1,396	1,122	274
Other CDOs(1)	26,013	92	25,921
All other	3,949	500	3,449
Total	$ 129,376	$ 19,904	$ 109,472

(1) $3.1 billion of the Company's net principal outstanding at December 31, 2009 was commuted by February 2011, pursuant to an agreement made in connection with the restructuring consummated by Syncora Guarantee on July 15, 2009. The Company paid consideration of approximately $81.8 million in connection with such commutations.

The following table sets forth the number of years to maturity of the Company's in-force guaranteed principal exposure at December 31, 2010 and 2009:

(U.S. dollars in millions)

	Gross		Net	
Years to Maturity - Par Exposure	**2010**	**2009**	**2010**	**2009**
Year 1	$ 5,629	$ 5,987	$ 5,628	$ 5,952
Year 2	6,520	7,655	6,517	7,650
Year 3	9,101	6,926	9,098	6,923
Year 4	4,020	8,125	4,020	8,125
Year 5 to 10 years	25,881	28,522	25,205	27,752
Year 10 to 15	15,907	16,414	15,826	16,383
Year 15 to 20	13,925	15,988	13,851	15,800
Beyond 20 years	16,236	17,763	16,107	17,414
Total	$ 97,219	$ 107,380	$ 96,252	$ 105,999

The following table sets forth the type of debt obligations comprising the Company's in-force guaranteed principal exposure at December 31, 2010 and 2009:

(U.S. dollars in millions)

	Gross		Net	
Type of Insured Obligation - Par Exposure	**2010**	**2009**	**2010**	**2009**
General Obligation	$ 27,501	$ 28,834	$ 26,839	$ 28,079
Pooled Debt Obligations	21,874	25,679	21,874	25,679
Transportation	11,102	11,595	10,928	11,286
Power & Utility	9,918	10,932	9,918	10,875
Utility	6,289	6,946	6,228	6,792
Non Ad Valorem	4,435	4,547	4,435	4,547
Higher Education	3,419	3,557	3,419	3,557
Consumer ABS	2,309	3,451	2,288	3,425
Financial Products	1,688	1,826	1,688	1,826
Commercial ABS	829	1,664	829	1,664
Future Flow	628	903	628	872
Other	7,227	7,446	7,178	7,397
Total	$ 97,219	$ 107,380	$ 96,252	$ 105,999

The following table sets forth the Company's in-force guaranteed principal and interest exposure by geographic concentration at December 31, 2010 and 2009:

(U.S. dollars in millions)

	Gross		Net	
Geographic Distribution - Par Exposure	**2010**	**2009**	**2010**	**2009**
California	$ 7,649	$ 7,815	$ 7,601	$ 7,752
New York	4,253	15,306	4,253	15,306
Illinois	3,762	3,795	3,762	3,795
Texas	3,526	3,617	3,326	3,367
Alabama	2,942	3,491	2,930	3,387
Florida	3,279	3,347	2,667	2,692
Pennsylvania	2,605	2,785	2,605	2,785
New Jersey	1,795	2,025	1,795	2,025
Massachusetts	1,505	1,551	1,505	1,551
Ohio	1,408	1,422	1,408	1,422
Georgia	1,407	1,443	1,407	1,443
Colorado	1,380	1,398	1,380	1,398
Maryland	1,233	1,266	1,233	1,262
Virginia	1,225	1,235	1,225	1,235
Michigan	1,189	1,569	1,189	1,569
Puerto Rico	1,059	1,010	1,059	1,010
Other US Jurisdictions	35,431	31,058	35,410	31,050
United Kingdom	10,016	10,951	9,942	10,685
Australia	2,613	2,552	2,613	2,552
Ireland	1,377	1,733	1,377	1,733
Other International	7,566	8,011	7,566	7,980
Total	$ 97,219	$ 107,380	$ 96,252	$ 105,999

Exposure to Residential Mortgage Market

The Company is exposed to residential mortgages directly, through its insurance guarantees of RMBS.

As of December 31, 2010, the Company's total net direct exposure to RMBS aggregated approximately $2.0 billion (the amount excludes exposure related to guarantees which were effectively defeased or, in-substance, commuted pursuant to Insurance Cash Flow Certificates – see Note 4), representing approximately 2.1% of its total in-force guaranteed net principal outstanding at such date. The RMBS exposure consisted of various collateral types as set forth in the table below. The tables below also set forth the Company's internal ratings, as well as the ratings of certain rating agencies, of the insured transactions at December 31, 2010 (excluding exposure related to guarantees which were effectively defeased or, in-substance, commuted pursuant to Insurance Cash Flow Certificates as discussed above).

Exposure to RMBS

The following table presents the net principal outstanding for the Company's insured RMBS portfolio by type of collateral as of December 31, 2010:

(U.S. dollars in millions) Type[(1)]	Net Principal Outstanding	% of Total
Alt-A (1st lien)	$ 952	46 %
Subprime (1st lien)	409	20
HELOC (Prime)	369	18
Subprime (2nd lien)	117	6
Prime (1st lien) & other	102	5
Prime and Alt-A (2nd lien)	94	5
	$ 2,043	100 %

[(1)] Collateral type is defined as follows. An Alt-A loan means a mortgage loan secured by first liens on residential properties, which is ineligible for purchase by Fannie Mae or Freddie Mac. Subprime (1st lien) mortgage loans are secured by first liens on residential properties to non-prime borrowers. The underwriting standards used to underwrite subprime mortgage loans are less stringent than the standards applied to the most creditworthy borrowers and less stringent than the standards generally acceptable to Fannie Mae and Freddie Mac with regard to the borrower's credit standing and repayment ability. HELOC is an adjustable rate line of credit secured by a second lien on residential properties. Subprime (2nd lien) mortgage loans are secured by second liens on residential properties to non-prime borrowers. See Subprime (1st lien) for a description of the underwriting standards. Prime (1st lien) mortgage loans are secured by first liens on one-to-four family residential properties. The underwriting standards used to underwrite prime mortgage loans are the standards applied to the most creditworthy borrowers and are generally acceptable to Fannie Mae and Freddie Mac. Prime (2nd lien) mortgage loans are secured by 2nd liens on one-to-four family residential properties. The underwriting standards used to underwrite prime mortgage loans are the standards applied to the most creditworthy borrowers and are generally acceptable to Fannie Mae and Freddie Mac. This category also includes Alt-A (2nd lien) loans.

