SYNCORA HOLDINGS LTD.

CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

AND

SUPPLEMENTAL SCHEDULE
CONDENSED CONSOLIDATED FINANCIAL INFORMATION OF SYNCORA GUARANTEE INC. AND SYNCORA CAPITAL ASSURANCE INC.

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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 income and comprehensive income, of shareholders' equity 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, 2009 and 2008, 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 and financial statement schedules have been prepared assuming that the Company will continue as a going concern. As described in Note 5 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 5. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 6 to the consolidated financial statements, the Company changed the manner in which it accounts for financial guarantee insurance contracts effective January 1, 2009.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of financial information of Syncora Guarantee Inc. and Syncora Capital Assurance Inc. is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

New York, New York
March 31, 2010

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

	December 31, 2009	December 31, 2008
ASSETS		
Debt securities available for sale, at fair value (amortized cost: $896,654 and $1,930,419)	$ 952,098	$ 1,985,742
XL Capital common shares, at fair value (cost: $0 and $22,720)	—	22,720
Cash and cash equivalents	630,345	602,288
Total cash and invested assets	1,582,443	2,610,750
Restricted cash and cash equivalents	102,495	971,784
Accrued investment income	8,520	21,123
Deferred acquisition costs	137,844	110,062
Prepaid reinsurance premiums	10,664	7,791
Premiums receivable	454,948	6,909
Reinsurance balances recoverable on unpaid losses	17,972	6,011
Credit default swap contracts, at fair value	81,590	62,546
Insurance Cash Flow Certificates, at amortized cost	709,609	—
Replacement Bank Warrants, at fair value (face value $184,191 and $87,474)	66,309	63,331
Other assets	40,129	40,627
Total assets	$ 3,212,523	$ 3,900,934
LIABILITIES AND SHAREHOLDERS' (DEFICIT) EQUITY		
Liabilities		
Unpaid losses and loss adjustment expenses	$ 2,118,388	$ 1,686,187
Unearned premium revenue	1,053,002	628,845
Credit default swap contracts, at fair value	1,206,100	814,304
Notes payable ($641,700 face value)	164,205	—
Reinsurance premiums payable	2,748	232
Accounts payable, accrued expenses and other liabilities	34,326	41,407
Total liabilities	4,578,769	3,170,975
Shareholders' (deficit) equity		
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 and 65,151,297 shares issued; $0.01 par value) and additional paid-in capital	2,675,166	2,688,127
Accumulated deficit	(4,362,614)	(2,217,470)
Accumulated other comprehensive income	54,609	54,351
Treasury stock, at cost (30,069,049 common shares)	—	(61,642)
Total Syncora Holdings Ltd. common shareholders' (deficit) equity	(1,632,839)	463,366
Total Syncora Holdings Ltd. shareholders' (deficit) equity	(1,386,246)	709,959
Total shareholders' (deficit) equity	(1,366,246)	729,959
Total liabilities and shareholders' (deficit) equity	$ 3,212,523	$ 3,900,934

See accompanying Notes to Consolidated Financial Statements.

SYNCORA HOLDINGS LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(U.S. dollars and share amounts in thousands)

	Year Ended December 31,	
	2009	**2008**
Revenues		
Net premiums earned	$ 135,374	$ 279,371
Net investment income	92,631	132,282
Net realized gains (losses) on investments:		
Other than temporary impairment losses	(78,635)	(238,939)
Other net realized investment gains (losses)	124,714	(1,460)
Net realized investment gains (losses)	46,079	(240,399)
Earnings on Insurance Cash Flow Certificates	316,196	—
Net gain on capital facility put option	—	72,514
Unrealized foreign exchange gain	22,816	—
Fee income and other	16,016	3,498
Total revenues	629,112	247,266
Expenses		
Change in fair value of credit default swap contracts		
Realized losses and other settlements	1,351,030	199,160
Unrealized losses (gains)	383,453	(621,210)
Net change in fair value of credit default swap contracts	1,734,483	(422,050)
Net losses and loss adjustment expenses	519,348	1,797,877
Realized losses on Replacement Bank Warrants	95,484	—
Acquisition costs, net	18,427	17,101
Loss on commutation of reinsurance agreements	3,753	42,381
Operating expenses	140,423	230,829
Total expenses	2,511,918	1,666,138
Loss before income tax	(1,882,806)	(1,418,872)
Income tax benefit	(3,393)	(2,659)
Net loss	(1,879,413)	(1,416,213)
Non-controlling interest in Syncora Guarantee Inc. – dividends on Series A redeemable preferred shares and Series B perpetual non-cumulative preferred shares	—	5,432
Net loss attributable to the controlling interest of Syncora Holdings Ltd.	(1,879,413)	(1,421,645)
Gain on redemption of Series A redeemable preferred shares..	—	36,075
Net loss attributable to common shareholders of Syncora Holdings Ltd	$ (1,879,413)	$ (1,385,570)
Net loss per share attributable to common shareholders of Syncora Holdings Ltd.:		
Basic and diluted	$ (40.51)	$ (26.49)
Weighted-average shares outstanding:		
Basic and diluted	46,394	52,308
Comprehensive income (loss):		
Net loss	$ (1,879,413)	$ (1,416,213)
Other comprehensive income - net unrealized gains on investments	258	36,550
Comprehensive loss	(1,879,155)	(1,379,663)
Comprehensive income attributable to non-controlling interest in Syncora Guarantee Inc. – dividends on Series A redeemable preferred shares and Series B perpetual non-cumulative preferred shares:	—	5,432
Comprehensive loss attributable to the controlling interest of Syncora Holdings Ltd.	$ (1,879,155)	$ (1,385,095)

See accompanying Notes to Consolidated Financial Statements.

SYNCORA HOLDINGS LTD.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' (DEFICIT) EQUITY
(U.S. dollars in thousands)

	Year Ended December 31, 2009	Year Ended December 31, 2008
Non-controlling interest in subsidiary		
Balance—beginning of year	$ 20,000	$ 39,000
Issuance of Series B perpetual non-cumulative preferred shares of subsidiary ($200,000 liquidation preference)	—	20,000
Redemption of Series A redeemable preferred shares of subsidiary	—	(39,000)
Balance—end of year	20,000	20,000
Series A perpetual non-cumulative preference shares		
Balance—beginning and end of year	246,593	246,593
Common shares and additional paid-in capital		
Balance—beginning of year	2,688,127	994,569
Retirement of treasury shares (6,332,706 common shares)	(12,982)	—
Restricted stock and stock options	21	13,688
Capital contribution from XL Capital	—	1,679,870
Balance—end of year	2,675,166	2,688,127
Accumulated deficit		
Balance—beginning of year	(2,217,470)	(831,900)
Cumulative effect of change in accounting principle	(224,430)	—
Net loss	(1,879,413)	(1,416,213)
Dividends on Series B perpetual non-cumulative preferred shares of Syncora Guarantee Inc	—	(3,823)
Dividends on Series A redeemable preferred shares of Syncora Guarantee Inc	—	(1,609)
Gain on redemption of Series A redeemable preferred shares of Syncora Guarantee Inc	—	36,075
Loss on reissuance of treasury shares	(41,301)	—
Balance—end of year	(4,362,614)	(2,217,470)
Accumulated other comprehensive loss		
Balance—beginning of year	54,351	17,801
Other comprehensive income	258	36,550
Balance—end of year	54,609	54,351
Treasury shares		
Balance—beginning of year	(61,642)	—
Reissuance of shares to counterparties (23,736,343 common shares)	48,660	—
Retirement of shares (6,332,706 common shares)	12,982	—
Transfer of shares from XL Capital (30,069,049 common shares)	—	(61,642)
Balance—end of year	—	(61,642)
Total Syncora Holdings Ltd. common shareholders' (deficit) equity	(1,632,839)	463,366
Total Syncora Holdings Ltd. shareholders' (deficit) equity	(1,386,246)	709,959
Total shareholders' (deficit) equity	$ (1,366,246)	$ 729,959

See accompanying Notes to Consolidated Financial Statements.

SYNCORA HOLDINGS LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(U.S. dollars in thousands)

	Year Ended December 31, 2009	Year Ended December 31, 2008
Cash flows from operating activities:		
Net loss	$ (1,879,413)	$ (1,416,213)
Adjustments to reconcile net loss to net cash used in operating activities:		
Net realized (gains) losses on investments	(46,079)	240,399
Impairment of intangible assets-acquired licenses	—	11,529
Net unrealized losses (gains) on derivative instruments	383,453	(621,210)
Non-cash realized losses on derivatives	148,388	—
Realized gain from exercise of option under capital facility	—	(179,559)
Realized losses and other settlements	—	(64,793)
Transfer from (to) restricted cash	869,289	(971,784)
(Accretion of discount) amortization of premium on bonds	(8,519)	2,212
Amortization of Uninsured Cash Flow Certificates	18,782	—
Realized loss on Replacement Bank Warrants	95,484	—
Accretion of Insurance Cash Flow Certificates	(316,196)	—
Accretion of notes payable	23,175	—
Decrease (increase) in accrued investment income	12,603	(84)
Decrease in deferred acquisition costs	22,732	167
Decrease in prepaid reinsurance premiums	1,570	85,056
Decrease in premiums receivable	47,486	9,871
Decrease (increase) in reinsurance balances receivable	2,010	(2,010)
(Increase) decrease in reinsurance balances recoverable on unpaid losses	(11,961)	244,334
Increase in Insurance Cash Flow Certificates	(393,413)	—
Increase in Replacement Bank Warrants	(96,717)	—
Increase in unpaid losses and loss adjustment expenses	217,960	1,283,668
Decrease in unearned premium revenue	(144,371)	(271,457)
Increase (decrease)in reinsurance premiums payable	2,516	(35,848)
Decrease in accounts payable, accrued expenses and other liabilities	(18,537)	(29,541)
Other, net	(30,304)	(43,310)
Total adjustments	779,351	(342,360)
Net cash used in operating activities	(1,100,062)	(1,758,573)
Cash flows from investing activities:		
Proceeds from sale of debt securities	970,312	100,512
Purchases of debt securities	(231,243)	(35,604)
Proceeds from maturity of debt securities	256,672	272,477
Proceeds from sale of equity securities	132,568	—
Purchases of fixed assets	(190)	(1,983)
Net cash provided by investing activities	1,128,119	335,402
Cash flows from financing activities:		
Proceeds from issuance of Series B non-cumulative perpetual preferred shares	—	200,000
Proceeds from capital contribution	—	1,584,700
Redemption of Series A redeemable preferred shares	—	(2,925)
Dividends paid on Series B non-cumulative perpetual preferred shares of Syncora Guarantee Inc.	—	(5,432)
Net cash provided by financing activities	—	1,776,343
Increase in cash and cash equivalents	28,057	353,172
Cash and cash equivalents—beginning of year	602,288	249,116
Cash and cash equivalents—end of year	$ 630,345	$ 602,288

SYNCORA HOLDINGS LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(U.S. dollars in thousands)

	Year Ended December 31,	
	2009	**2008**
Supplemental cash flow disclosure:		
Stock received in consideration for commutation	—	87,111
Stock received as part of the consideration for cancellation of XLI guarantee (See Note 3)	—	33,529
Current income tax (received) paid	(4,829)	113

See accompanying Notes to Consolidated Financial Statements.

1. Organization and Business

On March 17, 2006, XL Capital Ltd ("XL Capital") formed Syncora Holdings Ltd. (formerly known as Security Capital Assurance Ltd), 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 Capital 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. (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 Capital and all of Syncora Guarantee Re was indirectly owned by XL Capital, except for a preferred stock interest that was owned by Financial Security Assurance Holdings Ltd. ("FSA"), an entity that is otherwise not related to XL Capital or the Company. On August 4, 2006, Syncora Holdings completed an initial public offering. In addition, XL Capital 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 Capital, 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 from its holdings. Immediately after such sale, XL Insurance owned approximately a 46% interest in Syncora Holdings. On August 5, 2008, the Company and XL Capital consummated the transactions described in Note 4 below and, as a result thereof, XL Capital transferred all of the common shares of Syncora Holdings it 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 3, 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 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 March 29, 2010, 26 states, the U.S. Virgin Islands, and the Commonwealth of Puerto Rico have suspended Syncora Guarantee's license to conduct insurance business in such states or jurisdiction, placed an order of impairment against it, or the Company voluntarily agreed to cease writing business in such states. In addition, the Company has received a proposed cease and desist order from one additional state. The Company, however, continues to collect premiums on existing business in such states and management anticipates that it will be able to continue to collect such premiums. Additional states may suspend the Company's license, place an order of impairment against it or, in lieu of a suspension or order, the Company may voluntarily agree to cease writing business in additional jurisdictions. Also, see Note 19.

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. As discussed in Note 2, the Company ceased writing substantially all new business in January of 2008.

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. Recent Developments

Recent Developments

Adverse developments in the credit markets generally and the mortgage market specifically that began in the second half of 2007 and continued through 2009 have resulted in material adverse effects on the Company's business, results of operations, and financial condition, including (i) significant adverse development of anticipated claims on the Company's guarantees, under CDS contracts written by the Company, of collateralized debt obligations ("CDOs") of asset-backed securities ("ABS CDOs") and CDO squareds (CDOs of CDOs) and significant adverse development of reserves for unpaid losses and loss adjustment expenses on the

Company's guarantees, under its insurance contracts, of residential mortgage-backed securities ("RMBS"), and (ii) downgrades of the insurance financial strength ratings of the Company's operating subsidiaries by Moody's Investors Service, Inc., Fitch Ratings and Standard & Poor's Ratings Services, which ratings had been fundamental to the Company's ability to conduct business and which downgrades have caused the Company to cease writing substantially all new business since January of 2008, resulting in the loss of possible future incremental earnings and cash flow from such new business.

During the second quarter of 2008, the Company recorded a material increase in adverse development of anticipated claims on its guarantees of ABS CDOs and reserves for unpaid losses and loss adjustment expenses on its guarantees of RMBS causing Syncora Guarantee to be unable to maintain compliance with its $65 million minimum policyholders' surplus requirement under the New York Insurance Law as of June 30, 2008. Failure to maintain positive statutory policyholders' surplus or non-compliance with the $65 million statutory minimum policyholders' surplus requirement permits the New York Superintendent of Insurance (the "New York Superintendent") to seek court appointment as rehabilitator or liquidator of Syncora Guarantee. Policyholders' surplus is based on statutory accounting practices which, for the Company, differ materially from accounting principles generally accepted in the United States of America ("GAAP"). In light of this material adverse development, on July 28, 2008 the Company, certain financial institutions that are counterparties to CDS contracts with the Company (the "Counterparties"), Merrill Lynch & Co., Inc. ("Merrill Lynch") and certain of its affiliates, and XL Capital and certain of its affiliates, entered into a Master Commutation, Release and Restructuring Agreement, dated July 28, 2008, as amended, and certain other related agreements (hereafter referred to collectively as the "2008 MTA"). The transactions comprising the 2008 MTA closed on August 5, 2008, except for the transactions comprising the FSA Master Agreement (as defined below), which closed on August 4, 2008. The transactions comprising the 2008 MTA are described in Note 4.

During the third quarter of 2008, the Company recorded further significant adverse development of its anticipated claims on its guarantees of ABS CDOs and reserves for unpaid losses and loss adjustment expenses on its guarantees of RMBS which would have caused Syncora Guarantee to be unable to maintain its compliance with its $65 million minimum policyholders' surplus requirement under the New York Insurance Law as of September 30, 2008. However, at the request of Syncora Guarantee, the New York State Insurance Department (the "NYID"), pursuant to the New York Insurance Law, granted Syncora Guarantee approval to apply certain accounting practices in connection with the preparation of its statutory financial statements for the quarter ended September 30, 2008. As a result of such approval, Syncora Guarantee reported policyholders' surplus of $83.3 million at September 30, 2008. Absent such approval, Syncora Guarantee would have reported a policyholders' surplus at September 30, 2008 of $19.1 million.

