

## Additional Information

March 5, 2018



# Overview

- On February 2, 2018, Syncora Guarantee Inc. (“Syncora” or “Company”) and Assured Guaranty Corp. (“Assured”) signed a definitive reinsurance framework agreement to cede 91% of Syncora’s NPO and 99% of Syncora’s policies to Assured, a AA-rated reinsurance counter-party. The agreement was the culmination of a 10-year process undertaken by Syncora to remediate the Company’s risk profile, solidify the Company’s capital base, and ensure long-term security for the Company’s policyholders
- After the successful completion of the Company’s financial restructuring in 2016 with Surplus Note holders and SHL preferred share holders, which allowed Syncora to (i) de-lever its capital structure by eliminating SHL preferred shares and obtaining a discount on SGI Surplus Notes; (ii) make the first ever payment on SGI’s surplus notes; and, (iii) reallocate \$1.75bn of NOLs to SHI, we began investigating a transaction that could further position Syncora for long-term stability and return value to stakeholders
- Syncora management and its Board concluded that a well-structured reinsurance transaction with an attractively capitalized, higher-rated counterparty would provide optimal value and de-risking in the Company’s next phase, which would consist of:
  - Ceding to a AA-rated reinsurer
  - Significantly improving leverage ratio (e.g. Retained BIG NPO / Total Liquidity)
  - Providing the basis for significant overhead cost reductions
  - **With approval of the NYDFS, providing the flexibility for larger surplus note payments and accelerated repayment options vs. a run-off**

# Overview (continued)

- Syncora, working with Moelis and Debevoise, ran a competitive process for a reinsurance transaction. As a result of that process, Syncora executed an agreement with Assured. The agreement is for a straight-forward reinsurance transaction:
  - Generally 100% Quota Share Reinsurance of 91% of the portfolio for an upfront premium payment of \$360mm
  - Limited retained portfolio includes credits Syncora is expecting to receive salvage, Syncora has fully reserved against, credits with litigation considerations, policies we anticipate will be refunded, Puerto Rico policies and eight performing credits
  - In addition to approval by the NYDFS, the transaction will be premised on obtaining swap counterparty and surplus noteholder consents

# Overview (continued)

- We have also been very successful in the past few months on several key strategies, including:
  - Settling the GreenPoint 2006 litigation for \$335MM cash, with an additional \$15MM inflow over time
  - Refinancing Reliance Rail, eliminating claims and removing ~\$0.9BN of NPO
  - Effecting the merger of SGI and SCAI
- These recent developments may make the NYDFS comfortable with allowing a larger surplus note payment in connection with the reinsurance transaction. The transaction includes a condition precedent of a minimum surplus note payment of \$400MM.
  - The NYDFS has to approve any payment on surplus notes.
  - Any such payment would be made to all note holders at par, consistent with the methodology used for prior surplus note payments
- In addition, we have started a process for a sale of American Roads, which, if successful, may support another large payment, assuming the NYDFS approves it. After completion of American Roads Sale, there are no other large strategic projects. We would like the ability to retire surplus notes and/or Twin Reefs at a discount as part of future distributions.
- We are asking for your consent to the reinsurance transaction and to certain amendments to the Master Transaction Agreement

# Reinsurance Transaction with Assured

<b>Reinsurer</b>	<ul style="list-style-type: none"><li>• Assured Guaranty Corp. (“AGC”; Maryland domiciled)</li></ul>
<b>Type of Reinsurance</b>	<ul style="list-style-type: none"><li>• Generally 100% quota share (no cut through)</li></ul>
<b>Reinsured NPO</b>	<ul style="list-style-type: none"><li>• \$13.5bn as of Q4 2017 (91% of portfolio, 99% of policyholders)</li></ul>
<b>Reinsurance Premium Paid by Syncora</b>	<ul style="list-style-type: none"><li>• \$360mm upfront and future installment premium on reinsured NPO</li></ul>
<b>Other Requirements</b>	<ul style="list-style-type: none"><li>• Condition of closing is approval of minimum surplus note payment of \$400 MM</li><li>• Certain third-party consents (including swap counterparties and surplus noteholders)</li></ul>
<b>Administrative Services Agreement</b>	<ul style="list-style-type: none"><li>• Assured to provide select administrative services with respect to re-insured policies</li></ul>
<b>Retained Risk</b>	<ul style="list-style-type: none"><li>• \$1.2bn as of 12/31/2017</li><li>• SGI has the option to cede certain debt service reserve fund surety and interest rate swap policies for an immaterial additional premium payment</li></ul>