The following table presents the net principal outstanding and net reserves for unpaid losses for the Company's insured RMBS portfolio by year of origination (year the guarantee was underwritten and issued) as of December 31, 2010. Net principal outstanding in the table below excludes principal effectively defeased or, in-substance, commuted by the Company in connection with its acquisition of Insurance Cash Flow Certificates (see Note 4), whereas net reserves for unpaid losses in the table below are reported on the same basis as reflected in the Company's balance sheet (not adjusted to reflect reserves effectively defeased or, in-substance, commuted pursuant to the Company's acquisition of Insurance Cash Flow Certificates- see Note 4).

(U.S. dollars in millions)	2004	2005	2006	2007	Total
Subprime	$ 91 [(1)]	$ 118	$ -	$ 318	$ 527
Prime/Alt A	207	90	256	963	1,516
	$ 298	$ 208	$ 256	$ 1,281	$ 2,043
Net case reserves for unpaid losses	$ 24	$ 122	$ 672	$ 76	$ 894

[(1)] Includes $0.2 million relating to business underwritten and issued in 1999.

The following tables show the Company's current internal and rating agency ratings on all of the Company's direct RMBS exposure by deal, grouped by collateral type. The Company's internal ratings are based on its internal credit assessment of each transaction taking into account the overall credit strengths and weaknesses, transaction structure and the trends in the asset sector. The Company bases its analysis on information received from the trustees or from the issuer, as well as on-site visits to issuers, servicers, collateral managers and project sites. Modeling results are also considered. The Company also takes into consideration the rating agencies' rationale for their ratings, however, variations may exist between the Company's ratings and the ratings of the rating agencies. Rating agencies' may change their ratings on obligations on a frequent basis and in some cases ratings issued by ratings agencies may be withdrawn by such ratings agencies. Accordingly, the following tables may not reflect the ratings agencies most current published ratings.

(U.S. dollars in millions)

Alt-A (1st lien)

	Vintage	Internal Credit Rating	S&P Rating	Moody's Rating	Net Principal Outstanding
1	2005	c	CC	Ca	$ 15
2	2005	c	AAA	Caa3	43
3	2006	c	B+	Ca	-
4	2006	c	CC	Ca	17
5	2006	d	D	Ca	11
6	2006	d	D	Ca	3
7	2007	bbb-	CCC	Ca	365
8	2007	bbb-	CCC	Caa3	169
9	2007	c	CCC	Caa3	329
Total					$ 952

Subprime (1st lien)

	Vintage	Internal Credit Rating	S&P Rating	Moody's Rating	Net Principal Outstanding
1	1999	b	D	Caa1	$ -
2	2004	a-	AAA	Aa3	48
3	2004	aaa	AAA	Aaa	7
4	2004	aaa	AAA	Aaa	8
5	2004	c	AA-	A2	27
6	2005	aaa	BBB	A2	21
7	2005	aaa	AA	Baa3	4
8	2005	c	CCC	c	93
9	2007	c	A	Aa3	22
10	2007	c	CCC	Ca	96
11	2007	c	CCC	Caa3	83
Total					$ 409

HELOC (Prime)

	Vintage	Internal Credit Rating	S&P Rating	Moody's Rating	Net Principal Outstanding
1	2004	d	BBB	Ca	$ 25
2	2004	d	BBB	Caa3	38
3	2004	d	BBB	Ca	66
4	2004	d	CCC	Ca	34
5	2005	d	D	Ca	32
6	2006	d	D	Ca	8
7	2006	d	D	Ca	93
8	2006	d	D	Ca	55
9	2007	d	D	Ca	18
Total					$ 369

Prime, Subprime and Alt-A (2nd lien)

	Vintage	Internal Credit Rating	S&P Rating	Moody's Rating	Net Principal Outstanding
1	2006	d	D	Ca	$ 67
2	2006	d	D	Caa3	2
3	2007	c	B	Ca	8
4	2007	d	CC	Ca	53
5	2007	d	CC	Ca	25
6	2007	bbb-	CCC	Caa2	22
7	2007	bbb-	CCC	Caa3	34
Total					$ 211

Prime (1st lien) and other

	Vintage	Internal Credit Rating	S&P Rating	Moody's Rating	Net Principal Outstanding
1	2004	aaa	NR	Aa3	$ 24
2	2004	aaa	AAA	Aaa	7
3	2004	aaa	AAA	NR	14
4	2007	bbb	BBB	Baa2	57
Total					$ 102

Exposure to CDOs

The following table presents the net notional exposure of the Company's guaranteed CDOs by type of referenced asset as of December 31, 2010. A CDO is a security that is collateralized by, or synthetically references, a pool of debt obligations such as corporate loans, bonds and ABS:

(U.S. dollars in millions)

Type (1)	Net Principal Outstanding	% of Total	# of transactions
CLO	$ 12,716	58 %	59
Investment-grade corporate CDO	5,706	26	20
CMBS	2,481	11	4
Bank Trust Preferred Securities	336	2	5
CDO of CDOs	107	1	2
ABS CDO	6	-	1
Other	522	2	6
Total	$ 21,874	100 %	97