During the fourth quarter of 2008, the Company recorded a material increase in adverse development relating to anticipated claims on its guarantees of ABS CDOs and reserves for unpaid losses and loss adjustment expenses on its guarantees of RMBS. As a result of the material adverse development relating to anticipated claims on the Company's guarantees of ABS CDOs and reserves for unpaid losses and loss adjustment expenses on the Company's guarantees of RMBS recorded during 2008, Syncora Guarantee reported a policyholders' deficit of $2.4 billion as of December 31, 2008. The policyholders' deficit reported reflects the approval of the NYID to apply certain accounting practices which, absent such approvals, would have resulted in Syncora Guarantee reporting a policyholders' deficit of $2.8 billion as of December 31, 2008.

During the first quarter of 2009, the Company recorded a material increase in adverse development relating to anticipated claims on its guarantees of ABS CDOs, as well as CDO squared transactions, and reserves for unpaid losses and loss adjustment expenses on its guarantees of 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 NYID to apply certain accounting practices which, absent such approvals, would have resulted in Syncora Guarantee reporting a policyholders' deficit of $4.9 billion as of March 31, 2009.

On April 10, 2009, pursuant to Section 1310 of the New York Insurance Law, 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 statutory required minimum surplus to policyholders. Additionally, as set forth in the order, Syncora Guarantee shall not write any new business and, as of April 26, 2009, Syncora Guarantee shall suspend 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 has suspended the payment of all claims from and after April 26, 2009 and was operating only in the ordinary course.

At June 30, 2009, Syncora Guarantee reported a policyholders' deficit of $544.7 million. The decrease in Syncora Guarantee's policyholders' deficit from March 31, 2009 to June 30, 2009, resulted primarily from the recognition of certain aspects of the 2009 MTA (defined and discussed below) as of June 30, 2009; principally a reduction in reserves for unpaid losses on certain of Syncora Guarantee's guarantees to reflect the ultimate cost of the settlement thereof in connection with the 2009 MTA.

On July 15, 2009, the Company consummated a master transaction agreement with the Counterparties and 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 in Note 3 below. Also, see Note 17 for a table summarizing the Company's in-force par exposure before and after the transactions comprising the 2009 MTA.

3. Description of the Transactions Contemplated by the 2009 MTA and Related Transactions

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 transfer such contracts 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.

The consideration paid by Syncora Guarantee to the Counterparties included approximately $1.2 billion in cash (including approximately $864.4 million that had been held by the Company in a segregated account to be used for this purpose) 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 such counterparties or their designees common shares of Syncora Holdings beneficially owned by Syncora Guarantee (see Note 4) 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 "Insurance Cash Flow Certificates" on the accompanying consolidated balance sheet, $21.6 million related to the reinsurance of a particular transaction (which was novated to FSA in December 2009 – see Note 15 (c)), $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" on the accompanying consolidated balance sheet. 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 "Insurance Cash Flow Certificates" and $2.4 million related to a commutation on the accompanying consolidated balance sheet, $11.2 million has been attributed to the cost basis of Uninsured Cash Flow Certificates, which are recorded in "Debt securities" on the accompanying consolidated balance sheet.

Insurance Cash Flow Certificates are recorded at cost and income is accrued on the securities at a rate equal to their estimated yield to maturity. This yield is determined based on the same cash flow models used by the Company to estimate its reserves for unpaid losses on the policies to which such Insurance Cash Flow Certificates relate. As the expected cash flows on the certificates are revised, the yield to maturity on the certificates is adjusted prospectively.

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. A gain represented by the excess of the ultimate claims payments relating to the Insurance Cash Flow Certificates over the cost thereof will be recognized over the remaining life of the underlying policies. Should the expected ultimate claims payments relating to the Insurance Cash Flow Certificates be less than the cost thereof, a loss equal to such difference would be recognized immediately. Consequently, the Company's results of operations and shareholders' equity for any given period may not reflect the actual economics of the effective defeasance or, in-substance, commutations resulting from the Company's acquisition of Insurance Cash Flow Certificates and similar alternative structures. However, the actual ultimate reported results will reflect the economics of the transaction at the time when the exposure has expired.

Certain Other Transactions to Remediate Loss Exposure

In connection with the 2009 MTA, the Company also consummated the transactions discussed in Note 15 (c) and (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.

(U.S. dollars in millions)	Summary Balance Sheet Information Increase (Decrease)					
	(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, at amortized cost…	-	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 (c).
(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.

See Note 5 for a description of continuing risks and uncertainties affecting the Company, as well as the Company's assessment of its ability to continue as a going concern.

Total expenses (consisting of legal, investment advisory, accounting and consulting fees) incurred in connection with the transactions comprising the 2008 MTA and the work through December 31, 2009 on the transactions contemplated by the 2009 MTA aggregated $87.8 million. Of such expenses $32.3 million were recorded during the year ended December 31, 2009, as compared to $55.5 million recorded during the year ended December 31, 2008. These expenses are not included in the summary financial information presented in the tables above.

4. Description of the Transactions Comprising the 2008 MTA

Master Transaction Agreement and Merrill Agreement

The 2008 MTA provided for the termination, commutation or elimination of certain reinsurance agreements, guarantees and other arrangements among the Company and XL Capital and certain of its subsidiaries, and between the Syncora Guarantee and Syncora Guarantee Re, in exchange for a cash payment by XL Capital to the Company of $1.8 billion, the issuance and transfer of 8 million class A ordinary shares of XL Capital in the aggregate to Syncora Guarantee and Syncora Guarantee Re, and the transfer of XL Capital's common shares of Syncora Holdings to a trust (the "SCA Shareholder Entity") for the benefit of Syncora Guarantee until such time as an agreement between the Company and the Counterparties is reached, and thereafter as provided in such agreement. The 2009 MTA constituted such agreement. As a result of the transfer of the shares of Syncora Holdings, XL Capital's rights to vote, nominate directors to Syncora Holdings' and Syncora Guarantee's Boards of Directors or any other rights terminated. On the closing date of the 2008 MTA, the four XL Capital-nominated directors on Syncora Holdings' and Syncora Guarantee's Boards of Directors resigned. Effective November 19, 2008, pursuant to the shareholder agreement, the SCA Shareholder Entity appointed four members to Syncora Holdings' and Syncora Guarantee's Boards of Directors.

Concurrent with the execution of the 2008 MTA, Syncora Holdings, Syncora Guarantee and Syncora Guarantee Re entered into an agreement (the "Merrill Agreement") with Merrill Lynch, Merrill Lynch International and eight trusts affiliated with Syncora Holdings, the obligations of which were guaranteed by policies issued by the Company. The Merrill Agreement provided for the termination of eight CDS contracts and the related financial guarantee insurance policies issued by the Company with insured gross

par outstanding as of June 30, 2008 of $3.7 billion, in exchange for a payment by the Company to Merrill Lynch of an aggregate amount of $500.0 million. As part of the closing of the transactions comprising the Merrill Agreement, the parties provided mutual releases of claims with respect to the aforementioned swaps and the related policies. In addition, the Company and Merrill Lynch International agreed to dismiss previously disclosed litigation related thereto. As a result of termination of such swaps and the related policies, the Company recorded a realized loss of $94.0 million during the year ended December 31, 2008.

FSA Master Agreement

Concurrent with the execution of the 2008 MTA, the Company also entered into an agreement (the "FSA Master Agreement") with FSA. The FSA Master Agreement provided for the commutation of all reinsurance ceded by FSA and its subsidiaries to Syncora Guarantee Re, including that ceded under the amended and restated master facultative reinsurance agreement, dated as of November 3, 1998 (the "Old Master Facultative Agreement") that was the subject of a guarantee issued by XL Insurance (see Note 11). Commutation of the Old Master Facultative Agreement and all cessions thereunder was a condition to the obligations of XL Capital under the 2008 MTA. Pursuant to the FSA Master Agreement, FSA and Syncora Guarantee Re entered into the commutation and release agreement (the "FSA Commutation Agreement"), under which all existing cessions to Syncora Guarantee Re by FSA were commuted in return for a payment by Syncora Guarantee Re of $165.4 million, representing statutory reserves less ceding commission plus a commutation premium. In turn, FSA and one of its subsidiaries entered into a new master facultative reinsurance agreement (the "New Master Facultative Agreement") with Syncora Guarantee, under which FSA ceded certain of the commuted risks to Syncora Guarantee in return for a payment by FSA to Syncora Guarantee of $88.6 million, representing the statutory unearned premium reserve for such risks, less ceding commission. FSA undertook to use its best efforts to reassume such reinsurance from Syncora Guarantee for a period of time expiring in May 2009, subject to limitations under Article 69 of the New York Insurance Law, which imposes aggregate and single risk limits on insurance that can be written by a financial guarantee insurer, FSA's internal and rating agency single risk limits, other potential limitations and FSA's underwriting guidelines. Syncora Guarantee was required to fund a trust in an initial amount of $104.1 million to collateralize its obligations to FSA under the reinsurance agreement ($92.8 million as of December 31, 2009). As a result of the FSA Commutation Agreement and New Master Facultative Agreement, the Company recorded a loss of $17.9 million during the year ended December 31, 2008. Finally, Syncora Holdings purchased all class A preferred shares of Syncora Guarantee Re held by FSA and its subsidiary, with a liquidation preference of $39.0 million, for $2.9 million pursuant to an agreement for the sale and purchase of preferred shares. As a result of Syncora Holdings' purchase of the class A preferred shares of Syncora Guarantee Re, the Company recorded a gain of $36.1 million during the year ended December 31, 2008, which was recorded in retained earnings and not reflected in the Company's net loss. These class A preferred shares were subsequently cancelled.

Agreement with Counterparties

In consideration for the releases and waivers agreed to by the Counterparties as part of the 2008 MTA, Syncora Guarantee agreed to segregate an aggregate amount of $820.0 million in cash plus interest thereon, premiums paid by the counterparties to CDS contracts from July 28, 2008 through October 31, 2008 and any proceeds from the sale by the trust of the common shares of Syncora Holdings formerly owned by XL Capital (in the event such shares are sold) for the purpose of commuting, terminating, amending or otherwise restructuring existing agreements with the Counterparties pursuant to an agreement to be negotiated with the Counterparties; the 2009 MTA constitutes such agreement. Cash in the segregated account of $864.4 million was used to satisfy, in part, the Company's obligations pursuant to the 2009 MTA (see Note 3).

Related Transactions

In addition to that discussed above, the Company executed the following transactions on or about the closing date of the 2008 MTA: (i) commutation of certain retrocession agreements the Company had in place with non-affiliates, (ii) distribution from Syncora Guarantee Re of $30.8 million to Syncora Holdings, and (iii) discontinuance of Syncora Guarantee Re as a Bermuda corporation and continuance of Syncora Guarantee Re as a Delaware corporation, contribution by Syncora Holdings of all its ownership interests in Syncora Guarantee Re to Syncora Guarantee, which was followed by the merger, on September 4, 2008, of Syncora Guarantee Re with and into Syncora Guarantee with Syncora Guarantee being the surviving company.

Summary Financial Information

The following tables illustrate the effect of the transactions comprising the 2008 MTA on the accompanying consolidated balance sheet as of December 31, 2008 and the accompanying consolidated statement of operations for the year ended December 31, 2008.

Summary Balance Sheet Information
Increase/(Decrease)

(U.S. dollars in millions)	(1)	(2)	(3)	(4)	(5)	(6)	Total
Assets							
XL Capital common shares, at fair value	$ 120.6	$ —	$ —	$ —	$ —	$ —	$ 120.6
Cash and cash equivalents	1,775.0	115.6	(500.0)	(88.6)	(2.9)	(820.0)	479.1
Restricted cash and cash equivalents	—	—	—	—	—	820.0	820.0
Deferred acquisition costs	17.4	13.8	—	(10.8)	—	—	20.4
Prepaid reinsurance premiums	(38.4)	(47.4)	—	—	—	—	(85.8)
Reinsurance balances receivable	(100.0)	(1.3)	—	—	—	—	(101.3)
Reinsurance balance recoverable on unpaid losses	(82.3)	(59.2)	—	—	—	—	(141.5)
Credit default swap contracts, at fair value	(140.0)	(177.2)	—	—	—	—	(317.2)
Total assets	$ 1,552.3	$ (155.7)	$ (500.0)	$ (99.4)	$ (2.9)	$ —	$ 794.3
Liabilities							
Unpaid losses and loss adjustment expenses	$ —	$ —	$ —	$ (7.7)	$ —	$ —	$ (7.7)
Deferred premium revenue	—	—	—	(27.9)	—	—	(27.9)
Credit default swap contracts, at fair value	—	—	(406.0)	—	—	—	(406.0)
Reinsurance premiums payable	(11.1)	(1.1)	—	(45.9)	—	—	(58.1)
Total liabilities	(11.1)	(1.1)	(406.0)	(81.5)	—	—	$ (499.7)
Minority interest							
Series A redeemable preferred shares of subsidiary	—	—	—	—	(39.0)	—	(39.0)
Shareholders' equity							
Common shares	1,618.2	—	—	—	—	61.6	1,679.8
Treasury stock	—	—	—	—	—	(61.6)	(61.6)
Accumulated deficit	(54.8)	(154.6)	(94.0)	(17.9)	36.1	—	(285.2)
Total shareholders' (deficit) equity	1,563.4	(154.6)	(94.0)	(17.9)	36.1	—	1,333.0
Total liabilities, minority interest and shareholders' (deficit) equity	$ 1,552.3	$ (155.7)	$ (500.0)	$ (99.4)	$ (2.9)	$ —	$ 794.3

Summary Income Statement Information
Increase/(Decrease)

(U.S. dollars in millions)	(1)	(2)	(3)	(4)	(5)	Total
Revenues						
Change in fair value of credit default swap contracts						
Realized gains and (losses) and other settlements	$ 66.8	$ 65.4	$ (500.0)	$ —	$ —	$ (367.8)
Unrealized (losses) gains	(140.0)	(177.2)	406.0	—	—	88.8
Net change in fair value of derivatives	(73.2)	(111.8)	(94.0)	—	—	(279.0)
Total revenues	(73.2)	(111.8)	(94.0)	—	—	(279.0)
Expenses						
Gain (loss) on commutation of reinsurance agreements	18.4	(42.8)	—	(17.9)	—	(42.3)
Total expenses	18.4	(42.8)	—	(17.9)	—	(42.3)
Net loss	(54.8)	(154.6)	(94.0)	(17.9)	—	(321.3)
Gain on redemption of Series A redeemable preferred shares of subsidiary	—	—	—	—	36.1	36.1
Net loss available to common shareholders	$ (54.8)	$ (154.6)	$ (94.0)	$ (17.9)	$ 36.1	$ (285.2)

(1) Represents effect of termination, commutation or elimination of certain reinsurance agreements and other arrangements between the Company and XL Capital (see Note 11).

(2) Represents the effect of the commutation of certain retrocession agreements in place with non-affiliates of the Company.

(3) Represents the effect of terminating the CDS issued to Merrill Lynch and Merrill Lynch International by Syncora Guarantee.

(4) Represents the effect of commuting the Old Master Facultative Reinsurance Agreement and entering into the New Master Facultative Agreement.