# Benefits of Reinsurance

- **Surplus Noteholders**

- Expected to increase Surplus Note payments and accelerate repayment vs. run-off\*
- Transaction significantly de-risks Syncora and leaves Syncora in a superior financial position relative to run-off
- Equity holders are also expected to benefit from this transaction

- **Company and Other Stakeholders**

- Results in an accelerated reduction to operating expenses and ultimately lower run-rate operating expense level than could otherwise be achieved under run-off
- Provides liquidity benefits to Syncora
- Reinsurance structure avoids impairment of NOLs which remain available to reduce SGI's future tax liabilities

\* Subject in each case to NYDFS pre-approval

# Financial Effect on Syncora

	CURRENT COMBINED (SGI+SCAI; 12/31/17)	PRO FORMA REINSURANCE <sup>1</sup>	KEY BENEFITS
NPO	\$14,839	\$1,223	✓ \$989MM at risk not including unreserved PR exposure (i.e. performing credits with no loss reserve/(salvage))
NPO/Total Liquidity	12.5x	2.9x	✓ Reduced total leverage
BIG NPO/Total Liquidity <sup>2</sup>	1.0x	1.5x	✓ Reduced BIG leverage
Total Liquidity <sup>3</sup>	\$1,183.9	\$419.7	✓ Significantly lower tail risk, reducing liquidity needs
Policyholders' Surplus <sup>4</sup>	\$1,317.6	\$886.7	✓ Stable surplus (cash payout offset by reductions in reserves)

Note:

1. Post-transaction, post-merger as of 12/31/17; excludes the cash receipt of \$335 million on January 16, 2018 as a result of the settled dispute with GreenPoint Mortgage Funding, Inc.
2. Below Investment Grade ("BIG") credits are by internal rating.
3. 'Total Liquidity' excludes UCFs, remediation bonds and other invested assets (including derivatives).
4. Post-transaction, assumes a \$400.0 million payment of principal and accrued interest on SGI's surplus notes (which is subject to the approval of the NYDFS and is a closing condition to the reinsurance transaction), and that SGI receives a permitted practice from the NYDFS to recognize the release of contingency reserves.

# Overview of Retained Portfolio

- Most of the retained credits excluded (by number of credits) were at the request of Syncora, consisting of credits with salvage/recoveries, policies we anticipate will be refunded and Puerto Rico for various reasons (e.g. mostly in salvage position after July 1st payments; cost inefficiencies of reinsurance)

<b>Retained Credits</b>	<b>Net Par Outstanding (\$000s)</b>	<b>Credit Rating</b>	<b>Maturity (Years)</b>	<b>Comments</b>
PFI/PPP Availability - Public Buildings, Hospitals, Schools	270	bb	15.7	
Puerto Rico exposures (including PREPA and GOs)	220	d	6.5	Appropriately reserved
Military Housing Bonds (pre-insured)	147	bbb-	21.1	Pre-insured
Sub Sovereign State, Region	137	bbb-	17.9	
Toll Roads (International Public) > = 5 years operating history	120	bbb-	6.7	
Arkansas River Power Authority, CO -- Electric Revenue Bonds	106	bb-	17.1	
Power & Gas - International	100	a+	6.8	
City of Syracuse Industrial Development Agency	94	bbb-	6.3	
Tulare Local Health Care District, CA	15	b	14.3	
RMBS exposures (12 separate credits)	8	b-	0.9	8 credits \$0 par; all in salvage
Detroit (City of), MI	3	d	2.9	Fully reserved
Collateralized Debt Obligation	2	c	19.9	Fully reserved

<b>Option to Cede (with par; also option on other zero par policies)</b>	<b>Net Par Outstanding (\$000s)</b>	<b>Credit Rating</b>	<b>Maturity (Years)</b>
City of Houston, TX -- Water/Sewer Bonds	38	aa-	15.9
Port of Portland, OR -- Airport Revenue Bonds	18	aa-	8.5
JEA, FL Water and Sewer (Senior Lien)	9	aa	16.0
Port of Tacoma, WA -- Port Revenue Bonds (Subordinated Lien)	7	a+	11.1

In addition, SGI has the option to cede certain debt service reserve fund surety and interest rate swap policies that have zero net par outstanding for an immaterial additional premium payment.