(1) Asset type is defined as follows. A collateralized loan obligation ("CLO") is a CDO that is collateralized by, or synthetically references, a pool of leveraged bank loans to corporate entities generally rated below investment grade, *i.e.*, rated below "BBB-" by S&P, "Baa3" by Moody's and "BBB-" by Fitch. An investment grade corporate CDO is a CDO that is collateralized by, or synthetically references, a portfolio of debt to corporate entities rated investment grade, *i.e.*, rated at least "BBB-" by S&P, "Baa3" by Moody's and "BBB-" by Fitch or higher. A CMBS CDO is collateralized by, or synthetically references, a pool of commercial mortgage backed securities. Bank Trust Preferred Securities CDOs are backed by portfolios of trust preferred securities primarily issued by bank holding companies. A CDO of CDOs, or CDO squared, is a CDO that is collateralized by, or synthetically references, a pool of other CDO securities. An ABS CDO is a CDO that is collateralized by, or synthetically references, a pool of asset-backed securities with greater than 50% RMBS collateral.

The following table presents the net notional exposure of the Company's guaranteed CDOs by rating (based on S&P ratings if available and internal ratings if no S&P rating is available) as of December 31, 2010:

(U.S. dollars in millions)

Ratings [1]	Net Principal Outstanding	% of Total
AAA	$ 8,773	40 %
AA	9,157	42
A	2,318	11
BBB & Lower	1,626	7
Total	$ 21,874	100 %

[1] Based on S&P ratings if available and internal ratings if no S&P rating is available.

18. Non-Controlling Interest in Subsidiary – Series B Perpetual Non-Cumulative Preferred Shares of Syncora Guarantee

On February 11, 2008, Syncora Guarantee Re issued 2,000 shares of non-cumulative perpetual Series B preferred shares (the "Series B Preferred Shares") for consideration aggregating $200 million pursuant to the exercise of a put option under its capital facility. After the merger of Syncora Guarantee Re with and into Syncora Guarantee, the Series B Preferred Shares became preferred shares of Syncora Guarantee (see Note 1). The Series B Preferred Shares have a par value of $120 per share and a liquidation preference of $100,000 per share. Holders of outstanding Series B Preferred Shares are entitled to receive, in preference to the holders of Syncora Guarantee's common shares non-cumulative cash dividends at a percentage rate per Series B Preferred Share for any dividend period ending on or prior to December 9, 2009, one-month LIBOR plus 1.00% per annum, calculated on an actual/360 day basis; and for any subsequent dividend period, one-month LIBOR plus 2.00% per annum, calculated on an actual/360 day basis. Accordingly, the carrying value of the Series B Preferred Shares of $20.0 million represents the net proceeds received upon the issuance less the reversal of the fair value of the put option on the date of exercise.

The holders of the Series B Preferred Shares are not entitled to any voting rights as shareholders of Syncora Guarantee and their consent is not required for taking any corporate action. Subject to certain requirements, the Series B Preferred Shares may be redeemed, in whole or in part, at the option of Syncora Guarantee at any time or from time to time after December 9, 2009 for cash at a redemption price equal to the liquidation preference per share plus any accrued and unpaid dividends thereon to the date of redemption without interest on such unpaid dividends. On February 26, 2008, Syncora Guarantee Re elected to declare dividends on the Series B Preferred Shares at the required rate for the next three monthly periods and on May 6, 2008, Syncora Guarantee Re elected to declare dividends on the Series B Preferred Shares at the required rate for the succeeding month. On July 25, 2008, Syncora Guarantee Re elected to declare dividends on the Series B Preferred Shares at the required rate for the July 2008 and August 2008 periods. Neither Syncora Guarantee Re nor Syncora Guarantee declared dividends on the Series B Preferred Shares for any period after August 2008 through the date hereof.

19. Legal Matters

In the ordinary course of business, the Company is subject to litigation or other legal proceedings. The Company intends to vigorously defend against all actions in which it is a defendant and against other potential actions, and the Company does not expect the outcome of these matters to have a material adverse effect on the Company's financial position, results of operations or liquidity. The Company can provide no assurance that the ultimate outcome of these actions will not cause a loss nor have a material adverse effect on the Company's financial position, results of operations or liquidity.

Set forth below is a description of certain legal proceedings to which the Company is a party.

Municipal Derivatives Antitrust Litigation:

Syncora Guarantee was named as a defendant in related lawsuits, filed from April 2008 through December 2009, which have been coordinated for preliminary and pretrial proceedings under the caption In re Municipal Derivatives Antitrust Litigation, MDL No. 1950, currently pending in the United States District Court for the Southern District of New York. Syncora Guarantee was not named as a defendant in the consolidated amended complaint filed on August 22, 2008, the second consolidated amended complaint filed on June 18, 2009, or the joint second amended class action complaint filed on December 15, 2009. However, Syncora Guarantee was named as a defendant in a number of complaints filed by California municipal entities against several providers and brokers of municipal derivatives. These complaints alleged a conspiracy among the defendants to fix, raise, maintain or stabilize the price of, and to rig bids and allocate customers and market for, municipal derivatives in violation of federal and California State antitrust law and

California State common law. The complaints sought unspecified damages and other relief. On April 26, 2010, Syncora Guarantee's motion to dismiss these claims was granted, without prejudice. Accordingly, Syncora Guarantee is no longer a defendant in these actions.