(5) Represents the effect of repurchasing the class A preferred shares of Syncora Guarantee Re.

(6) Represents the effect of the transfer by XL Capital of its shares of Syncora Holdings to Syncora Guarantee, as well as the amount of cash restricted pursuant to the agreement to hold an aggregate amount of $820.0 million in cash plus interest and premiums for the purpose of commuting, terminating, amending, or otherwise restructuring existing agreements with Counterparties.

5. Description of Continuing 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

Continuing Risks and Uncertainties

Given the significant uncertainties discussed below and the fact that the Company has a $1.4 billion shareholders' deficit and its capitalization after the 2009 MTA includes debt with a face value of $625 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 its common shareholders and cautions investors that an investment therein is extremely speculative and is likely to result in a loss of all of their investment. Additionally, given the risks outlined herein, including those respecting Syncora Guarantee's liquidity and surplus position, the Company cautions investors that investment in its preferred shares and 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.

- As a result of the 2009 MTA, Syncora Guarantee's liquid assets (comprised of its total cash and invested assets) have been materially reduced. Also, since the closing of the 2009 MTA, the Company has experienced significant adverse development on its insured obligations that has placed further demands on the Company's near term liquidity. Furthermore, a substantial portion of Syncora Guarantee's case reserves relate to claims currently due or anticipated to become due in the current year. As discussed in Note 2 above, Syncora Guarantee is currently subject to a NYID order prohibiting it from paying claims. Prior to the resumption of claims payments Syncora Guarantee will be required to take certain actions in order to satisfy its anticipated liquidity needs during the next twelve months. Some of these actions may be outside of the ordinary course of the Company's operations or its control and certain of such actions will likely require consents or approvals of parties outside the control of the Company, including the NYID, which will make its own independent assessment as to whether such actions satisfy regulatory required liquidity levels. No assurances can be given that the Company will be successful in pursuing such actions or in obtaining such consents or approvals or effectuating such actions in a timely manner or at all. In addition, certain of these actions, if taken to improve Syncora Guarantee's liquidity, could have a material adverse effect on Syncora Guarantee's policyholders' surplus. If the Company is not able to satisfy its anticipated liquidity needs through these actions or otherwise, the Company will likely be unable to pay its obligations as they come due or otherwise maintain regulatory required liquidity levels. As of December 31, 2009, the amount of claims which Syncora Guarantee has not paid as a result of the NYID order requiring it to suspend claim payments, and which Syncora Guarantee expects to pay once such order is lifted by the NYID, aggregated $555.4 million, of which $359.0 million is expected to be returned to the Company as a result of receipts from Insurance Cash Flow Certificates (see Note 3).

- Future adverse loss development may have a material adverse effect on Syncora Guarantee's financial position and results of operations, potentially causing Syncora Guarantee to report a statutory policyholders' deficit or not to comply with the statutory minimum policyholders' surplus or to seek to effect additional restructuring in the near term to remediate losses. There can be no assurance that were such adverse loss development to occur, the Company would be able to effect any such restructuring in a timely manner or at all. In addition, because of Syncora Guarantee's limited surplus and liquidity as of December 31, 2009, it is possible that, were such adverse loss development to occur, Syncora Guarantee could become insolvent in the near term.

- The Company continues to be materially exposed to risks associated with any continuing deterioration in the residential mortgage market, as well as the spread of such deterioration to other sectors of the economy to which the Company has material business exposure, including the commercial mortgage market and corporate loan market. 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 the Company may incur on obligations it has guaranteed, and (ii) potential losses the Company may incur on its invested assets and the assets it holds as a result of transactions comprising the 2009 MTA (*e.g.,* Uninsured Cash Flow Certificates).

- 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 and amount of a loss on a guaranteed obligation. Actual experience may, and likely will, differ from those estimates and such differences 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 (including the shape of the forward interest rate curve), credit deterioration of guaranteed obligations, and changes in the value of specific assets supporting guaranteed obligations. Both qualitative and quantitative factors are used in making such estimates. 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 most significant assumption underlying the Company's estimate of ultimate losses on its guarantees of RMBS is its assumption regarding the expected cumulative loss on mortgage loan collateral supporting such securities. The most uncertain component of that assumption is the future performance of currently performing (non-delinquent) mortgage loan collateral. If the actual rate at which currently performing loans become delinquent is materially greater than assumed, there will be a material adverse effect on the Company's estimate of ultimate losses on the aforementioned guarantees and, accordingly, its financial position and results of operations. The Company's estimate of ultimate losses on its guarantees of RMBS obligations supported by home equity line of credit ("HELOC") and closed end second lien ("CES") mortgage loan collateral is largely dependent on the Company's default rate assumption. In this regard, at December 31, 2008, the Company had assumed that the peak defaults would occur in mid-2009 and continue until early 2010 with a return to a steady-state by the end of 2010. At December 31, 2009, the Company extended the peak period by at least one quarter. If actual loan performance improves later than assumed or does not improve as much as expected, there will be a material adverse effect on the Company's ultimate losses on its guarantees of obligations supported by HELOCs and CES mortgage loan collateral and, accordingly, its financial position and results of operations. If the plateau were one quarter longer it would result in an increase in expected unpaid loss of approximately $31.1 million. If the plateau were one year longer the expected loss would increase by approximately $103.6 million. The Company's default assumptions for the first lien transactions are based on current delinquent loans and analysis of historical defaults for loans with similar characteristics. A loss severity is applied to the first lien defaults ranging from 43% to 78% to determine the expected loss on the collateral in those transactions. The Company uses traditional default and prepayment curves to model its unpaid loss. See Note 15 (a) for further information.

- In connection with 2009 MTA, Syncora Guarantee entered into a letter of intent and term sheet with certain banking institutions to commute approximately $0.5 billion of its total exposure of $1.1 billion to sewer revenue warrants issued by Jefferson County, Alabama which Syncora Guarantee insured during 2002 and 2003 and for which the banking institutions provided a liquidity facility. Notwithstanding the expiration of the July 31, 2009 deadline to reach a final agreement, Syncora Guarantee continues to negotiate with the aforementioned banking institutions to reach a final agreement consistent with the terms of the letter agreement and associated term sheet. There can be no assurance that Syncora Guarantee and the banking institutions will reach an agreement consistent with the terms of the letter agreement and associated term sheet or at all. Absent a settlement agreement, Syncora Guarantee may be required to make significant claim payments in the future which will have a material adverse effect on its liquidity. Notwithstanding the settlement, the Company will continue to have significant exposure to other obligations issued by Jefferson County. See Note 15 (b).

- The continued suspension of, or failure to make, claim payments by Syncora Guarantee (see discussion of regulatory and legal matters discussed above) or failure to make claim payments upon the claims suspension order of the NYID being lifted 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 suspension or failure to make claim payments. Further, there can be no assurance when, or if, the Company will resume paying claims.

- As a result of the RMBS Offer, alternative transactions effectively replicating the RMBS Offer and direct purchases of RMBS following the completion of the 2009 MTA, the Company 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 the Company to receive payments on its Insured Cash Flow Certificates. Failure of the Company to receive these payments would have a material adverse effect on the Company (see Note 3).

- Syncora Holdings and Syncora Guarantee are 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 Syncora Holdings or Syncora Guarantee to take or refrain from taking actions which could adversely affect their business or could require them 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 for further information regarding litigation involving Syncora Holdings and Syncora Guarantee.

- 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 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 or is restricted from making payments to Syncora Guarantee, it may have a material adverse effect on Syncora Guarantee's liquidity.

The Company's Ability to Continue as a Going Concern

In management's opinion, the principal factors affecting the Syncora Holdings' and Syncora Guarantee's ability to continue as going concerns are the companies' ability to maintain adequate liquidity and the risk of adverse loss development on Syncora Guarantee's or Syncora Capital Assurance's remaining in-force business.

As a result of uncertainties associated with the aforementioned factors affecting Syncora Holdings' and Syncora Guarantee's ability to continue as a going concern, management has concluded that there is substantial doubt about the ability of Syncora Holdings and Syncora Guarantee to continue as going concerns. The Company's financial statements as of and for the years ended December 31, 2009 and 2008 are prepared assuming Syncora Holdings and Syncora Guarantee continue as going concerns and do not include any adjustment that might result from their inability to continue as going concerns.

Ongoing Strategic Plan

As the Company has ceased writing new business since January of 2008 and is restricted from writing new business pursuant to certain agreements (including the 2009 MTA) and undertakings with regulators, management is principally focused on: (i) maintaining or enhancing the Company's liquidity and statutory basis surplus to policyholders, and (ii) remediating deteriorated insured exposures to minimize claim payments, maximize recoveries and mitigate ultimate expected losses.

In seeking to reduce exposure to its guaranteed exposures and otherwise improve the Company's financial position and liquidity, the Company may from time to time, directly or indirectly, seek to purchase (on the open market or otherwise) or commute, defease or restructure its guaranteed exposures. The amount of exposure reduced and the nature of any such actions will depend on market conditions, pricing levels, the Company's cash position, and other considerations.

6. Summary of Significant Accounting Policies

Basis of Presentation and Consolidation

The accompanying Consolidated Financial Statements present the historical consolidated financial position, results of operations and cash flows of the Company. These Consolidated Financial Statements have been prepared in conformity with 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, deferred acquisition costs, investments, and reserves for losses and loss adjustment expenses, as discussed in this note. 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 March 31, 2010, the date the financial statements were issued.

In May 2008, the Financial Accounting Standards Board ("FASB") issued new accounting guidance for financial guarantee insurance and reinsurance contracts which was effective prospectively as of January 1, 2009. This accounting guidance, known as Accounting Standards Codification ("ASC") 944-20 ("ASC 944-20"), *Financial Services-Insurance* (see Note 9), 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 included within the scope of ASC 815, *Derivatives and Hedging* ("ASC 815"). Refer to Note 9 for disclosures related to premiums and Note 15 for disclosures related to loss reserves. The cumulative effect of the adoption of ASC 944-20 was a $224.4

million after-tax increase in the Company's accumulated deficit as of January 1, 2009 (see "*Cumulative Transition Adjustment*" below for details thereof). As a result of the adoption of ASC 944-20, premium earnings and related unearned premium revenue, and losses and loss adjustment expenses and related reserves for unpaid losses and loss adjustment expenses, presented in the accompanying financial statements as of December 31, 2009 and 2008 and for the years then ended, are not comparable.

A description of the Company's significant accounting policies are set forth below. A summary of the cumulative transition adjustment recognized from the adoption of ASC 944-20 follows these descriptions.

Investments

All of the Company's investments in debt 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 appreciation or depreciation on investments, net of deferred income taxes, is included in accumulated other comprehensive income (loss). Any unrealized depreciation 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

In accordance with ASC 944-20, 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 ASC 944-20, which was effective prospectively as of January 1, 2009, recognition of unearned premium revenue was the same as under ASC 944-20 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 ASC 944-20, there was no recognition of receivables for future premiums that were not due.

Premium Revenue Recognition

In accordance with ASC 944-20, 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 ASC 944-20, 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 ASC 944-20, 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 ASC 944-20, 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 ASC 944-20, 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 also Note 15. Prior to the adoption of ASC 944-20, 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 ASC 944-20, 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, 2009 was 1.4% and 2.2%, respectively. In accordance with ASC 944-20, 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 ASC 944-20, 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 ASC 944-20, 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 ASC 944-20, 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.

Variable Interest Entities

The Company insured obligations issued by variable interest entities ("VIEs"). The Company provided financial guarantee insurance of structured transactions backed by pools of assets of specified types, municipal obligations supported by the issuers' ability to charge fees for specified services or projects, and corporate risk obligations including essential infrastructure projects and obligations backed by receivables from future sales of commodities and other specified services. The obligations related to these transactions were often securitized through VIEs. In synthetic transactions, the Company guaranteed payment obligations of counterparties, including VIEs, through CDS contracts referencing asset portfolios. The Company only provided financial guarantee insurance of these VIEs for premiums at market rates but did not hold any equity positions or subordinated debt in these off-balance sheet arrangements. These financial guarantee contracts represent variable interests held by the Company in VIEs.

In underwriting financial guarantees, the Company generally required that guaranteed obligations be investment-grade prior to the provision of credit enhancement. Typically, in the case of ABS and other structured obligations, such investment grade ratings were based upon subordination, cash reserves and other structural protections. Consequently, the Company determined that it is not the primary beneficiary of any VIEs in which it holds a variable interest. Accordingly, these VIEs are not consolidated by the Company.

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, 2009 and 2008, respectively.

Cumulative Transition Adjustment

Upon the adoption and implementation of the new accounting guidance for financial guarantee insurance and reinsurance contracts discussed above, the Company recorded a cumulative transition adjustment of $224.4 million as an increase to its accumulated deficit as of January 1, 2009. The cumulative transition adjustment represents the recognized changes in assets and liabilities resulting from the adoption of the standard.

The following table summarizes the adjustments made to the Company's consolidated assets and liabilities as of January 1, 2009.

(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' (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	2,688,127	-	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' (deficit) equity	463,366	(224,430)	238,936
Total shareholders' (deficit) equity	709,959	(224,430)	485,529
Total shareholders' equity (deficit)	729,959	(224,430)	505,529
Total liabilities and shareholders' equity	$ 3,900,934	$ 550,482	$ 4,451,416

Recent Accounting Pronouncements

In June 2009, the FASB issued ASC ("Codification") and the hierarchy of GAAP ("ASC 105-10"). The Codification is now the single source of authoritative GAAP applied by nongovernmental entities and supersedes all existing non-Securities and Exchange Commission accounting and reporting standards. The Codification is effective for the Company for financial statements issued for interim and annual periods ending after September 15, 2009. The Codification is not intended to change GAAP but rather reorganize divergent accounting literature into an accessible and user-friendly system which materially affects cited references of GAAP in the Company's Notes to Consolidated Financial Statements.

In May 2009, the FASB issued accounting guidance for subsequent events ("ASC 855-10") which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued. The accounting guidance is effective for the Company in the interim and annual periods ending after June 15, 2009 and should be applied prospectively. The Company adopted this standard as of the second quarter of 2009. The adoption of this standard did not have any effect on the Company's financial position, results of operations or cash flows.

In April 2009, the FASB issued accounting guidance that amends fair value measurements and disclosures ("ASC 820-10") for determining the fair value when the volume and level of activity for the asset or liability have significantly decreased and for

identifying transactions that are not orderly. This standard provides additional guidance to highlight and expand on the factors that should be considered when there has been a significant decrease in market activity for a financial asset or financial liability being measured. The accounting guidance also provides additional factors that entities should consider to determine whether events or circumstances indicate that a transaction is or is not orderly (*i.e.*, distressed). The Company adopted this standard as of the second quarter of 2009. The adoption of this standard did not have a material effect on the Company's financial position, results of operations or cash flows.

In April 2009 the FASB issued ASC Topic 320, *Investments – Debt and Equity Securities* ("ASC 320") which amends the recognition criteria for other-than-temporary impairment guidance to improve the presentation of other-than-temporary impairments in the financial statements. This accounting guidance replaced the requirement that the entity's management assert it has both the ability and intent to hold an impaired security until recovery with a requirement that management assert (a) it does not have the intent to sell the security and (b) it is more likely than not it would not have to sell the security before recovery of its cost basis. When these two criteria are not met, then an other-than-temporary impairment charge must be recognized in earnings, with the amortized cost of the security being written-down to fair value. If these conditions are met, but it is determined that a credit loss exists, the impairment is separated into the amount related to the credit loss, which is recognized in earnings, and the amount related to all other factors, which is recognized in other comprehensive income. The Company adopted this standard as of the second quarter of 2009. The adoption thereof had no effect on the Company's financial position, results of operations or cash flows.