# Pro Forma Balance Sheet

**Syncora Guarantee Inc.**  
**Pro Forma Balance Sheet**  
**December 31, 2017**  
**Statutory Basis**

<u>(Dollars in thousands)</u>	<u>Actual</u> <u>12/31/2017</u>	<u>Reinsurance</u> <u>Adjustments</u>	<u>Surplus Note</u> <u>Payment</u>	<u>Pro Forma (3)</u> <u>12/31/2017</u>
<b>Admitted Assets</b>				
Bonds, at amortized cost	\$ 873,534	\$ (69,252)	\$ (400,000)	\$ 404,282
Preferred stocks	17,768			17,768
Common stocks	59,217			59,217
Cash, cash equivalents and short-term investments	309,935	(294,935)		15,000
Derivatives	348			348
Other invested assets	28,926			28,926
Total cash and invested assets	1,289,728	(364,187)	(400,000)	525,541
Premiums receivable	1,648			1,648
Accrued investment income	6,485			6,485
Other assets	4,232			4,232
Total admitted assets	<u>\$ 1,302,093</u>	<u>\$ (364,187)</u>	<u>\$ (400,000)</u>	<u>\$ 537,906</u>
<b>Liabilities and Capital and Surplus</b>				
<b>Liabilities</b>				
Unearned premium revenue, net	\$ 181,077	\$ (154,477)		\$ 26,600
Unpaid losses and loss adjustment expenses	(263,748)	(136,142)		(399,890)
Mandatory contingency reserve (1)	47,624	(42,624)		5,000
Payables to parent and affiliates	10,343			10,343
Payable for securities	5,247			5,247
Other liabilities	3,926			3,926
Total liabilities	(15,531)	(333,243)		(348,774)
<b>Capital and surplus</b>				
Common stock	15,000			15,000
Preferred stock	200,000			200,000
Surplus notes (2)	548,506		(222,964)	325,542
Accumulated surplus	554,118	(30,944)	(177,036)	346,138
Total capital and surplus	1,317,624	(30,944)	(400,000)	886,680
Total liabilities and capital and surplus	<u>\$ 1,302,093</u>	<u>\$ (364,187)</u>	<u>\$ (400,000)</u>	<u>\$ 537,906</u>

(1) Reflects the submission of permitted practice to release contingency reserves, which remains subject to the approval of the New York Department of Financial Services ("NYDFS").

(2) Pro forma reflects a \$400 million payment of principal and accrued interest on SGI's surplus notes which is subject to the approval of the NYDFS and is a closing condition to the Reinsurance Agreement.

(3) Pro forma balance sheet reflects "Run-off" reinsurance accounting treatment under statutory accounting principles which requires the approval of the NYDFS and Assured Guaranty Corp.'s regulator.

# Pro Forma Income Statement

**Syncora Guarantee Inc.**  
**Pro Forma Income Statement**  
**For the Year Ended December 31, 2017**  
**Statutory Basis**

(Dollars in thousands)	Actual 12/31/2017	Reinsurance Adjustments	Surplus Note Payment	Pro Forma 12/31/2017
<b>Underwriting</b>				
Net premiums earned	\$ 51,764			\$ 51,764
Deductions				
Net (benefit) losses and loss adjustment expenses	(88,288)	74,824		(13,464)
Underwriting expenses	47,003	(1,256)		45,747
Total underwriting deductions	(41,285)	73,568		32,283
Net underwriting gain (loss)	93,049	(73,568)		19,481
<b>Investment Income</b>				
Net investment income (loss) (1)	(3,079)		(177,036)	(180,115)
Net realized capital gains (losses)	(21,543)			(21,543)
Net investment loss	(24,622)		(177,036)	(201,658)
<b>Other Income</b>				
Fees and other income	2,136			2,136
Total other income	2,136			2,136
Income (loss) before federal income tax expense (benefit)	70,563	(73,568)	(177,036)	(180,041)
Current federal and foreign income tax expense (benefit)	26			26
Net income (loss)	\$ 70,537	\$ (73,568)	\$ (177,036)	\$ (180,067)

(1) Includes interest on surplus notes, which under statutory accounting principles is recorded through net investment loss once approved by the New York Department of Financial Services ("NYDFS"). Pro forma reflects a \$400 million payment of principal and accrued interest on SGI's surplus notes which is subject to the approval of the NYDFS and is a closing condition of the Reinsurance Agreement.