Bond Insurers Conspiracy Litigation:

From July 2008 to July 2010, lawsuits were filed by a number of California municipal entities in California state court against several bond insurers, including Syncora Guarantee, the three major credit rating agencies, and two individual defendants. The complaints include allegations that the bond insurer defendants failed to fully disclose their investments in subprime mortgage-backed securities and insurance of subprime instruments and that the defendants conspired to perpetuate and maintain a dual system of bond rating in violation of California State antitrust laws and California State common law. The complaints seek unspecified damages and other relief. The defendants have filed a motion to dismiss these claims.

Jefferson County Litigation:

On June 17, 2008, Charles Wilson, on behalf of himself and a class consisting of every Jefferson County taxpayer and sewer ratepayer since January 1, 1993, filed suit against Syncora Guarantee and numerous other defendants. The suit alleged that through the wrongful conduct of the members of the Jefferson County Commission, most notably Larry Langford, the county incurred a bonded indebtedness of $3.2 billion relating to improvements to its sewer system. The complaint alleged that the commissioners, in a conspiracy with several individuals, financial companies, law firms, and bond insurers, completed several swap transactions whereby the bonds, which were primarily fixed interest securities, were swapped to variable rate and auction rate securities. These swaps, the complaint alleged, were done primarily to facilitate the inappropriate payment of exorbitant fees to several bond brokers and financial advisors. With respect to the bond insurers, including Syncora Guarantee, the complaint alleged that the insurers negligently insured the bonds while allowing themselves to become undercapitalized and downgraded by the rating services, which in turn downgraded the bonds. The plaintiffs alleged damages on the ground that their sewer rates are much higher than they otherwise would have been without the wrongdoing of all parties.

While the motion was pending, several of the defendants filed a motion seeking recusal of the Judge based on his daughter being a Jefferson County ratepayer, but this motion was denied and the denial was affirmed by the Alabama Supreme Court.

Before the court has been able to issue a ruling on the motion to dismiss, plaintiffs have amended the complaint six times, with Syncora Guarantee renewing its motion after each amendment. The Sixth Amended Complaint, filed April 15, 2010, dropped all claims for damages against Syncora Guarantee. The only claims currently asserted by plaintiffs are for equitable relief. Plaintiffs seek to have the bonds declared invalid and all monies returned to the County. Plaintiffs also seek specific performance of the contracts of the bond insurers, requesting that the bond insurers pay all amounts due on the policies. The court conducted a hearing on the motions to dismiss on November 22, 2010 and denied the motions. Syncora Guarantee and all other defendants have filed a petition for writ of mandamus with the Alabama Supreme Court seeking reversal of the trial court's decision.

On August 28, 2008, a complaint was filed by Carnell E. Fowler, William Young, and Citizens for Sewer Accountability, on behalf of the State of Alabama, against Syncora Guarantee and many of the same defendants in the Wilson case above. This complaint asserts claims under Alabama's quo warranto statutes. Quo warranto is an ancient and extraordinary remedy available to annul a corporation's charter and/or preclude it from operating as a corporation in Alabama where the corporation has engaged in such actions as to warrant a forfeiture of its corporate rights and existence. The factual allegations of the complaint virtually mirror those in the Wilson case. Syncora Guarantee has filed a motion to dismiss. Prior to the court's ruling on the motion, the plaintiffs voluntarily dismissed Syncora Guarantee, without prejudice, as a defendant. The court subsequently granted the motions to dismiss filed by several of the remaining defendants, but has granted leave for plaintiffs to file an amended complaint. Currently, Syncora Guarantee is no longer a defendant to this lawsuit, and discussions with plaintiffs' counsel reveal that he has no intention of further pursuing Syncora Guarantee as a defendant.

On or around September 16, 2008, Syncora Guarantee, together with the trustee under the indenture for the Jefferson County, Alabama sewer warrants as well as Financial Guaranty Insurance Company, which also insures a portion of the warrants, commenced a lawsuit against Jefferson County and its current commissioners in the United States District Court for the Northern District of Alabama seeking, among other things, the appointment of a receiver over the Jefferson County's sewer system. On September 25, 2008, the County filed a counterclaim against Syncora Guarantee and Financial Guaranty Insurance Company alleging negligence, breach of contract, fraud and fraudulent suppression. On June 12, 2009, the court issued a memorandum opinion determining, in general terms, that although Syncora Guarantee and the other plaintiffs were entitled to a receiver based on the facts, (a) a Federal statute precludes a Federal court from appointing a receiver over the sewer system having ratemaking power and (b) unsettled state law issues militate in favor of the Federal court abstaining from appointing a receiver at all. On July 6, 2009, the court issued an order staying all proceedings on the plaintiffs' claims until further order of the court and authorizing the plaintiffs, individually or collectively to file a lawsuit in Alabama State court seeking, among other relief, the appointment of a receiver over the sewer system. In accordance with the court's direction, on July 15, 2009, the County filed a notice stating that it intends to continue to litigate its counterclaims in Federal court until such time as it becomes proper or advisable to pursue litigation in another forum. Upon consent of the parties, on March 8, 2009, the court entered an order (i) dismissing without prejudice the claims and counterclaims between the bond insurers and the County, (ii) staying the claims of the trustee against the County, and (iii) administratively closing the case (subject to a motion to reopen by one of the parties to the stayed claims). On August 3, 2009, the trustee under the indenture for the sewer warrants commenced a lawsuit against the County and its current commissioners in the Circuit Court of Jefferson County, Alabama, seeking, among other things, the appointment of a receiver over the County's sewer system. Syncora Guarantee was not a party to such lawsuit. On December 7, 2009, the County filed a motion to dismiss the trustee's claims. The court denied this motion. On December 31, 2009, the County filed a motion requesting (i) that the court certify for appeal its order denying the County's motion to dismiss and (ii) a stay pending such an appeal. On February 5, 2010, the Court entered an order denying the County's motion for an appeal and entered an order scheduling a bench trial from June 14, 2010 through June 25, 2010 with respect to the trustee's claims against the County. Following the entry of this order, the following three motions were filed in the State court action: (i) the trustee filed a motion for summary judgment with respect to the County's Events of Default under the indenture; (ii) a class of ratepayers in the Wilson class-action case filed a motion to intervene (which was opposed by both the trustee and the County); and (iii) the County filed a motion to consolidate the State court action with the Wilson case (on the ground that the County is subject to the risk of inconsistent judgments since the trustee is seeking to compel the County to raise sewer rates and the Wilson plaintiffs are seeking to compel the County to reduce sewer rates). On May 26, 2010, the court held a hearing at which it (i) denied the trustee's motion for partial summary judgment, (ii) denied the County's motion to consolidate, and (iii) granted the Wilson plaintiffs' motion to intervene. The trial that was scheduled to commence on June 14, 2010 was continued until September 7, 2010. On September 22, 2010, the court ruled in favor of the trustee, appointing a receiver with rate-making authority.