In April 2009, the FASB issued accounting guidance for interim disclosures about financial instruments ("ASC 825-10") to require disclosures about the fair value of financial instruments in interim and annual financial statements, and the method(s) and significant assumptions used to estimate the fair value of those financial instruments. The accounting guidance also requires those disclosures in all interim financial statements ("ASC 270-10"). The Company adopted this standard in the second quarter of 2009. As the standard requires only additional disclosures, the adoption did not have any effect on the Company's financial position, results of operations or cash flows.

The FASB adopted ASC 815-10, *Derivatives and Hedging*, and ASC 460-10, *Guarantees*, to address concerns that current derivative disclosure requirements did not adequately address the potential adverse effects that these instruments can have on the financial performance and operations of an entity. Companies will be required to provide enhanced disclosures about their derivative activities to enable users to better understand: (1) how and why a company uses derivatives, (2) how it accounts for derivatives and related hedged items, and (3) how derivatives affect its financial statements. These disclosures should include the terms of the derivatives, collateral posting requirements and triggers, and other significant provisions that could be detrimental to earnings or liquidity. Management believes that the Company's current derivatives disclosures are in compliance with the requirements of these pronouncements.

In August 2009, the FASB issued accounting guidance for measuring liabilities at fair value ("ASU 2009-05") to clarify that in circumstances in which a quoted price in an active market for the identical liability is not available, the Company should not make an adjustment to fair value for restrictions that prevent the transfer of a liability. The Company adopted this standard as of December 31, 2009. The adoption did not have any effect on the Company's financial position, results of operations or cash flows.

In June 2009, the FASB issued FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R),* ("FASB 167") which has not yet been incorporated into the Codification, to include qualifying special purpose entities in its scope and to require the holder of a variable interest(s) in a VIE to determine whether it holds a controlling financial interest in the VIE. A holder of a variable interest (or combination of variable interests) that provides a controlling financial interest in a variable interest entity is considered the primary beneficiary and is required to consolidate the variable interest entity. The accounting guidance deems controlling financial interest as both (a) the power to direct the activities of a variable interest entity that most significantly effects the variable interest entity's economic performance and (b) the obligation to absorb losses or the rights to receive benefits of the variable interest entity that could potentially be significant to the variable interest entity. The accounting guidance eliminates the quantitative approach for determining the primary beneficiary of a variable interest entity. The accounting guidance will require an ongoing reassessment of whether a holder of a variable interest is the primary beneficiary of a variable interest entity and is effective for the Company as of January 1, 2010. Early application is prohibited. The Company is currently evaluating the potential effect of adopting this guidance.

In December 2007, the FASB issued accounting guidance for consolidation ("ASC 810-10") which requires reporting entities to present non-controlling (minority) interest as equity (as opposed to liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and non-controlling interests. The presentation and disclosure requirements are to be applied retrospectively. The Company adopted the prescribed guidance on January 1, 2009 which resulted in preferred stock issued by a subsidiary to be reclassified from minority interest to a separate component of equity. The adoption did not have a material effect on the Company's consolidated results of operations or cash flows.

In June 2009, the FASB issued Statement No. 166, which has not yet been incorporated into the Codification, 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 Company is currently evaluating the potential effect of adopting this guidance.

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 4, 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 3, 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 in accordance with ASC 815 and, effective January 1, 2008, measured in accordance with ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"), with changes in fair value during the period included in earnings. ASC 820 specifies a fair value hierarchy based on whether the inputs to valuation techniques used to measure fair value are observable or unobservable. 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. In accordance with ASC 820, 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 in accordance with ASC 820 and its ability to pay (see Note 5). 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 of 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 rage) of expected contractual payments and (ii) the present value (using a discounted rate based on the Company's credit) of calculated current market premiums.

In connection with the 2009 MTA, all of the Company's CDS contracts on ABS CDOs were restructured, defeased or, in-substance, commuted. For such CDS contracts at December 31, 2008, the Company utilized non-binding broker quotes on the underlying obligations to project principal and interest shortfalls and the timing of such shortfalls. The Company then discounted the shortfalls using a Company-specific discount rate and netted from this the discounted expected premium using a counterparty discount rate (based on the published credit spreads of the counterparty), to arrive at the fair value of the CDS.

The basis of management's estimate of the fair value of the Company's CDS contracts at December 31, 2009 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, as required under ASC 820, 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 ("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 in April of 2009 due to Syncora Guarantee's suspension of claim payments (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, as of December 31, 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, 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, 2009 and December 31, 2008, 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.

(U.S. dollars in millions)	As of December 31, 2009			As of December 31, 2008	
	Syncora Guarantee	Syncora Capital Assurance	Consolidated	Syncora Guarantee	Consolidated
Fair value of CDS contracts, before giving effect to Non-Performance Risk	$ 73.2	$ 1,574.5	$ 1,647.7	$ 14,954.4	$ 14,954.4
Less:					
Non-Performance Risk	60.6	462.6	523.2	14,229.7	14,229.7
Fair value of CDS contracts, after giving effect [(1)] to Non-Performance Risk	$ 12.6	$ 1,111.9	$ 1,124.5	$ 724.7	$ 724.7
Notional amount outstanding	$ 2,951	$ 39,467	$ 42,418	$ 56,220	$ 56,220
Weighted average life (years)	4.4	9.2	8.9	12.3	12.3
Percentage of referenced assets by rating [(2)]					
AAA	57.8%	68.3%	66.7%	60.0%	60.0%
At or above investment grade but below AAA	0.0%	26.2%	24.8%	18.0%	18.0%
Below investment grade	42.2%	5.5%	8.5%	22.0%	22.0%
	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 3.

[(2)] 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, 2009 and December 31, 2008, respectively, by level within the fair value hierarchy of ASC 820. As required by ASC 820, 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)	December 31, 2009 Level 1	Level 2	Level 3	Total
Financial assets:				
Credit default swap contracts	$ —	$ —	$ 81,590	$ 81,590
Financial liabilities:				
Credit default swap contracts	$ —	$ —	$ 1,206,100	$ 1,206,100

(U.S. dollars in thousands)	December 31, 2008 Level 1	Level 2	Level 3	Total
Financial assets:				
Credit default swap contracts	$ —	$ —	$ 62,546	$ 62,546
Financial liabilities:				
Credit default swap contracts	$ —	$ —	$ 814,304	$ 814,304

The following table presents the changes in the net liability for CDS contracts for the years ended December 31, 2009 and 2008:

(U.S. dollars in thousands)	Year Ended December 31, 2009	2008
Balance, beginning of period	$ (751,758)	$ (1,346,099)
Total realized and unrealized gains/(losses) included in earnings	(1,734,483) [(1)]	422,050
Purchases, issuances, and settlements	1,351,030	199,160
Other	10,701	(26,869)
Balance, end of period	$ (1,124,510)	$ (751,758)
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	$ (383,453)	$ 621,210

(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 3.

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, 2009 and December 31, 2008, respectively:

(U.S. dollars in thousands)	Year Ended December 31, 2009 Realized Gains and Losses and Other Settlements	2009 Unrealized Gains and Losses	2008 Realized Gains and Losses and Other Settlements	2008 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	$ (1,351,030)[(1)]	$ (383,453)[(2)]	$ (199,160)[(1)]	$ 621,210 [(2)]
Change in realized/unrealized gains or losses relating to the assets still held at the reporting date	$ (42,911)	$ (383,453)	$ (61,625)	$ 639,455

(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, 2009 and 2008:

(U.S. dollars in thousands)	Year Ended December 31, 2009	Year Ended December 31, 2008
Change in fair value of credit default swap contracts :		
Realized gains (losses) and other settlements:		
Net CDS contract premiums received and receivable	$ 42,911	$ 61,625
Net CDS contract losses paid and payable	(1,393,941)	(260,785)
Total realized gains and losses and other settlements	(1,351,030) [1]	(199,160)
Unrealized losses:		
Change in fair value of CDS contracts	(383,453) [2]	621,210
Net change in fair value of credit default swap contracts[3]	$ (1,734,483)	$ 422,050

[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 3.
[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 3.
[3] Change in realized/unrealized gains or losses relating to the assets still held was $426.8 for the year ended December 31, 2009 and $577.8 for the year ended December 31, 2008.

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 3, 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 of ASC 820, 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, 2009	Carrying Value At December 31, 2009	Estimated Yield to Maturity
7/15/2009	5.00% **(a)**	12/28/2011	$ 153,479,167	$ 91,155,000	$ 6,232,163	$ 97,387,163	31.88%
7/15/2009	6.00% **(b)**	6/27/2024	488,220,833	49,875,000	16,943,083	66,818,083	31.88%
			$ 641,700,000	$ 141,030,000	$ 23,175,246	$ 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

The Company records premiums related to financial guarantee (non-derivative) insurance policies in accordance with ASC 944-20. Refer to Note 6 for a description of the Company's accounting policy for insurance premiums and the effect of the adoption of ASC 944-20 on the Company's financial statements.

As of December 31, 2009, the Company reported a premium receivable of $454.9 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 12.7 years. For the year ended December 31, 2009, the accretion of the premium receivable was $10.3 million and is reported in "Premiums earned" on the accompanying consolidated statement of operations. As of December 31, 2009, the Company reported a reinsurance premium payable of $2.7 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, 2009:

(U.S. dollars in thousands)

				Adjustments			
Premium Receivable as of December 31, 2008	**ASC 944-20 Transition Adjustment**	**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, 2009**
$ 6,909	$ 499,968	$ (58,221)	$ -	$ -	$ 10,314	$ (4,022)	$ 454,948

The following table presents, as of December 31, 2009, 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 $57.4 million (on a present value basis) relating to assumed reinsurance business at December 31, 2009:

(U.S. dollars in thousands)	**Expected Collection of Premiums**
Three months ended:	
March 31, 2010	$ 8,224
June 30, 2010	9,140
September 30, 2010	7,873
December 31, 2010	6,166
Twelve months ended:	
December 31, 2011	26,541
December 31, 2012	22,704
December 31, 2013	20,257
December 31, 2014	18,369
Five years ended:	
December 31, 2019	76,980
December 31, 2024	59,927
December 31, 2029	45,523
December 31, 2034	38,363
December 31, 2039	26,753
December 31, 2044	13,087
December 31, 2049	7,823
December 31, 2054	3,987
December 31, 2059	522
Total	$ 392,239

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 $138.5 million relating to assumed reinsurance business at December 31, 2009.

(U.S. dollars in thousands)	Unearned Premium Revenue	Expected Premium Earnings			
		Upfront	Installments	Accretion	Total
Three months ended:					
March 31, 2010	$ 897,711	$ 9,478	$ 9,688	$ 2,843	$ 22,009
June 30, 2010	879,334	9,298	9,078	2,806	21,182
September 30, 2010	861,724	9,166	8,443	2,752	20,361
December 31, 2010	844,609	9,093	8,022	2,693	19,808
Twelve months ended:					
December 31, 2011	779,801	35,321	29,487	10,326	75,134
December 31, 2012	720,729	33,663	25,409	9,616	68,688
December 31, 2013	666,181	31,924	22,625	8,958	63,507
December 31, 2014	615,270	30,523	20,388	8,362	59,273
Five years ended:					
December 31, 2019	400,738	131,725	82,806	33,957	248,488
December 31, 2024	248,363	93,190	59,185	23,294	175,669
December 31, 2029	150,176	58,372	39,815	15,680	113,867
December 31, 2034	84,809	36,470	28,897	9,799	75,166
December 31, 2039	46,565	19,726	18,518	5,173	43,417
December 31, 2044	28,464	9,720	8,381	2,503	20,604
December 31, 2049	15,736	8,193	4,535	1,065	13,793
December 31, 2054	4,410	9,253	2,073	303	11,629
December 31, 2059	—	4,153	257	8	4,418
Total		$ 539,268	$ 377,607	$ 140,138	$ 1,057,013

The following sets forth the components of premiums earned for the years ended December 31, 2009 and 2008:

(U.S. dollars in thousands)	Year Ended December 31, 2009	Year Ended December 31, 2008
Gross premiums written	$ (32,572)	$ 79,358
Reinsurance premiums assumed	(584)	(29,355)
Total premiums written	(33,156)	50,003
Change in direct unearned premium revenue	156,945	186,289
Change in assumed unearned premium revenue	12,759	50,529
Gross premiums earned	136,548	286,821
Reinsurance premiums ceded	(873)	(398)
Change in prepaid reinsurance premiums	(301)	(7,052)
Ceded premiums earned	(1,174)	(7,450)
Net premiums earned	$ 135,374	$ 279,371

For the years ended December 31, 2009 and 2008, net premiums earned include $17.3 million and $130.6 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 3).

10. Investments

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

The amortized cost and fair value of investments as of December 31, 2009 and 2008 are as follows:

(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] Includes $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.

(U.S. dollars in thousands)	December 31, 2008			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
Mortgage- and asset-backed securities	$ 1,045,944	$ 13,595	$ (831)	$ 1,058,708
U.S. Government and government agencies	268,981	33,409	—	302,390
Corporate	608,724	9,242	(377)	617,589
Non-U.S. sovereign government	5,955	398	—	6,353
U.S. states and political subdivisions of the states	815	—	(113)	702
Total debt securities	$ 1,930,419	$ 56,644	$ (1,321)	$ 1,985,742

The change in net unrealized gains consists of changes in the valuation of debt securities of $0.1 million and $36.7 million for the years ended December 31, 2009 and 2008, respectively.

Proceeds from sales of debt securities for the years ended December 31, 2009 and 2008 were $970.3 million and $100.5 million, respectively.

The amortized cost and fair value of bonds at December 31, 2009 and 2008 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.

(U.S. dollars in thousands)	December 31, 2009	
	Amortized Cost	Fair Value
Due within one year	$ 28,044	$ 28,609
Due after one through five years	292,491	309,469
Due after five through ten years	216,116	233,505
Due after ten years	33,662	35,457
Subtotal	570,313	607,040
Mortgage- and asset-backed securities	326,341	345,058
Total	$ 896,654	$ 952,098

Net investment income is derived from the following sources:

(U.S. dollars in thousands)	2009	2008
Debt securities and cash and cash equivalents	$ 94,320	$ 135,184
Less: Investment expenses	(1,689)	(2,902)
Net investment income	$ 92,631	$ 132,282

The gross realized gains and gross realized (losses) for the years ended December 31, 2009 and 2008 were $164.3 million and ($118.2) million and $2.1 million and ($242.5) million, respectively.

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.

Prior to April 1, 2009, if the Company believed the decline to be "other than temporary," the Company wrote down the carrying value of the investment and recorded a realized loss in the Company's consolidated statements of operations.

As of April 1, 2009, new accounting guidance was issued requiring 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 to be 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 statement of operations.

Beginning April 1, 2009 the Company recognizes an other-than-temporary impairment loss in the consolidated statement 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.

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, 2009 and 2008, the Company recorded other than temporary impairment charges of $78.6 million and $238.9 million, respectively. The other-than-temporary impairment charge recorded by the Company during the year ended December 31, 2009, was 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 other-than-temporary impairment charge recorded during the year ended December 31, 2008, was due to fact that the Company was not able to assert that it had the intent and ability to hold securities in an unrealized loss position until they mature or recover in value. The Company’s inability to make such assertion was due to its expectation that it would consummate the 2009 MTA. See Note 3.

The following tables present the aggregate gross unrealized losses and fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2009 and 2008, respectively:

	December 31, 2009								
	Less than 12 months			12 months or more			Total		
(U.S. dollars in thousands)	Fair Value	Unrealized Loss	Number of Securities	Fair Value	Unrealized Loss	Number of Securities	Fair Value	Unrealized Loss	Number of Securities
Description of securities									
Mortgage- and asset-backed securities ...	$ 17,270	$ (303)	11	$ —	$ —	—	$ 17,270	$ (303)	11
U.S. Government and government agencies ...	2,978	(24)	1	—	—	—	2,978	(24)	1
Corporate ...	13,165	(329)	3	—	—		13,165	(329)	3
U.S. states and political subdivisions	—	—	—	—	—	—	—	—	—
Non-U.S. sovereign government ...	2,980	(11)	1	—	—	—	2,980	(11)	1
Total debt securities ...	$ 36,393	$ (667)	16	$ —	$ —	—	$ 36,393	$ (667)	16

	December 31, 2008								
	Less than 12 months			12 months or more			Total		
(U.S. dollars in thousands)	Fair Value	Unrealized Loss	Number of Securities	Fair Value	Unrealized Loss	Number of Securities	Fair Value	Unrealized Loss	Number of Securities
Description of securities									
Mortgage- and asset-backed securities ...	$ 5,043	$ (800)	12	$ 1,006	$ (31)	4	$ 6,049	$ (831)	16
U.S. Government and government agencies ...	—	—	—	—	—	—	—	—	—
Corporate ...	9,787	(377)	23	—	—		9,787	(377)	23
U.S. states and political subdivisions	340	(27)	1	361	(86)	1	701	(113)	2
Non-U.S. sovereign government ...	—	—	—	—	—	—	—	—	—
Total debt securities ...	$ 15,170	$ (1,204)	36	$ 1,367	$ (117)	5	$ 16,537	$ (1,321)	41

The following tables present the fair value of the Company's investments as of December 31, 2009 and 2008 based on the fair value hierarchy level of the inputs used to determine the fair value of such investments as prescribed under ASC 820. See Note 7 for a description of the fair value hierarchy requirements of ASC 820.

(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 Year Ended December 31, 2009:

	Debt securities available for sale:		
	Mortgage- and asset-backed securities	Corporate	Total
Balance, beginning of period…	$ -	$ 2,098	$ 2,098
Realized gains/(losses)…	(69,243)	1,242	(68,001)
Unrealized gains/(losses) included in earnings…	-	-	-
Unrealized gains/(losses) included in OCI…	-	-	-
Purchases, sales, issuances and settlements, net…	124,091	(3,340)	120,751
Transfers in (out) of Level 3, net…	-	-	-
Ending balance…	$ 54,848	$ -	$ 54,848
Change in unrealized gains/(losses) for the period included in earnings for assets still held as of December 31, 2009…	$ -	$ -	$ -

(U.S. dollars in thousands)	As of December 31, 2008	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	$ 1,058,709	$ —	$ 1,058,709	$ —
U.S. Government and government agencies	302,390	190,836	111,554	—
Corporate	617,589	—	615,491	2,098
U.S. states and political subdivisions	701	—	701	—
Non-U.S. sovereign government	6,353	—	6,353	—
Equity securities [(1)]	22,720		22,720	—
Cash equivalents and restricted cash equivalents	1,455,737	1,451,738	3,999	—
Total	$ 3,464,199	$ 1,642,574	$ 1,819,527	$ 2,098

[(1)] Represents 8 million class A ordinary shares of XL Capital received by the Company in connection with the transactions comprising the 2008 MTA. See Note 4.

Changes in Level 3 Assets Measured at Fair Value on a Recurring Basis for the Year Ended December 31, 2008:

	Debt securities available for sale: Corporate	Total
Balance, beginning of period	$ -	$ -
Realized gains/(losses)	-	-
Unrealized gains/(losses) included in earnings	-	-
Unrealized gains/(losses) included in OCI	-	-
Purchases, sales, issuances and settlements, net	-	-
Transfers in (out) of Level 3, net	2,098	2,098
Ending balance	$ 2,098	$ 2,098
Change in unrealized gains/(losses) for the period included in earnings for assets still held as of December 31, 2008	$ -	$ -

During the year ended December 31, 2009, the Company sold all the ordinary shares of XL Capital 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 during the year ended December 31, 2009. The aforementioned shares were received by the Company in connection with the 2008 MTA (see Note 4).

Debt securities with an amortized cost and fair value of $6.8 million and $7.4 million at December 31, 2009 and $6.5 million and $7.3 million at December 31, 2008, respectively, were on deposit with various regulatory authorities as required by insurance laws.

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

Reinsurance Agreements and Other Guarantees with Former Affiliates

The Company has or had the following reinsurance agreements with affiliates or former affiliates. Certain of the agreements discussed below may be terminated under certain conditions, as defined in the agreements. As noted below, many of these agreements were terminated or commuted upon the closing of the 2008 MTA in connection with the transactions comprising the 2008 MTA (see Note 4).

- Syncora Guarantee Re guaranteed certain of XL Insurance's obligations in connection with certain transactions where XL Insurance's customer required such credit enhancement. Each of these transactions has a "double trigger" structure, meaning that Syncora Guarantee Re does not have to pay a claim unless both the underlying transaction and XL Insurance default. For each of these transactions, Syncora Guarantee Re entered into a reimbursement agreement with XL Insurance, pursuant to which XL Insurance pays Syncora Guarantee Re a fee for providing its guarantee and XL Insurance grants Syncora Guarantee Re a security interest in a portion of the payments received by it from its client. Pursuant to the merger of Syncora Guarantee Re with and into Syncora Guarantee, these guarantees are now guarantees of Syncora Guarantee. At December 31, 2009 and 2008, the aggregate net par outstanding relating to such guarantees was $360.2 million and $365.5 million, respectively.

- Effective October 1, 2001, Syncora Guarantee Re entered into an excess of loss reinsurance agreement with XL Insurance. This agreement covered a portion of Syncora Guarantee Re's liability arising as a result of losses on policies it reinsured and credit derivatives it issued that are in excess of certain limits and are not covered by other reinsurance agreements. Syncora Guarantee Re was charged a premium of $0.5 million per annum for this coverage. This agreement provided indemnification only for the portion of any loss covered by this agreement in excess of 10% of Syncora Guarantee Re's Bermuda statutory surplus, up to an aggregate amount of $500 million, and excluded coverage for liabilities arising other than pursuant to the terms of an underlying policy.

  In connection with the 2008 MTA discussed in Note 4, Syncora Guarantee Re and XL Insurance terminated and settled the excess of loss agreement for a payment by XL Capital to Syncora Guarantee Re of $100.0 million. As a result, Syncora Guarantee Re recorded a loss during the year ended December 31, 2008 of $106.1 million, which represented the excess net carrying value of amounts owed by XL Insurance to Syncora Guarantee Re under the agreement over the aforementioned settlement payment.

- Syncora Guarantee Re entered into the Old Master Facultative Agreement (see Note 4) to reinsure certain policies issued by FSA which guarantee the timely payment of the principal of and interest on various types of debt obligations. Syncora Guarantee Re's obligations under certain of these arrangements were guaranteed by XL Insurance. Effective upon the Company's initial public offering, the guarantee was terminated with respect to all new business assumed by Syncora Guarantee Re under such arrangement, but the guarantee remained in effect with respect to cessions under the agreement prior to the initial public offering. In connection with the 2008 MTA discussed in Note 4, Syncora Guarantee Re commuted the Old Master Facultative Agreement and Syncora Guarantee entered into the New Facultative Master Agreement to reinsure a portion of the protection previously provided by Syncora Guarantee Re. To effect the commutation of the Old Master Facultative Agreement, Syncora Guarantee Re paid affiliates of FSA $165.4 million and in connection with the reassumption of a portion of such business by Syncora Guarantee under the New Master Facultative Agreement, the Company received a payment from FSA of $88.6 million. In addition, in connection with the 2008 MTA described in Note 4, XL Insurance's guarantee of Syncora Guarantee Re's obligations to FSA, relating to cessions under reinsurance agreements prior to the initial public offering, was terminated. Subsequent to the closing of the 2008 MTA, FSA commuted a portion of the business assumed by Syncora Guarantee under the New Facultative Master Agreement.

- Effective May 1, 2004, XL Insurance entered into an agreement with Syncora Guarantee that unconditionally and irrevocably guaranteed to Syncora Guarantee the full and complete payment when due of all of Syncora Guarantee Re's obligations under its facultative quota share reinsurance agreement with Syncora Guarantee, under which agreement Syncora Guarantee Re has assumed business from Syncora Guarantee since December 19, 2000.

  The XL Insurance guarantee agreement terminated with respect to any new business produced by Syncora Guarantee and ceded to Syncora Guarantee Re pursuant to the facultative quota share reinsurance agreement after the effective date of the initial public offering, but the guarantee remained in effect with respect to cessions under the agreement prior to the Company's initial offering. In connection with the 2008 MTA discussed in Note 4, the facultative quota share reinsurance agreement was commuted and XL Insurance's guarantee of Syncora Guarantee Re's obligations to Syncora Guarantee, relating to cessions under reinsurance agreements prior to the initial public offering, was eliminated in consideration of a payment by XL Insurance to Syncora Guarantee Re of $1.6 billion, which was recorded by the Company as a capital contribution (see Note 4).

- 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, 2009 and 2008, the gross principal reinsured by the Company which was subject to the aforementioned guarantee of XL Insurance was approximately $7.3 billion ($6.6 billion net of reinsurance) and $7.0 billion ($6.9 billion net of reinsurance), respectively.

- Effective July 1, 2007, Syncora Guarantee Re ceded certain business to XL Insurance, aggregating approximately $3.7 billion of guaranteed principal exposure, under an existing facultative quota share reinsurance agreement. As a result of this transaction, on such date, Syncora Guarantee Re ceded premiums of $16.3 million to XL Insurance, received a ceding commission allowance of $6.6 million from XL Insurance, and recorded a liability to XL Insurance of $9.7 million. In connection with the 2008 MTA discussed in Note 4., the aforementioned reinsurance agreement was commuted.

- Effective November 1, 2002 and as amended and restated as of March 1, 2007, Syncora Guarantee was party to a facultative reinsurance arrangement (the "XL Re Treaty") with XL Reinsurance America, Inc. ("XL RE AM"), an indirect wholly owned subsidiary of XL Capital. Under the terms of the XL Re Treaty, XL RE AM agreed to reinsure

risks insured by Syncora Guarantee under financial guarantee insurance policies up to the amount necessary for Syncora Guarantee to comply with single risk limitations set forth in Section 6904(d) of the New York Insurance Law. The Company was allowed up to a 30% ceding commission (or such other percentage on an arm's-length basis) on ceded premiums written under the terms of this agreement. In connection with the 2008 MTA discussed in Note 4, the XL RE Treaty was commuted.

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, 2009 and 2008 are as follows:

(U.S. dollars in thousands)	Year Ended December 31, 2009	Year Ended December 31, 2008
Deferred acquisition costs, net—beginning of year	$ 110,062	$ 108,117
Costs and ceding commission revenues deferred:		
Acquisition costs deferred due to the implementation of ASC 944-20 (see Note 6)	50,514	—
Acquisition costs and ceding commission revenue amortized:		
Acquisition costs amortized	(18,541)	(19,127)
Ceding commission revenue amortized	114	2,026
Net acquisition costs amortized	(18,427)	(17,101)
Commutations	(4,305)	19,046
Deferred acquisition costs, net—end of year	$ 137,844	$ 110,062

Accelerated amortization of deferred acquisition costs due to Refundings was $6.0 million and $8.3 million for the years ended December 31, 2009 and 2008, 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, 2009 and 2008 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, 2009 and 2008.

(U.S. dollars in thousands)	2009	2008
Year Ended December 31		
Ceded premiums written	$ 873	$ 398
Ceded premiums earned	1,174	7,450
Ceding commission revenue	114	5,420
Ceded losses and loss adjustment expenses	17,000	55,059
As of December 31		
Par exposure ceded	$ 1,381,093	$ 1,401,463
Reinsurance balances recoverable on unpaid losses	17,972	6,011

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 Re, prior to the closing of the 2008 MTA, was not subject to any taxes in Bermuda on either income or capital gains under Bermuda law. Effective on the closing date of the 2008 MTA, Syncora Guarantee Re redomesticated from Bermuda to the State of Delaware and all the ownership interests in Syncora Guarantee Re, which were owned by Syncora Holdings, were contributed to Syncora Guarantee, and on September 4, 2008 Syncora Guarantee Re merged with and into Syncora Guarantee, with Syncora Guarantee being the surviving company.

Syncora Guarantee and Syncora Capital Assurance are subject to Federal, state and local corporate income taxes and other taxes applicable to U.S. corporations, and effective on the closing of the 2008 MTA through September 4, 2008, Syncora Guarantee

Re was subject to Federal, state, and local corporate income taxes and other taxes applicable to U.S. corporations. The U.S. Federal income tax liability is determined in accordance with the principles of the consolidated tax provisions of the Internal Revenue Code and Regulations. On the effective date of the merger discussed above, Syncora Guarantee Re's separate existence ceased and from that point forward it was no longer a member of the U.S. consolidated return group.

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, and for the period it remained in existence Syncora Guarantee Re filed, 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 for net operating loss carry forwards, thus a valuation allowance has been established against the entire deferred tax assets of the Company at December 31, 2009 and December 31, 2008. The valuation allowance was calculated in accordance with the provisions of ASC 740, Income Taxes ("ASC 740"), which places 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. Until such time, except for state, local and foreign tax provisions, the Company will have no net deferred tax assets.

At December 31, 2009, the Company's cumulative NOLs, which may be carried forward to offset future taxable income, are $3.3 billion. The Company's ability to utilize its NOLs at December 31, 2009 expires from 2027 through 2030. Approximately $161.3 million of the Company's NOLs as of December 31, 2009 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.

The Internal Revenue Service (the "IRS") granted the Company's request for a change in tax accounting in 2008 related to the recognition of losses for tax purposes and such change is reflected in the aforementioned calculation of net operating losses ("NOLs").

The Company adopted provisions of ASC 740, *Income Taxes*, on January 1, 2007. As of December 31, 2009 and 2008, 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 2009 and 2008. Tax years 2006 through 2009 are subject to examination by federal authorities. There are no federal, state or local tax audits underway for the Company as of December 31, 2009.

The Company's income tax benefit for the years ended December 31, 2009 and 2008 of $3.4 million and $2.7 million, respectively, represents prior period current U.S. income tax benefits.

The weighted average expected 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, 2009 and 2008 is primarily attributable to the full valuation allowance recorded by the Company in such years, as discussed above and taxable income or loss in the United States. Prior to the closing of the 2008 MTA, Syncora Guarantee had a facultative quota share reinsurance treaty with Syncora Guarantee Re. Under the terms of this treaty, Syncora Guarantee Re reinsured up to 75% of the guaranty business written by Syncora Guarantee Inc. The pre-tax income earned by Syncora Guarantee Re, which was a Bermuda company, was not subject to U.S. income tax.

The Company's net deferred income tax assets as of December 31, 2009 and 2008 were $2.2 billion and $1.8 billion, respectively. The gross deferred tax asset at December 31, 2009 was $2.5 billion, an increase of $0.5 billion from $2.0 billion as of December 31, 2008. 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, 2009 was $327.1 million, an increase of $165.7 million from $161.4 million as of December 31, 2008. Gross deferred tax liabilities principally result from the Company's Insurance Cash Flow Certificates and deferred acquisition costs. As of December 31, 2009 and 2008, the Company recorded a full valuation allowance against its net deferred tax assets.