On April 15, 2009, Syncora Guarantee and Financial Guaranty Insurance Company submitted a Notice of Claim with the County asserting damages resulting from fraud by the County in connection with the issuance of insurance policies in respect of the sewer warrants. On April 28, 2010, Syncora Guarantee submitted an Amended and Supplemented Notice of Claim to Jefferson County, Alabama.

On April 29, 2010, Syncora Guarantee filed a complaint against the County, JPMorgan Chase Bank N.A. and JPMorgan Securities, Inc. (together, "JPMorgan") in the Supreme Court of the State of New York, County of New York. The complaint includes claims that the County and JPMorgan fraudulently induced Syncora Guarantee to provide bond insurance policies between 2002 and 2004 covering debt issued by the County. On July 8, 2010, JPMorgan filed a motion to dismiss Syncora Guarantee's complaint against it which was fully briefed on September 9, 2010 and argued to the court on October 18, 2010. On July 8, 2010, the County filed an answer to Syncora Guarantee's complaint as respects the County and filed counterclaims alleging that Syncora Guarantee injured the County by failing to maintain its credit rating and seeking $100 million in damages on the basis of contract, negligence and fraud claims. On August 23, 2010, Syncora Guarantee filed a motion to dismiss the County's counterclaims. On September 10, 2010, Syncora Guarantee submitted a Notice of Claim with the County asserting damages resulting from the County's failure to comply with its payment obligations to Syncora Guarantee pursuant to a certain debt service reserve insurance policy and accompanying Financial Guaranty Agreement. On October 29, 2010, Syncora Guarantee's motion to dismiss the County's counterclaims was fully briefed.

On December 21, 2010, JPMorgan's motion to dismiss the complaint was denied, and Syncora Guarantee's motion to dismiss the County's counterclaim was granted. On January 24, 2011, JPMorgan filed an answer to the complaint. Discovery in the action is ongoing.

Claims Suspension Litigation:

Countrywide Home Loans, Inc. and affiliated entities filed a Summons with Notice in the Supreme Court for the State of New York, dated June 2, 2009, initiating an action against Syncora Guarantee for breach of contract and breach of the duty of good faith and fair dealing in connection with Syncora Guarantee's suspension of payments of claims under certain insurance policies. The Summons with Notice seeks unspecified damages in excess of $100 million.

Other Litigation:

On or around June 27, 2008, Syncora Guarantee filed suit against IndyMac Bank (now the Federal Deposit Insurance Corporation ("FDIC") as Conservator for IndyMac Bank and Receiver for IndyMac Bank Federal Bank) in the United States District Court for the Southern District of New York seeking to specifically enforce the terms of a certain insurance and indemnity agreement to which they are parties. Subsequent to the filing of this suit, the FDIC placed IndyMac Bank into conservatorship. Syncora

Guarantee filed a proof of claim with the FDIC on October 10, 2008 and the FDIC disallowed this proof of claim on April 1, 2009. To pursue the proof of claim, Syncora Guarantee filed a new lawsuit against the FDIC in the United States District Court for the District of Columbia. The board of directors of the FDIC has determined that there will be no recoveries for unsecured creditors, such as Syncora Guarantee. Accordingly, Syncora Guarantee dismissed this action without prejudice.

On January 29, 2009, Syncora Guarantee filed suit in the Supreme Court of the State of New York, New York County, against Countrywide Home Loans, Inc., Countrywide Securities Corp., and Countrywide Financial Corp. (collectively referred to as “Countrywide”), alleging that Countrywide made misrepresentations in connection with several securitizations of home equity mortgage loans originated and serviced by Countrywide, and for which Syncora Guarantee acted as credit enhancer, and seeking damages and other relief for fraud and breach of contract. On March 31, 2010, Countrywide's motion to dismiss was denied in part and granted in part. Countrywide's appeal of the denial of its motion is pending. On May 6, 2010, Syncora Guarantee filed an amended complaint. Syncora Guarantee's amended complaint names Bank of America Corp. as an additional defendant as the successor to and vicariously for Countrywide. Countrywide filed a counterclaim against Syncora Guarantee which is currently stayed until August 15, 2011.