15. Liabilities for Unpaid Losses and Loss Adjustment Expenses

In connection with the Company's adoption of ASC 944-20, beginning January 1, 2009, the Company no longer recognizes an unallocated loss reserve for losses which have occurred or are probable to occur as a result of credit deterioration in the Company's insured portfolio but which have not yet been specifically identified and applied to specific insured obligations. Therefore, the Company's reserve for unpaid losses and loss adjustment expenses as of December 31, 2009 represents case basis reserves established in accordance with this new accounting standard. Case basis reserves represent the probability weighted average of the Company's estimates of the present value discounted at the risk free rate of expected losses on insured debt obligations that have defaulted or are expected to default. As of December 31, 2009, the range of risk free rates used to discount the Company's liability for losses and loss adjustment expenses was 1.44% to 4.25%. Refer to Note 6 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, 2009 and 2008 is summarized as follows:

(US dollars in thousands)	Year Ended December 31, 2009	Year Ended December 31, 2008
Gross unpaid losses and loss adjustment expenses at beginning of year	$ 1,686,187	$ 402,519
Unpaid losses and loss adjustment expenses recoverable	(6,011)	(266,945)
ASC 944-20 transition adjustment, net	194,928	—
Net unpaid losses and loss adjustment expenses at beginning of year	1,875,104	135,574
Increase in net losses and loss adjustment expenses incurred in respect of losses occurring in:		
Current year	238,386	606,151
Prior years	280,962	1,191,726
Other	19,644	112,746
Less net losses and loss adjustment expenses paid	313,680	366,021
Net unpaid losses and loss adjustment expenses at end of period	2,100,416	1,680,176
Unpaid losses and loss adjustment expenses recoverable	17,972	6,011
Gross unpaid losses and loss adjustment expenses at end of period	$ 2,118,388[1]	$ 1,686,187

[1] As discussed in Note 2, by order of the NYID, Syncora Guarantee has suspended the payment of all claims from and after April 26, 2009. Upon the lifting of the order, Syncora Guarantee expects to recommence payment of claims, including all claim payments which were suspended since April 27, 2009. As of December 31, 2009, such suspended claim payments aggregated $555.4 million, of which $359.0 million are expected to be returned to the Company as a result of receipts from Insurance Cash Flow Certificates (see Note 3). Paid claims of $313.7 million in the table above represent claim paid prior to the aforementioned NYID order and claims paid pursuant to certain transactions approved by the NYID in connection with the 2009 MTA and thereafter, net of any reimbursements.

Case Basis Reserves for Losses and Loss Adjustment Expenses

A discussion of certain case basis reserves established by the Company as of December 31, 2009 and December 31, 2008 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 $1,976.4 million and $1,557.9 million as of December 31, 2009 and 2008, respectively ($1,977.1 million and $1,558.4 million, respectively, before giving effect to reinsurance). The change in reserves from December 31, 2008 to December 31, 2009 is primarily attributable to the transactions comprising the 2009 MTA, offset in part by adverse loss development of $334.9 million. Such transactions are described in Note 3 and the effect on reserves is summarized in the table above.

The aforementioned reserves represents 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 December 31, 2009. 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 December 31, 2008, the Company had assumed that the peak defaults would occur in mid-2009 and continue until early 2010 with a return to a steady-state by the end of 2010. At December 31, 2009, the Company extended the peak period by at least one quarter. Net losses will be greater if the time it takes the mortgage performance to stabilize is longer than currently anticipated. See also Note 5.

After the ramp down, the Company assumed a steady state constant default rate at a constant default rate well above historical norms until approximately year seven of the deal. By year seven of the deal, the Company assumed another step down to 0% 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, 2009 was 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 43% 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 certain residential mortgage-backed securities ("RMBS") it insures to require the sponsors of such securities to repurchase mortgage loans backing the 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 expected by the Company on the aforementioned insured securities (see Note 19). As of December 31, 2009 and 2008, the amount of mortgage loans that the Company is seeking sponsors to repurchase aggregated approximately $1.0 billion and $700 million, respectively; the sponsors of a substantial majority of such mortgage loans are Countrywide (see Note 19), 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 is 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 on the RMBS backed by such mortgages and by the financial resources of the sponsors to honor their obligations. As a result of limited historical information upon which to make a reliable estimate of the potential benefit associated with requiring the aforementioned sponsors to repurchase mortgages, as discussed above, through December 31, 2008, the Company had not recorded any estimated recovery relating thereto in its financial statements; however, during the year ended December 31, 2009, the Company recorded a probability weighted average estimated recovery of approximately $158.3 million relating to certain of such sponsors, which reflects the Company's analysis and developing industry practice for such estimates. The actual salvage recovery may vary materially from the Company's estimate.

(b) The Company insured payment of scheduled debt service on sewer revenue warrants issued by Jefferson County both in 2002 and 2003 and, in addition, has provided a surety bond policy in connection therewith. As of December 31, 2009 and 2008, the outstanding principal amount of such obligations, and the Company's exposure thereto before giving effect to reinsurance and the Company's reserves for losses thereon discussed below, was $1.1 billion (after giving effect to reinsurance and the Company reserves for losses thereon, the Company's exposure was $1.0

billion). 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 in a filing dated February 27, 2008 with the SEC, 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.

For the year ended December 31, 2009, the Company recorded a provision for losses and loss adjustment expenses, after giving effect to reinsurance, of $109.5 million on its guarantees of the sewer revenue warrants. Loss reserves on the Company's exposure to the sewer revenue warrants was based on the Company's probability weighted average estimate of: (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 December 31, 2009. A portion of the loss reserve also considered the potential settlement of a certain portion of the Company's exposure to the warrants, which is discussed below. The Company's probability weighted average estimate of the amount of claims and recoveries was based on assumptions and estimates extending over many years into the future. Such assumptions and estimates are subject to the inherent limitation on the Company's ability to predict the aggregate course of future events and differences between estimated and actual results may be material.

At December 31, 2009 and 2008, the Company's reserve for losses and loss adjustment expenses, after giving effect to reinsurance, on the warrants was $114.2 million and $22.9 million ($131.6 million and $25.6 million before giving effect to reinsurance), respectively.

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. See Note 19 for information regarding litigation related to the Company's insurance of 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 from the NYID – see Note 2) on its guarantees of the warrants, the Company received $184.2 million face value of sewer revenue warrants (known as "Replacement Bank Warrants), which are recorded at fair value of $66.3 million in the accompanying consolidated balance sheet. 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.

In connection with 2009 MTA (see Note 3), the Company entered into a letter of intent and term sheet with certain banking institutions, to commute approximately $0.5 billion of its exposure to the sewer revenue warrants, which the banking institutions acquired pursuant to a liquidity facility they provided in connection with the issuance of the warrants by Jefferson County. The letter of intent and term sheet were subject to final negotiations and agreement by July 31, 2009; notwithstanding the expiration of this deadline, the Company continues to negotiate with the aforementioned banking institutions to reach a final agreement. There can be no assurance that the Company and the banking institutions will reach an agreement.

(c) 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.

(d) Reserves for unpaid losses and loss adjustment expenses on a global infrastructure financing that the Company reinsured were $0 and $7.7 million at December 31, 2009 and 2008, respectively. This reinsured transaction was commuted in connection with the 2009 MTA.

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, 2009. 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	17	18	3	38	76
Remaining weighted-average contract period (in years)	11.0	10.6	9.5	12.1	11.4
Insured contractual payments outstanding:					
Principal	$ 2,854.6	$ 939.7	$ 29.3	$ 2,873.7	$ 6,697.3
Interest	2,422.6	501.3	—	1,204.1	4,128.0
Total	$ 5,277.2	$ 1,441.0	$ 29.3	$ 4,077.8	$ 10,825.3
Gross claim liability	$ —	$ —	$ —	$ 3,802.5	$ 3,802.5
Less:					
Gross potential recoveries	—	—	—	742.3	742.3
Unearned premium reserve [1]	—	—	—	45.6	45.6
Discount, net	—	—	—	909.5	909.5
Plus:					
Loss adjustment expenses	—	—	—	13.3	13.3
Claim liability reported in the balance sheet	$ —	$ —	$ —	$ 2,118.4	$ 2,118.4

[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) Equity Per Share

The following table sets forth the computation of shareholders' (deficit) equity per share as of December 31, 2009 and December 31, 2008:

(U.S. dollars in thousands, except share amounts)	As of December 31, 2009	As of December 31, 2008
Common shareholders' (deficit) equity, as reported	$ (1,632,839)	$ 463,366
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) equity, as adjusted to exclude liquidation preferences on preferred shares	$ (1,816,246)	$ 279,959
Common shares outstanding[1]	59,336,686	35,082,223
Common shareholders' (deficit) equity per share	$ (30.61)	$ 7.98

[1] As a result of the 2008 MTA (see Note 4), the Company held 30,069,049 of its common shares in treasury at December 31, 2008. In connection with the 2009 MTA, such shares were reissued or cancelled (see Note 3).

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, 2009. 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.

(U.S. dollars in millions)	Gross Principal Outstanding December 31, 2009	Gross Future Interest as of December 31, 2009	Total	Net Principal Outstanding December 31, 2009 [(1)]	Net Future Interest as of December 31, 2009	Total
Public Finance	$ 51,480	$ 26,378	$ 77,858	$ 50,423	$ 26,021	$ 76,444
Structured Single Risk	24,895	21,843	46,738	24,598	21,498	46,096
ABS CDOs	6	5	11	6	5	11
CDO squareds	246	16	262	246	16	262
CMBS	4,936	94	5,030	4,936	94	5,030
CLOs	13,711	3,192	16,903	13,711	3,192	16,903
All other	12,106	1,172	13,278	12,079	1,168	13,247
Total	$ 107,380	$ 52,700	$ 160,080	$ 105,999	$ 51,994	$ 157,993

(1) Upon the occurrence of certain events (*e.g.,* ratings downgrades or adverse loss development), $3.1 billion of the Company's net principal outstanding at December 31, 2009 may be commuted, at the Company's option through February 28, 2010 and, thereafter, at the option of either the Company or the contract holder, pursuant to agreements made in connection with the restructuring consummated by Syncora Guarantee on July 15, 2009. The agreements expire in February 2011. If all the options to commute were exercised under the aforementioned agreements, the Company would be required to pay consideration to such contractholders, in the aggregate, of approximately $81.0 million. In March 2010, certain contractholders exercised their rights to commute certain of these deals for an aggregate payment of $65.0 million.

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) Upon the occurrence of certain events (*e.g.,* ratings downgrades or adverse loss development), $3.1 billion of the Company's net principal outstanding at December 31, 2009 may be commuted, at the Company's option through February 28, 2010 and, thereafter, at the option of either the Company or the contract holder, pursuant to agreements made in connection with the restructuring consummated by Syncora Guarantee on July 15, 2009. The agreements expire in February 2011. If all the options to commute were exercised under the aforementioned agreements, the Company would be required to pay consideration to such contractholders, in the aggregate, of approximately $81.0 million. In March 2010, certain contractholders exercised their rights to commute certain of these deals for an aggregate payment of $65.0 million.

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

(U.S. dollars in millions)	As of December 31, 2009	
Years to Maturity - Par Exposure	**Gross**	**Net**
Year 1	$ 5,987	$ 5,952
Year 2	7,655	7,650
Year 3	6,926	6,923
Year 4	8,125	8,125
Year 5 to 10	28,522	27,752
Year 10 to 15	16,414	16,383
Year 15 to 20	15,988	15,800
Beyond 20 years	17,763	17,414
Total	$ 107,380	$ 105,999

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

(U.S. dollars in millions)	As of December 31, 2009	
Type of Insured Obligation - Par Exposure	**Gross**	**Net**
Pooled debt obligations	$ 25,679	$ 25,679
General obligations	28,834	28,079
Utilities	6,946	6,792
Transportation	11,595	11,286
Consumer ABS	3,451	3,425
Non ad valorem	4,547	4,547
Higher education	3,557	3,557
Commercial ABS	1,664	1,664
Financial product	1,826	1,826
Future flow	903	872
Power and utilities	10,932	10,875
Other	7,446	7,397
Total	$ 107,380	$ 105,999

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

(U.S. dollars in millions)	As of December 31, 2009	
Geographic Distribution - Par Exposure	**Gross**	**Net**
New York	$ 15,306	$ 15,306
California	7,815	7,752
Illinois	3,795	3,795
Alabama	3,491	3,387
Texas	3,617	3,367
Pennsylvania	2,785	2,785
Florida	3,347	2,692
New Jersey	2,025	2,025
Delaware	1,678	1,670
Michigan	1,569	1,569
Massachusetts	1,551	1,551
Georgia	1,443	1,443
Ohio	1,422	1,422
Colorado	1,398	1,398
Maryland	1,266	1,262
Virginia	1,235	1,235
Puerto Rico	1,010	1,010
Other US Jurisdictions	29,380	29,380
United Kingdom	10,951	10,685
Australia	2,552	2,552
Ireland	1,733	1,733
Chile	1,108	1,108
Other International	6,903	6,872
Total	$ 107,380	$ 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, 2009, the Company's total net direct exposure to RMBS aggregated approximately $2.9 billion (the amount excludes exposure related to guarantees which were effectively defeased or, in-substance, commuted pursuant to Insurance Cash Flow Certificates – see Note 3), representing approximately 2.7% 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, 2009 (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, 2009:

(U.S. dollars in millions)	Net Principal Outstanding as of December 31, 2009	% of total
Alt-A (1st lien)(1)	$ 1,220.5	42.4 %
HELOC (Prime)(2)	637.8	22.1
Prime and Alt-A (2nd lien)(3)	319.3	11.1
Subprime (1st lien)(4)	470.0	16.3
Subprime (2nd lien)(5)	124.2	4.3
Prime (1st lien) & other (6)	108.0	3.8
Total	$ 2,879.8	100.0 %

(1) 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.

(2) HELOC is an adjustable rate line of credit secured by a second lien on residential properties.

(3) Prime (2nd lien) mortgage loans are secured by second 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.

(4) 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.

(5) 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.

(6) 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.

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, 2009. 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 3), 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 3).

(U.S. dollars in millions)	2007	2006	2005	2004	Total
Subprime	$ 412.9	$ -	$ 123.6	$ 119.9	$ 656.4
Prime/Alt-A	1,193.3	672.0	124.6	233.5	2,223.4
	$ 1,606.2	$ 672.0	$ 248.2	$ 353.4	$ 2,879.8
Net case reserves for unpaid losses	$ 475.9	$ 1,337.8	$ 135.8	$ 16.6	$ 1,966.1

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.

Alt-A (1st lien)

(U.S. dollars in millions)

	Vintage	Internal Credit Rating	S&P Rating	Moody's Rating	Net Principal Outstanding as of December 31, 2009
1	2005	c	CCC	Ba1	$ 14.8
2	2005	c	AAA	Aaa	49.7
3	2005	c	CCC	Caa1	17.8
4	2006	c	CCC	Ca	37.2
5	2006	c	B+	Ca	3.1
6	2006	c	CCC	Ca	67.1
7	2006	d	CC	Ca	33.5
8	2007	bbb-(1)	AAA	Caa1	413.7
9	2007	c	CCC	Caa2	392.0
10	2007	d	NR	Ca	4.4
11	2007	bbb-(2)	BB	Caa1	187.2
Total					$ 1,220.5

(1) The Company's credit rating reflects additional credit enhancement in the amount of $170.0 million.

(2) The Company's credit rating reflects additional credit enhancement in the amount of $40.0 million.