On February 5, 2009, Syncora Guarantee, together with co-plaintiffs U.S. Bank National Association (“US Bank”) and CIFG Assurance North America, Inc. (“CIFG”), filed suit in the Supreme Court of the State of New York, New York County, against GreenPoint, alleging that GreenPoint breached representations and warranties in connection with a securitization of primarily home-equity mortgage loans originated by GreenPoint, and for which Syncora Guarantee acted as credit enhancer, and seeking damages and other relief for breach of contract. GreenPoint moved to dismiss all of the claims against it. In response, Syncora Guarantee argued it is a third-party beneficiary of the underlying sale agreements between GreenPoint and the purchaser of the loans originated by GreenPoint, and CIFG made the same argument. On March 3, 2010, the court denied GreenPoint's motion with regard to the claims of US Bank and granted the motion with regard to Syncora Guarantee and CIFG's arguments that they are third-party beneficiaries of the underlying sale agreements. On April 14, 2010, all plaintiffs filed their First Amended Complaint. Syncora Guarantee now alleges claims against GreenPoint under the Indemnification Agreement among Syncora Guarantee, GreenPoint and another person. Syncora Guarantee's claims relate to GreenPoint's breaches of representations and warranties in the Indemnification Agreement and breaches of GreenPoint's promises to indemnify Syncora Guarantee. Following oral argument on January 6, 2011 regarding GreenPoint’s motion to dismiss Syncora Guarantee’s claims (and CIFG’s claims) in the First Amended Complaint and the plaintiffs’ cross-motion for permission to serve a Second Amended Complaint, the court granted GreenPoint’s motion without prejudice and denied the plaintiffs’ cross-motion without prejudice, but permitted the plaintiffs to make a motion for leave to file a Third Amended Complaint. The plaintiffs’ motion for leave to file a Third Amended Complaint is due June 16, 2011.

On March 31, 2009, Syncora Guarantee filed suit against EMC in the United States District Court of the Southern District of New York, alleging that EMC made misrepresentations in connection with a securitization of home-equity loans for which EMC acted as sponsor, and for which Syncora Guarantee acted as credit enhancer, and seeking damages and other relief for breach of contract. On February 1, 2010, Syncora Guarantee filed suit against EMC in the United States District Court of the Southern District of New York in connection with another securitization seeking to specifically enforce the terms of a certain insurance and indemnification agreement to which they are parties. On April 26, 2010, a Protective Order and Confidentiality Stipulation were signed into order that requires EMC to produce requested documents by June 1, 2010, and the matter was closed subject to EMC's compliance with the order. On June 25, 2010, Syncora Guarantee moved for partial summary judgment for a ruling that Syncora Guarantee has multiple legal remedies against EMC and is not limited to a contractual remedy that involves submitting loans to EMC for EMC's review and possible repurchase. On March 25, 2011, Syncora Guarantee’s motion for partial summary judgment on this issue was granted. On November 22, 2010, Syncora Guarantee filed a motion to amend its complaint to add fraud claims against EMC and JP Morgan Securities, Inc. (formerly known as Bear, Stearns & Co.) and a tortious-interference-with-contract claim against JP Morgan Securities, Inc. On March 25, 2011, Syncora Guarantee’s motion to add these fraud claims (and additional party) was denied.

On March 4, 2010, Syncora Guarantee filed suit against Cendant Rental Car Funding (AESOP) LLC to enforce the terms of a premium letter. On April 4, 2011, this matter was settled.

On March 23, 2010, Syncora Guarantee received an arbitration demand from RAM Reinsurance Company Ltd under the terms of a certain reinsurance agreement with respect to certain policies issued by Syncora Guarantee and reinsured by RAM Reinsurance Company Ltd. Syncora Guarantee is at an advanced stage of discussions regarding settlement of this dispute.

Securities Litigation:

In December 2007 and January 2008, three lawsuits were commenced in the United States District Court for the Southern District of New York. On April 24, 2008, an order was entered consolidating these actions under the caption In re Security Capital Assurance Ltd. Securities Litigation. On August 6, 2008, the plaintiffs filed a consolidated amended complaint. The complaint names

Syncora Holdings, XL Capital Ltd, XL Insurance Ltd, the principal underwriters for the secondary offering, the financial advisors for the preferred share offering, Paul S. Giordano, David P. Shea, Edward B. Hubbard, and Richard P. Heberton as defendants. The complaint includes claims that defendants' public statements, including the registration statement and prospectus related to the secondary offering, contained false and misleading statements and omitted to disclose material facts necessary to make the statements contained therein not misleading, in violation of the Securities Act of 1933, as amended and the Exchange Act. The complaint seeks unspecified damages and other relief. The Company filed a motion to dismiss on behalf of itself and the individual defendants. On March 31, 2010, the Company's this motion was granted in full. On June 29, 2010 the remaining plaintiff filed an amended complaint. On September 10, 2010 the Company filed a motion to dismiss. This motion is pending.

20. Dividend Restrictions

Dividend Restrictions

Syncora Holdings

Syncora Holdings' Board of Directors did not declare a quarterly dividend with respect to its common shares or a semi-annual dividend with respect to the Syncora Holdings Series A Preference Shares (as described in Note 24) during the years ended December 31, 2010 or 2009 or at any time thereafter through to the issuance date of these financial statements. On August 5, 2008, Syncora Holdings entered into an undertaking with the NYID pursuant to which it agreed to not make dividends or distributions to its shareholders for 18 months following such date without the express written consent of the NYID. Any future dividends will be subject to the discretion and approval of the Syncora Holdings' Board of Directors, applicable law, regulatory, and contractual requirements. As dividends on the Syncora Holdings Series A Preference Shares have not been paid in an aggregate amount equivalent to dividends for at least six full quarterly periods, holders of Syncora Holdings' Series A Preference Shares have the right to nominate two persons who, if elected, will then be appointed as additional directors to the Board of Directors of Syncora Holdings.