HELOC Prime

(U.S. dollars in millions)

	Vintage	Internal Credit Rating	S&P Rating	Moody's Rating	Net Principal Outstanding as of December 31, 2009
1	2004	c	BBB	Caa3	$ 71.7
2	2004	c	CCC	Ca	115.9
3	2005	d	D	Ca	42.3
4	2006	d	D	Ca	226.1
5	2006	d	D	Ca	87.5
6	2006	d	D	Ca	23.7
7	2006	d	CC	Ca	4.8
8	2007	d	D	Ca	65.8
Total					$ 637.8

Subprime (1st Lien)

(U.S. dollars in millions)

	Vintage	Internal Credit Rating	S&P Rating	Moody's Rating	Net Principal Outstanding as of December 31, 2009
1	1999	NR	D	Caa1	$ 0.2
2	2004	a-	AAA	Aa3	57.0
3	2004	a-	AA-	A2	30.5
4	2004	aaa	AAA	Aaa	7.1
5	2004	aaa	AAA	Aaa	25.2
6	2005	c	CCC	NR	97.6
7	2005	aaa	AA	A1	4.7
8	2005	aaa	AAA	A1	21.3
9	2007	c	CCC	B1	226.4
Total					$ 470.0

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

(U.S. dollars in millions)

	Vintage	Internal Credit Rating	S&P Rating	Moody's Rating	Net Principal Outstanding as of December 31, 2009
1	2006	d	D	Caa3	$ 189.0
2	2007	bbb-	CCC	Caa2	59.9
3	2007	d	D	B1	54.6
4	2007	d	CC	Ca	55.0
5	2007	bbb-	B	B3	9.3
6	2007	d	CC	Ca	75.7
Total					$ 443.5

Prime (1st Lien) and other

(U.S. dollars in millions)

	Vintage	Internal Credit Rating	S&P Rating	Moody's Rating	Net Principal Outstanding as of December 31, 2009
1	2004	aaa	AAA	Aaa	$ 7.1
2	2004	aaa	NR	Aa3	9.7
3	2004	aaa	AAA	NR	14.5
4	2004	aaa	NR	Aa3	14.5
5	2007	bbb	BBB	Baa2	62.2
Total					$ 108.0

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, 2009. 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)	Net Principal Outstanding as of December 31, 2009	% of total	# of transactions
ABS CDO [1]	$ 6.2	0.0 %	1
CLO[2]	13,710.7	53.4	61
Investment-grade corporate CDO [3]	5,708.7	22.2	20
CDO of CDOs [4]	246.1	1.0	4
CMBS	4,936.1	19.2	8
Bank Trust Preferred Securities[5]	474.4	1.9	6
Other	597.1	2.3	6
Total	$ 25,679.3	100.0 %	106

(1) 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.

(2) 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.

(3) 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.

(4) A CDO of CDOs, or CDO squared, is a CDO that is collateralized by, or synthetically references, a pool of other CDO securities.

(5) Bank Trust Preferred Securities CDOs are backed by portfolios of trust preferred securities primarily issued by bank holding companies.

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, 2009:

(U.S. dollars in millions)	Net Principal Outstanding as of December 31, 2009	% of Total
AAA	$ 20,242.5	78.9 %
AA	163.8	0.6
A	1,672.9	6.5
BBB & lower	3,600.1	14.0
Total	$ 25,679.3	100.0 %

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 Notes 1 and 4). 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 as follows:

(1) 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

(2) for any subsequent dividend period, one-month LIBOR plus 2.00% per annum, calculated on an actual/360 day basis.

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.

In accordance with GAAP, the aforementioned put option was required to be reported at fair value with changes in the fair value thereof reflected in the unrealized gains (losses) component of the "Net gain on capital facility put option" line item of the Company's statements of operations. At December 31, 2007 the fair value of the put option was $107.0 million. During the period from January 1, 2008 through to the effective date of the exercise of the put option, the Company recorded an incremental unrealized gain on the put option of $72.5 million and the corresponding derivative asset at such date was $179.6 million. Upon the exercise of the put option, the Company reversed the derivative asset and correspondingly reduced the paid-in-capital of the Series B Preferred Shares that were issued pursuant to the exercise of the put option. The effect of these entries is to report the Series B Preferred Shares at their estimated fair value at the date of issuance. Accordingly, the carrying value of the Series B Preferred Shares at March 31, 2008 and thereafter of $20.0 million represents the net proceeds received upon the issuance thereof less the reversal of the fair value of the put option on the date of exercise.

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, including those discussed below, to have a material adverse effect on the Company's financial position, results of operations or liquidity. However, 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 (and in certain cases, Syncora Holdings) is named as a defendant in a number of complaints filed by California municipal entities against several providers and brokers of municipal derivatives. These complaints allege 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 seek unspecified damages and other relief. Syncora Guarantee and Syncora Holdings have filed a motion to dismiss these claims.

Bond Insurers Conspiracy Litigation:

In July 2008 and throughout 2009, lawsuits were filed by a number of California municipal entities in California State court against several bond insurers, including Syncora Guarantee, and two individual defendants. The complaints include allegations that 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. On March 1, 2010, the court ordered all complaints struck and ordered plaintiffs to re-plead.

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 alleges 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 alleges 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 alleges, 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 alleges 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 allege damages on the ground that their sewer rates are much higher than they otherwise would have been without the wrongdoing of all parties. Syncora Guarantee has filed a motion to dismiss which is currently pending before the court.

Plaintiffs have also voluntarily dismissed Jefferson County taxpayers as members of the putative class, leaving only the sewer system ratepayers. Several of the defendants have filed a motion seeking recusal of the Judge based on his daughter being a Jefferson County ratepayer, and thus a member of the putative class of plaintiffs. This motion was denied and the issue was appealed to the Alabama Supreme Court. The Court determined that recusal was not required, and the case remains pending before Judge Johnson.

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, Ala. Code §§ 6-6-590, et seq. *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. The amended complaint has yet to be filed, and currently Syncora Guarantee is no longer a defendant to this lawsuit. Many of the co-defendants were also dismissed by the court, and are seeking to have the dismissal made final. Syncora Guarantee will join in that response.

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, who 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. On March 3, 2010 Syncora Guarantee and Financial Guaranty Insurance Company on the one hand and Jefferson County on the other, each dismissed their respective claims and counterclaims without prejudice. As described below, the trustee continues to seek redress in the Circuit Court of Jefferson County, Alabama.

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 is 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.

On April 15, 2009, Syncora Guarantee and Financial Guaranty Insurance Company filed 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.

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, Index Number 09-601706, 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. Countrywide has made a motion to dismiss those claims. A decision on this motion is pending.

On February 5, 2009, Syncora Guarantee, together with co-plaintiffs U.S. Bank National Association and CIFG Assurance North America, Inc., filed suit in the Supreme Court of the State of New York, New York County, against GreenPoint, alleging that GreenPoint made misrepresentations 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's motion to dismiss Syncora Guarantee and CIFG Assurance North America, Inc. for lack of standing was granted, but otherwise GreenPoint's motion was denied in full. The indenture trustee remains a plaintiff.

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 March 4, 2010, Syncora Guarantee filed suit against Cendant Rental Car Funding (AESOP) LLC to enforce the terms of a premium letter.

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 reviewing and considering this demand.

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. Syncora Holdings filed a motion to dismiss on behalf of itself and the individual defendants.

20. NYID Order and Dividend Restrictions

NYID Order

On April 10, 2009, pursuant to Section 1310 of the New York Insurance Law, 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 (the "1310 Order"). Additionally, as set forth in the order, Syncora Guarantee shall not write any new business and, as of April 26, 2009, Syncora Guarantee shall suspend 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 has suspended the payment of all claims from and after April 26, 2009 and is operating only in the ordinary course. On July 15, 2009, the Company consummated the 2009 MTA (see Notes 2 and 3) resulting in Syncora Guarantee's return to compliance with its regulatory minimum surplus to policyholders. As of December 31, 2009, such suspended claim payments aggregated $555.4 million, of which $359.0 million are expected to be returned to the Company as a result of receipts from Insurance Cash Flow Certificates and similar alternative transactions discussed in Note 3.

As of March 29, 2010, Syncora Guarantee remains subject to the 1310 Order. Syncora Guarantee currently expects that upon the later of 1) the successful completion of the actions described in Note 5 to satisfy Syncora Guarantee's liquidity needs and 2) the settlement of the Jefferson County transaction described in Note 5, Syncora Guarantee will make a submission to the NYID confirming that its surplus to policyholders' will not be impaired and requesting that the claims payment suspension order be lifted. Following receipt of such submission, the NYID will conduct its own independent review of the financial condition of Syncora Guarantee, which it would need to find satisfies applicable regulatory requirements prior to lifting the 1310 Order. Should the claims payment suspension order be lifted, Syncora Guarantee expects to recommence payment of claims, including all suspended payments since April 27, 2009. However, there can be no assurance as to when or whether Syncora Guarantee will be able to complete the actions described in Note 5, including the settlement of the Jefferson County transaction, or when or whether the NYID will accept the Company's submission, when and if made, and lift the claims payment suspension order. Further, there can be no assurance that the lifting of the 1310 Order will not be challenged.

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 defined in Note 24) during the years ended December 31, 2009 or 2008 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 4, 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, 2009, Syncora Guarantee reported policyholders surplus of $99.7 million, as compared to a policyholders' deficit of $2.4 billion at December 31, 2008, and for the year ended December 31, 2009, Syncora Guarantee reported net income of $2.0 billion, as compared to a net loss of $4.8 billion for the year ended December 31, 2008. Also, in accordance with accounting practices prescribed or permitted by the NYID, as of December 31, 2009, Syncora Capital Assurance reported policyholders' surplus of $221.9 million, and for the period from July 15, 2009 (date of commencement of operations) through December 31, 2009 reported a net loss of $149.4 million. See also Note 2.

21. Commitments and Contingencies

a. Tax Matters

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 Company's financial position or the amount of net operating losses available to the Company to offset taxable income.

b. Lease and Other Commitments

The Company's lease commitments are primarily comprised of its office premise leases at 1221 Avenue of the Americas, New York, New York, 825 Eighth Avenue, New York, New York and Merritt 7 Corporate Park, Norwalk, Connecticut. In addition, the Company is liable under an information technology outsourcing agreement that it entered into with International Business Machines Corporation ("IBM") on October 1, 2006. Pursuant to the agreement IBM will: (i) provide the Company with all its information technology hardware, (ii) provide all support services to maintain such hardware and provide for efficient disaster recovery, (iii) develop a transition plan for the Company's systems from its existing hardware to new hardware, and (iv) maintain the Company's technology at a level that allows the Company to take advantage of technological advances. In consideration for these services the Company is obligated to pay IBM approximately $4.0 million per annum for the five year term of the contract. The Company incurred expenses of $4.3 million and $5.3 million under this agreement for the years ended December 31, 2009 and 2008, respectively.

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
2010	$ 2,768	$ 889	$ 1,879
2011	1,942	891	1,051
2012	1,044	931	113
2013	955	854	101
2014	553	493	60
Total	$ 7,262	$ 4,058	$ 3,204

Net rent expense was $8.0 million and $9.5 million for the years ended December 31, 2009 and 2008, respectively. Also, in connection with the 2009 MTA (see Note 3), the Company terminated its office premises lease at 1221 Avenue of the Americas, New York, New York and recorded lease abandonment charges of $5.2 million and $7.8 million for the years ended December 31, 2009 and 2008.

c. Other

See also Note 5 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 develop 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, XL Capital common shares, Replacement Bank Warrants: The fair values of the Company's debt securities and XL Capital common shares are 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 are 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.

Losses and loss adjustment expenses, net of reinsurance balances recoverable: The carrying value is assumed to be fair value.

(U.S, dollars in thousands)	2009 Carrying Amount	2009 Estimated Fair Value	2008 Carrying Amount	2008 Estimated Fair Value
Assets				
Debt securities, available for sale, and XL Capital common shares	$ 952,098	$ 952,098	$ 2,008,462	$ 2,008,462
Cash and cash equivalents (including restricted cash and cash equivalents)	732,840	732,840	1,574,072	1,574,072
Replacement Bank Warrants	66,309	66,309	63,331	63,331
Liabilities				
Loss and loss adjustment expenses, net of reinsurance recoverable on unpaid losses	2,100,416	2,100,416	1,680,176	1,680,176
Notes payable ($641,700 face value)	164,205	164,205	—	—

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

As of December 31, 2009, the Company had, in the aggregate, approximately $125.8 million on deposit to collateralize its contractual obligations under certain agreements, including reinsurance, lease, and letter of credit agreements. Of such deposits, $102.5 million, and $23.3 million are recorded on the accompanying consolidated balance sheet in "Restricted cash and cash equivalents" and "Other assets", 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 3). 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".

As of December 31, 2008, the Company had approximately $980.2 million on deposit to collateralize its contractual obligations. Of such deposits, $954.9 million, $22.0 million and $3.3 million are recorded on the accompanying consolidated balance sheet in "Restricted cash and cash equivalents", "Other assets" and "Debt securities available for sale", respectively.

24. Series A Perpetual Non-Cumulative Preference Shares

On April 5, 2007, Syncora Holdings consummated the sale of $250.0 million of the Syncora Holdings Series A Preference Shares which were offered for sale pursuant to a private placement. Gross proceeds from the offering were $250.0 million, offering costs were $3.4 million, and net proceeds were $246.6 million. The Syncora Holdings Series A Preference Shares are perpetual securities with no fixed maturity date and, if declared by the Board of Syncora Holdings, will 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 Syncora Holdings 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 20. 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 (on an unconsolidated basis) of Syncora Holdings as of December 31, 2009 and 2008 is set forth below:

(U.S. dollars in thousands)	December 31, 2009	December 31, 2008
Assets		
Debt securities available for sale, at fair value (amortized cost: $169 and $168)	$ 252	$ 168
Cash and cash equivalents.	23,190	31,738
Accrued investment income	4	7
Investment in subsidiaries on an equity basis:		
Syncora Guarantee	(1,430,968)	656,238
Other Subsidiaries.	17,970	18,052

Other assets	3,306	4,803
Total assets	$ (1,386,246)	$ 711,006
Liabilities and Shareholders' (Deficit) Equity		
Liabilities— accounts payable, accrued expenses, and other liabilities	$ —	$ 1,047
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	2,688,127
Accumulated deficit	(4,362,614)	(2,217,470)
Accumulated other comprehensive income	54,609	54,351
Treasury stock, at cost	—	(61,642)
Total common shareholders' (deficit) equity	(1,632,839)	463,366
Total shareholders' (deficit) equity	(1,386,246)	709,959
Total liabilities and shareholders' (deficit) equity	$ (1,386,246)	$ 711,006

The condensed statements of operations and comprehensive loss (on an unconsolidated basis) of Syncora Holdings for the years ended December 31, 2009 and 2008 is set forth below:

(U.S. dollars in thousands)	Year Ended December 31, 2009	2008
Revenues		
Net investment income	$ 32	$ 465
Net realized losses on investments	—	(77)
Fee income and other	—	6
Total revenues	32	394
Operating expenses	9,056	23,811
Income (loss) before equity in net loss of subsidiaries	(9,024)	(23,417)
Equity in net loss of Syncora Guarantee	(1,870,339)	(1,397,984)
Equity in net losses of other subsidiaries	(50)	(244)
Equity in net loss of subsidiaries	(1,870,389)	(1,398,228)
Net loss	(1,879,413)	(1,421,645)
Other comprehensive income (loss):		
Net unrealized gains on investments	83	7
Equity in other comprehensive income (loss) of Syncora Guarantee	175	36,543
Total other comprehensive loss	258	36,550
Total comprehensive loss	$ (1,879,155)	$ (1,385,095)

The condensed cash flows (on an unconsolidated basis) of Syncora Holdings for the years ended December 31, 2009 and 2008 are set forth below.