Syncora Guarantee and Syncora Capital Assurance

The ability of Syncora Guarantee and Syncora Capital Assurance to declare and pay a dividend is governed by applicable New York law, including the New York Insurance Law. Under the New York Insurance Law, the companies are permitted to pay dividends each calendar year, without the prior approval of the New York Superintendent in an amount equal to the lesser of ten percent of their policyholders' surplus as of the end of the preceding calendar year or their net investment income for the preceding calendar year, as determined in accordance with Statutory Accounting Practices prescribed or permitted by the NYID. The New York Insurance Law also provides that the companies may distribute dividends to their shareholders in excess of the aforementioned amount only upon giving notice of their intention to declare such dividend, and the amount thereof, to the New York Superintendent. Moreover, a New York-domiciled insurer may not declare or distribute any dividends except out of earned surplus. The New York Superintendent may disapprove such distribution if he finds that the financial condition of the companies does not warrant such distribution.

Pursuant to the terms of the 2009 MTA, Syncora Guarantee is not permitted to pay dividends or repurchase, redeem, exchange or convert any equity securities until such time as all notes issued by Syncora Guarantee (see Note 8) are paid in full and the Back-Up Guarantees (see Note 3) no longer exist. In connection with the 2008 MTA discussed in Note 1, Syncora Guarantee entered into an undertaking with the NYID pursuant to which it agreed not to make any dividends or distributions without the NYID's express written consent until November 18, 2010 (two years after the shares of Syncora Holdings were placed into trust for the benefit of Syncora Guarantee and the Counterparties).

Pursuant to the terms of the 2009 MTA, Syncora Capital Assurance is not permitted to pay any dividend or make any distribution to Syncora Guarantee of any other affiliate unless Syncora Capital Assurance's notes have been paid in full and provided that, after giving effect to any such dividend or distribution Syncora Capital Assurance would have sufficient capital as calculated pursuant to the 2009 MTA.

Among other requirements, Article 69 of the New York Insurance Law provides that financial guarantee insurance companies maintain minimum policyholders' surplus of $65 million. In accordance with accounting practices prescribed or permitted by the NYID (see Note 2), as of December 31, 2010 and 2009, Syncora Guarantee and Syncora Capital Assurance reported policyholders surplus of $132.6 million and $86.5 million, respectively, and $129.6 million and $213.8 million, respectively. For the years ended December 31, 2010 and 2009, Syncora Guarantee reported net income of $15.4 million and $2.0 billion, respectively. For the year ended December 31, 2010 and for the period from July 15, 2009 (date of commencement of operations) through December 31, 2009, Syncora Capital Assurance reported net income of $53.1 million and a net loss of $149.4 million, respectively. See also Note 2.

21. Commitments and Contingencies

a. Lease and Other Commitments

The Company's lease commitments primarily comprise its office premise leases at 250 Park Avenue, New York, New York, 595 Market Street, San Francisco, California and Merritt 7 Corporate Park, Norwalk, Connecticut, which has been sublet by the Company.

In addition, in October 2006 the Company entered into a five year agreement with International Business Machines Corporation ("IBM") for its information technology services. In consideration for these services, the Company was obligated to pay IBM approximately $4.0 million per annum. Under the terms of this agreement, the Company incurred expenses of $4.3 million for the years ended December 31, 2010 and 2009, respectively. During 2010, the Company commenced negotiations with IBM to amend the agreement to more accurately reflect its needs as a result of changes in the Company's operations since 2006. In December 2010, the Company entered into a new three (3) year agreement with IBM, effective January 1, 2011. Fees associated with the new agreement are expected to be approximately $4.2 million in 2011, and then approximately $2.5 million in each of 2012 and 2013.

The table below presents the Company's minimum lease payment obligations under the aforementioned lease commitments and outsourcing agreement, as well as estimated sub-lease income from the sub-lease of space at the aforementioned locations.

(U.S. dollars in thousands)

Years Ending December 31,	Minimum Lease Payments	Sub-lease Income	Net Minimum Aggregate Lease Commitments
2011	$ 1,081	$ 891	$ 190
2012	1,044	931	113
2013	955	854	101
2014	553	493	60
2015	—	—	—
Total	$ 3,633	$ 3,169	$ 464

Net rent expense was $2.6 million and $8.0 million for the years ended December 31, 2010 and 2009, respectively. In connection with the 2009 MTA (see Note 4), the Company terminated its office premises lease at 1221 Avenue of the Americas, New York, New York and recorded a lease abandonment charge of $5.2 million for the year ended December 31, 2009.

b. Other

See also Note 3 for a description of continuing risks and uncertainties affecting the Company and other information.

22. Disclosures about Fair Values of Financial Instruments

The following estimated fair values have been determined by the Company using available market information and appropriate valuation methodologies. In certain instances, considerable judgment is necessary in developing the estimates of fair value. Accordingly, in such instances the estimates presented herein are not necessarily indicative of the amount the Company could realize in a current market exchange. Differing judgments or estimation methodologies may have a material effect on the estimated fair value amounts.

Debt securities, Replacement Bank Warrants: The fair value of the Company's debt securities is based upon quoted market prices from nationally recognized pricing services or, in the absence of quoted market prices, dealer quotes or matrix pricing. The fair value of the Company's Replacement Bank Warrants is based on an independent broker estimate.

Cash and cash equivalents: The carrying amount of these items is a reasonable estimate of their fair value due to the short maturity of these instruments.

Surplus notes: The fair value of the Company's surplus notes was based on models of the Company's cash flows and expectations regarding the timing of the payment of principal and interest on the notes, discounted to reflect market observable credit spreads of similar instruments issued by a comparable company.

(U.S, dollars in thousands)	2010 Carrying Amount	2010 Estimated Fair Value	2009 Carrying Amount	2009 Estimated Fair Value
Assets				
Debt securities, available for sale	$ 736,990	$ 736,990	$ 952,098	$ 952,098
Cash and cash equivalents (including restricted cash and cash equivalents)	515,511	515,511	732,840	732,840
Credit default swap contracts	176,014	176,014	81,590	81,590
Replacement Bank Warrants	94,431	94,431	66,309	66,309
Consolidated assets of variable interest entities	745,492	745,492	—	—
Liabilities[(1)]				
Notes payable ($679,731 and $641,700 face value)	217,822	282,188	164,205	164,205
Credit default swap contracts	1,339,113	1,339,113	1,206,100	1,206,100
Consolidated liabilities of variable interest entities	591,823	591,823	—	—

(1) The Non-Performance Risk reflected in the fair value of the liabilities was $640.4 million and $523.2 million at December 31, 2010 and 2009, respectively.

23. Assets on Deposit to Collateralize Certain of the Company's Contractual Obligations

As of December 31, 2010 and 2009, the Company had, in the aggregate, approximately $120.9 million and $125.8 million, respectively, on deposit to collateralize its contractual obligations under certain agreements, including reinsurance, lease, and letter of credit agreements. Of such deposits, $102.2 million and $102.5 million, $15.2 million and $23.3 million and $3.5 million and $0 are recorded on the accompanying consolidated balance sheet in "Restricted cash and cash equivalents", "Other assets" and "Debt securities available for sale, at fair value", respectively.

As of December 31, 2009, the Company had $3.0 million on deposit with a bank that acts as the trustee of trusts established in connection with the effective defeasance or, in-substance, commutation of certain of the Company's insured RMBS securities (see Note 4). This deposit serves to secure the Company's commitment to indemnify the aforementioned trustee in connection with any Damages (as defined in the indemnification agreement) the bank may suffer in conjunction with administering the aforementioned trusts. The deposit is recorded on the accompanying consolidated balance sheet in "Other assets".

24. Series A Perpetual Non-Cumulative Preference Shares

On April 5, 2007, Syncora Holdings consummated a private placement sale of $250.0 million of its Series A Preference Shares. Net proceeds from the offering were $246.6 million after offering costs of $3.4 million. The Series A Preference Shares are perpetual securities with no fixed maturity date and, if declared by the Board of Syncora Holdings, pay a fixed dividend, on a semi-annual basis during the first and third quarters of each fiscal year, at the annualized rate of 6.88% until September 30, 2017. After such date, the Series A Preference Shares, if declared by the Board of Syncora Holdings, will pay dividends, on a quarterly basis, at a floating rate based on three-month LIBOR plus 2.715%. Dividends on the Syncora Holdings Series A Preference Shares are non-cumulative. See Note 19. The Syncora Holdings Series A Preference Shares have a liquidation preference of $1,000 per preference share. There are 250,000 Syncora Holdings Series A preference shares outstanding.

25. Condensed Financial Information of Syncora Holdings (Parent Company Only)

The condensed balance sheets, statements of operations and shareholders' deficit, and statements of cash flows (on an unconsolidated basis) of Syncora Holdings as of December 31, 2010 and 2009 and for the years then ended are set forth below:

(U.S. dollars in thousands)	2010	2009
Assets		
Debt securities available for sale, at fair value (amortized cost: $171 and $169)	$ 264	$ 252
Cash and cash equivalents.	20,856	23,190
Accrued investment income	4	4
Investment in subsidiaries on an equity basis:		
Syncora Guarantee	(1,074,486)	(1,430,968)
Other subsidiaries.	17,674	17,970
Other assets	551	3,306
Total assets	$ (1,035,137)	$ (1,386,246)
Liabilities and Shareholders' Deficit		
Liabilities— accounts payable, accrued expenses, and other liabilities	$ —	$ —
Shareholders' equity		
Series A perpetual non-cumulative preferred shares and additional paid-in capital	246,593	246,593
Common shares and additional paid-in capital	2,675,166	2,675,166
Accumulated deficit.	(4,024,392)	(4,362,614)
Accumulated other comprehensive income	67,496	54,609
Total common shareholders' deficit	(1,281,730)	(1,632,839)
Total shareholders' deficit	(1,035,137)	(1,386,246)
Total liabilities and shareholders' deficit	$ (1,035,137)	$ (1,386,246)

	2010	2009
Revenues		
Net investment income	$ 16	$ 32
Operating expenses	5,105	9,056
Loss before equity in net loss of subsidiaries	(5,089)	(9,024)
Equity in net income (loss) of Syncora Guarantee	311,016	(1,870,339)
Equity in net losses of other subsidiaries	(294)	(50)
Equity in net income (loss) of subsidiaries	310,722	(1,870,389)
Net income (loss)	305,633	(1,879,413)
Other comprehensive income:		
Net unrealized gains on investments	10	83
Equity in other comprehensive income of Syncora Guarantee	12,877	175
Total other comprehensive income	12,887	258
Total comprehensive income (loss)	318,520	(1,879,155)
Cumulative effect of change in accounting principles for consolidated variable interest entities	32,589	—
Cumulative effect of change in accounting principles for financial guarantee insurance contracts by Syncora Guarantee	—	(224,430)
Reissuance of shares to counterparties	—	48,660
Loss on reissuance of shares to counterparties	—	(41,301)
Restricted stock and stock options	—	21
Change in shareholders' (deficit) equity	351,109	(2,096,205)
Total shareholders' (deficit) equity- beginning of period	(1,386,246)	709,959
Total shareholders' deficit- end of period	$ (1,035,137)	$ (1,386,246)

	2010	2009
Cash flows from operating activities:		
Operating expenses paid	$ (2,349)	$ (8,581)
Investment income collected	15	33
Net cash used in operating activities	(2,334)	(8,548)
Decrease in cash and cash equivalents	(2,334)	(8,548)
Cash and cash equivalents—beginning of year	23,190	31,738
Cash and cash equivalents—end of year	$ 20,856	$ 23,190