(U.S. dollars in thousands)	2009	2008
Cash provided by operating activities:		
Net loss	$ (1,879,413)	$ (1,421,645)
Adjustments to reconcile net loss to net cash provided by operating activities		
Equity in net losses of subsidiaries	1,870,389	1,398,228
Net realized loss on investments	—	77
Other, net	476	3,678
Total adjustments	1,870,865	1,401,983
Net cash used in operating activities	(8,548)	(19,662)
Cash flows from investing activities:		
Dividend received from subsidiary	—	30,790
Net cash provided by investing activities	—	30,790
Cash flows from financing activities:		
Redemption of Series A redeemable preferred shares of subsidiary	—	(2,925)

Net cash used in financing activities	—	(2,925)
(Decrease) increase in cash and cash equivalents	(8,548)	8,203
Cash and cash equivalents—beginning of year	31,738	23,535
Cash and cash equivalents—end of year	$ 23,190	$ 31,738

26. Other Matters

During 2008, the Company reduced its workforce to reduce long-term operating costs and align resources with its current needs. This workforce reduction consisted primarily of insurance business origination staff. As a result of these workforce reductions, the Company recorded a charge of approximately $19.5 million during the year ended December 31, 2008. There was no significant workforce reduction in 2009.

SUPPLEMENTAL SCHEDULE

CONDENSED CONSOLIDATED FINANCIAL INFORMATION OF

SYNCORA GUARANTEE INC.
AS OF DECEMBER 31, 2009 AND 2008 AND FOR THE YEARS THEN ENDED

AND

SYNCORA CAPITAL ASSURANCE INC.
AS OF DECEMBER 31, 2009 AND FOR THE PERIOD FROM JULY 15, 2009 (DATE OF COMMENCEMENT OF OPERATIONS) THROUGH DECEMBER 31, 2009

SUPPLEMENTAL SCHEDULE

SYNCORA GUARANTEE INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(U.S. dollars in thousands, except share and per share amounts)

	December 31,	
ASSETS	**2009**	**2008**
Debt securities available for sale, at fair value		
(amortized cost: $896,485 and $1,930,251)	$ 951,846	$ 1,985,574
XL Capital common shares, at fair value (cost: $0 and $22,720)	—	22,720
Cash and cash equivalents	577,728	543,595
Total cash and invested assets	1,529,574	2,551,889
Restricted cash and cash equivalents	102,142	954,948
Accrued investment income	8,516	21,111
Deferred acquisition costs	137,844	110,062
Prepaid reinsurance premiums	10,664	7,791
Premiums receivable	454,948	6,909
Reinsurance balances recoverable on unpaid losses	17,972	6,011
Credit default swap contracts, at fair value	81,590	62,546
Insurance Cash Flow Certificates, at amortized cost	709,609	—
Replacement Bank Warrants, at fair value (face value $184,191and $87,474)	66,309	63,331
Due from affiliates	8,425	17,909
Other assets	30,459	24,117
Total assets	$ 3,158,052	$ 3,826,624
LIABILITIES AND SHAREHOLDERS' (DEFICIT) EQUITY		
Liabilities		
Unpaid losses and loss adjustment expenses	$ 2,118,388	$ 1,686,187
Unearned premium revenue	1,053,002	628,845
Credit default swap contracts, at fair value	1,206,100	814,304
Notes payable ($641,700 face value)	164,205	—
Reinsurance premiums payable	2,748	232
Accounts payable, accrued expenses and other liabilities	24,577	20,818
Total liabilities	4,569,020	3,150,386
Shareholders' (deficit) equity		
Series B perpetual non-cumulative preferred shares (2,000 shares authorized, issued and outstanding, $200,000 liquidation preference)	20,000	20,000
Common shares and additional paid-in-capital	2,788,979	2,781,621
Accumulated deficit	(4,274,473)	(2,179,734)
Accumulated other comprehensive income	54,526	54,351
Total common shareholder's (deficit) equity	(1,430,968)	656,238
Total shareholders' (deficit) equity	(1,410,968)	676,238
Total liabilities and shareholders' (deficit) equity	$ 3,158,052	$ 3,826,624

SYNCORA GUARANTEE INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE LOSS
(U.S. dollars in thousands)

	Year Ended December 31,	
	2009	**2008**
Revenues		
Premiums earned	$ 135,374	$ 279,371
Net investment income	92,571	131,446
Net realized gains (losses) on investments:		
Other than temporary impairment losses	(78,635)	—
Other net realized investment gains (losses)	124,714	(240,323)
Net realized investment gains (losses)	46,079	(240,323)
Earnings on Insurance Cash Flow Certificates	316,196	—
Net gain on capital facility put option	—	72,514
Unrealized foreign exchange gain	22,816	—
Fee income and other	16,005	3,473
Total revenues	629,041	246,481
Expenses		
Change in fair value of credit default swap contracts		
Realized losses and other settlements	1,351,030	199,160
Unrealized losses (gains)	383,453	(621,210)
Net change in fair value of credit default swap contracts	1,734,483	(422,050)
Net losses and loss adjustment expenses	519,348	1,797,877
Realized loss on Replacement Bank Warrants	95,484	—
Acquisition costs, net	18,427	17,101
Loss on commutation of reinsurance agreements	3,753	42,381
Operating expenses	131,273	206,419
Total expenses	2,502,768	1,641,728
Loss before income tax	(1,873,727)	(1,395,247)
Income tax benefit	(3,418)	(2,695)
Net loss	(1,870,309)	(1,392,552)
Dividends paid on Series A redeemable preferred shares	—	(1,609)
Dividends paid on Series B perpetual non-cumulative preferred shares	—	(3,823)
Net loss attributable to common shareholder	$ (1,870,309)	$ (1,397,984)
Comprehensive income (loss):		
Net loss	$ (1,870,309)	$ (1,392,552)
Other comprehensive income - net unrealized gains on investments	175	36,543
Comprehensive loss	(1,870,134)	(1,356,009)
Dividends paid on Series A redeemable preferred shares	—	(1,609)
Dividends paid on Series B perpetual non-cumulative preferred shares	—	(3,823)
Comprehensive loss attributable to common shareholder	$ (1,870,134)	$ (1,361,441)

SYNCORA GUARANTEE INC.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' (DEFICIT) EQUITY
(U.S. dollars in thousands)

	Year Ended December 31, 2009	Year Ended December 31, 2008
Series A redeemable preferred shares		
Balance—beginning of year	$ —	$ 39,000
Cancellation of Series A preferred shares	—	(39,000)
Balance—end of year	—	—
Series B non-cumulative perpetual preferred shares		
Balance—beginning of year	20,000	—
Issuance of Series B non-cumulative perpetual preferred shares	—	20,000
Balance—end of year	20,000	20,000
Common shares and additional paid-in-capital		
Balance—beginning of year	2,781,621	1,163,393
Capital contribution	7,358	1,618,228
Balance—end of year	2,788,979	2,781,621
Accumulated deficit		
Balance—beginning of year	(2,179,734)	(789,960)
Cumulative effect of change in accounting principle	(224,430)	—
Net loss	(1,870,309)	(1,392,552)
Dividends paid on Series A redeemable preferred shares	—	(1,609)
Dividends paid on Series B perpetual non-cumulative preferred shares	—	(3,823)
Dividend paid on common shares to Syncora Holdings	—	(30,790)
Cancellation of Series A preferred shares		39,000
Balance—end of year	(4,274,473)	(2,179,734)
Accumulated other comprehensive income		
Balance—beginning of year	54,351	17,808
Other comprehensive income	175	36,543
Balance—end of year	54,526	54,351
Total shareholders' (deficit) equity	$ (1,410,968)	$ 676,238

SYNCORA GUARANTEE INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(U.S. dollars in thousands)

	Year Ended December 31,	
	2009	2008
Cash flows from operating activities:		
Net loss	$ (1,870,309)	$ (1,392,552)
Adjustments to reconcile net loss to net cash used in operating activities:		
Net realized (gains) losses on investments	(46,079)	240,323
Impairment of intangible assets-acquired licenses	—	11,529
Net unrealized losses (gains) on derivative instruments	383,453	(621,210)
Non-cash realized losses on derivatives	148,388	—
Realized gain from exercise of option under capital facility	—	(179,559)
Realized losses and other settlements	—	(64,793)
Transfer from (to) restricted cash	852,806	(954,948)
(Accretion of discount) amortization of premium on bonds	(8,519)	2,270
Amortization of Uninsured Cash Flow Certificates	18,782	—
Realized loss on Replacement Bank Warrants	95,484	—
Accretion of Insurance Cash Flow Certificates	(316,196)	—
Accretion of notes payable	23,175	—
Decrease (increase) in accrued investment income	12,595	(87)
Decrease in deferred acquisition costs	22,732	167
Decrease in prepaid reinsurance premiums	1,570	85,056
Decrease in premiums receivable	47,486	9,871
Decrease (increase) in reinsurance balances receivable	2,010	(2,010)
(Increase) decrease in reinsurance balances recoverable on unpaid losses	(11,961)	244,334
Increase in Insurance Cash Flow Certificates	(393,413)	—
Increase in Replacement Bank Warrants	(96,717)	—
Increase in unpaid losses and loss adjustment expenses	217,960	1,283,668
Decrease in unearned premium revenue	(144,371)	(271,458)
Increase (decrease)in reinsurance premiums payable	2,516	(35,848)
Increase (decrease) in accounts payable, accrued expenses and other liabilities	1,788	(37,988)
Other, net	(37,356)	(76,459)
Total adjustments	776,133	(367,142)
Net cash used in operating activities	(1,094,176)	(1,759,694)
Cash flows from investing activities:		
Proceeds from sale of debt securities	970,312	100,512
Purchases of debt securities	(231,243)	(35,604)
Proceeds from maturity of debt securities	256,672	272,477
Proceeds from sale of equity securities	132,568	—
Net cash provided by investing activities	1,128,309	337,385
Cash flows from financing activities:		
Proceeds from issuance of Series B non-cumulative perpetual preferred shares	—	200,000
Proceeds from capital contribution	—	1,584,700
Redemption of Series A redeemable preferred shares	—	(1,609)
Dividends paid on Series B non-cumulative perpetual preferred shares of Syncora Guarantee Inc.	—	(3,823)
Dividends to parent company in conjunction with merger	—	(30,790)
Net cash provided by financing activities	—	1,748,478
Increase in cash and cash equivalents	34,133	326,169
Cash and cash equivalents—beginning of year	543,595	217,426
Cash and cash equivalents—end of year	$ 577,728	$ 543,595

SYNCORA CAPITAL ASSURANCE INC.
CONDENSED BALANCE SHEET
(U.S. dollars in thousands, except share and per share amounts)

ASSETS		**December 31, 2009**
Debt securities available for sale, at fair value (amortized cost: $647,877)	$	687,690
Cash and cash equivalents		232,853
Total cash and invested assets		920,543
Accrued investment income		5,955
Deferred acquisition costs		86,923
Prepaid reinsurance premiums		4,294
Premiums receivable		83,934
Credit default swap contracts, at fair value		59,023
Deferred income tax asset		25,876
Total assets	$	1,186,548
LIABILITIES AND SHAREHOLDER'S DEFICIT		
Liabilities		
Unearned premium revenue	$	497,963
Credit default swap contracts, at fair value		1,176,805
Notes payable to parent ($350,000 face value)		276,491
Reinsurance premiums payable		1,139
Payable to affiliates		30,988
Accounts payable, accrued expenses and other liabilities		719
Total liabilities		1,984,105
Shareholder's deficit		
Common shares and additional paid-in-capital		(1,040,620)
Retained earnings		203,250
Accumulated other comprehensive income		39,813
Total shareholder's deficit		(797,557)
Total liabilities and shareholder's deficit	$	1,186,548

SYNCORA CAPITAL ASSURANCE INC.
CONDENSED STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME
Period from July 15, 2009 (date of commencement of operations) through December 31, 2009
(U.S. dollars in thousands)

Revenues	
Premiums earned	$ 25,561
Net investment income	16,203
Net realized gains on investments	13,170
Unrealized foreign exchange gain	740
Total revenues	55,674
Expenses	
Change in fair value of credit default swap contracts	
Realized gains and other settlements	(36,601)
Unrealized gains	(143,117)
Net change in fair value of credit default swap contracts	(179,718)
Acquisition costs, net	4,693
Operating expenses	27,449
Total expenses	(147,576)
Income before income tax	203,250
Income tax expense	—
Net income	203,250
Other comprehensive income - net unrealized gains on investments	39,813
Comprehensive income	$ 243,063

SYNCORA CAPITAL ASSURANCE INC.
CONDENSED STATEMENT OF SHAREHOLDER'S DEFICIT
Period from July 15, 2009 (date of commencement of operations) through December 31, 2009
(U.S. dollars in thousands)

Common shares	
Balance—beginning of period	$ —
Issuance of common shares	2,500
Balance—end of period	2,500
Additional paid-in capital	
Balance—beginning of period	—
Capital contribution	217,779
Novation of CDS contracts from Parent [(1)]	(1,260,899)
Balance—end of year	(1,043,120)
Retained earnings	
Balance—beginning of period	—
Net income	203,250
Balance—end of year	203,250
Accumulated other comprehensive income	
Balance—beginning of period	—
Other comprehensive income	39,813
Balance—end of year	39,813
Total shareholder's deficit	$ (797,557)

(1) In connection with the 2009 MTA, Syncora Guarantee novated certain CDS contracts to Syncora Capital Assurance (see Note 3 to the accompanying consolidated financial statements of Syncora Holdings Ltd.). This amount represents the net derivative liability (measured at estimated fair value) recorded by Syncora Capital Assurance at the date of the novation in excess of the consideration paid by Syncora Guarantee to Syncora Capital Assurance to assume such business. For accounting purposes such excess liability is recorded as a capital transaction.

SYNCORA CAPITAL ASSURANCE INC.
CONDENSED STATEMENT OF CASH FLOWS
Period from July 15, 2009 (date of commencement of operations) through December 31, 2009
U.S. dollars in thousands)

Cash flows from operating activities:	
Net income	$ 203,250
Adjustments to reconcile net loss to net cash used in operating activities:	
Net realized gains on investments	(13,170)
Net unrealized gains on derivative instruments	(143,117)
Accretion of notes payable	5,217
Accretion of discount on bonds	(6,547)
Increase in accrued investment income	(5,955)
Decrease in deferred acquisition costs	4,048
Decrease in prepaid reinsurance premiums	77
Decrease in premiums receivable	18,694
Increase in deferred federal tax asset	(25,876)
Decrease in unearned premium revenue	(21,806)
Increase in reinsurance premiums payable	15
Increase in payable to affiliates	30,988
Decrease in accounts payable, accrued expenses and other liabilities	(761)
Other, net	(1,802)
Total adjustments	(159,995)
Net cash provided by operating activities	43,255
Cash flows from investing activities:	
Proceeds from sale of debt securities	111,622
Purchases of debt securities	(103,202)
Proceeds from maturity of debt securities	53,043
Net cash provided by investing activities	61,463
Cash flows from financing activities:	
Proceeds from issuance of common shares	2,500
Proceeds from capital contribution	98,692
Proceeds from surplus notes	26,943
Net cash provided by financing activities	128,135
Increase in cash and cash equivalents	232,853
Cash and cash equivalents—beginning of period	—
Cash and cash equivalents—end of period	$ 232,853