SYNCORA HOLDINGS LTD.

CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

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Independent Auditor's Report

To the Board of Directors of Syncora Holdings Ltd.:

We have audited the accompanying consolidated financial statements of Syncora Holdings Ltd. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2014 and December 31, 2013, and the related consolidated statements of operations and comprehensive income (loss), of changes in shareholders' equity, and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Syncora Holdings Ltd. and its subsidiaries at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 2 to the consolidated financial statements, the risk of adverse loss development on the Company's remaining in-force business and its related effect on the Company's ability to maintain adequate liquidity and its subsidiaries' compliance with their regulatory capital requirements continue to represent significant risks and uncertainties faced by the Company. Management's ongoing strategic plan to mitigate these risks and uncertainties is also described in Note 2 to the financial statements.

PricewaterhouseCoopers LLP

April 29, 2015

SYNCORA HOLDINGS LTD.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2014 and 2013
(U.S. dollars in thousands, except share and per share amounts)

	2014	2013
ASSETS		
Debt securities, available-for-sale, at fair value (amortized cost: $1,468,536 and $1,254,232)	$ 1,497,367	$ 1,277,650
Other invested assets, at fair value	39,241	19,403
Cash and cash equivalents	150,066	237,181
Total cash and invested assets	1,686,674	1,534,234
Restricted cash and cash equivalents	13,662	3,725
Accrued investment income	7,514	6,580
Deferred acquisition costs, net	64,205	76,184
Premiums receivable	165,335	202,947
Salvage and subrogation recoverable	72,823	468,003
Credit default and other swap contracts, at fair value	58,606	173,840
Receivables on insurance cash flow certificates, net	376,298	455,754
Interest rate derivative instrument, at fair value	3,182	7,033
Property and equipment, net	52,582	55,244
Leasehold rights and other definite-lived intangible assets, net	12,343	14,703
Toll rights and other indefinite-lived intangible assets	94,516	99,921
Other assets	37,013	31,964
Assets of consolidated variable interest entities, at fair value	250,998	346,487
Total assets	$ 2,895,751	$ 3,476,619
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Unpaid losses and loss adjustment expenses	$ 1,169,778	$ 1,359,547
Unearned premium revenue	453,710	534,588
Credit default and other swap contracts, at fair value	298,575	528,041
Notes payable (par value: $719,142 and $719,287)	341,041	321,981
Reinsurance premiums payable	1,293	1,410
Accounts payable, accrued expenses and other liabilities	116,071	86,822
Pension and other postretirement liabilities	14,027	12,900
Liabilities of consolidated variable interest entities, at fair value	183,686	206,593
Total liabilities	2,578,181	3,051,882
Shareholders' equity		
Non-controlling interest in subsidiary- Series B perpetual non-cumulative preferred shares of Syncora Guarantee Inc. (2,000 shares authorized and issued; 1,345 shares outstanding, 655 shares held by subsidiary; $134,500 liquidation preference)	13,453	13,453
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; 59,314,204 shares issued; 56,269,616 shares outstanding, 3,044,588 shares held as treasury; $0.01 par value) and additional paid-in capital	2,678,374	2,678,374
Accumulated deficit	(2,643,351)	(2,540,490)
Accumulated other comprehensive income	22,501	26,807
Total Syncora Holdings Ltd. common shareholders' equity	57,524	164,691
Total Syncora Holdings Ltd. shareholders' equity	304,117	411,284
Total shareholders' equity	317,570	424,737
Total liabilities and shareholders' equity	$ 2,895,751	$ 3,476,619

See accompanying Notes to Consolidated Financial Statements.

SYNCORA HOLDINGS LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31, 2014 and 2013
(U.S. dollars in thousands, except share and per share amounts)

	2014	2013
Revenues		
Net premiums earned	$ 69,775	$ 132,714
Net investment income	40,190	36,421
Net realized gains (losses) on investments, including other-than-temporary impairment losses of $(9,409) and $(20,213)	305	(7,355)
Net (loss) earnings on insurance cash flow certificates, net of amortization of deferred gains of $7,744 and $47,449	(165,362)	232,604
Toll revenue	23,295	6,805
Fees and other income	14,536	14,423
Net earnings on credit default and other swap contracts, net unrealized gains of $113,818 and $24,531 and realized losses and other settlements of $10,071 and $(2,981)	123,889	21,550
Net change in fair value of consolidated variable interest entities	(58,504)	(108,620)
Total revenues	48,124	328,542
Expenses		
Net (recoveries) and loss adjustment expenses	(18,183)	(397,298)
Amortization of deferred acquisition costs, net	11,979	18,409
Realized loss (gain) on interest rate derivative instrument	3,852	(1,470)
Operating expenses	150,856	124,255
Total expenses	148,504	(256,104)
(Loss) income before income tax expense	(100,380)	584,646
Income tax expense	2,481	2,849
Net (loss) income	(102,861)	581,797
Other comprehensive (loss) income:		
Change in pension and other postretirement benefits	(1,610)	996
Net unrealized losses on investments	(2,696)	(91,347)
Comprehensive (loss) income	$ (107,167)	$ 491,446
Basic and diluted (loss) income per common share:		
Net (loss) income	$ (1.75)	$ 9.81
Weighted average common shares outstanding	58,838,748	59,314,204

See accompanying Notes to Consolidated Financial Statements.

SYNCORA HOLDINGS LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2014 and 2013
(U.S. dollars in thousands)

	2014	2013
Non-controlling interest in subsidiary – Series B perpetual non-cumulative preferred shares of Syncora Guarantee Inc.		
Balance—beginning of year	$ 13,453	$ 13,453
Balance—end of year	13,453	13,453
Series A perpetual non-cumulative preference shares		
Balance—beginning of year	246,593	246,593
Balance—end of year	246,593	246,593
Common shares and additional paid in capital		
Balance—beginning of year	2,678,374	2,681,713
Adjustment for litigation settlement	—	(3,339)
Balance—end of year	2,678,374	2,678,374
Accumulated deficit		
Balance—beginning of year	(2,540,490)	(3,122,287)
Net (loss) income	(102,861)	581,797
Balance—end of year	(2,643,351)	(2,540,490)
Accumulated other comprehensive income (loss)		
Balance—beginning of year	26,807	117,158
Net change in unrealized losses of investments	(2,696)	(36, 496)
Replacement bank warrants settlement	—	(54,851)
Unrecognized pension and postretirement benefit costs	(1,610)	996
Balance—end of year	22,501	26,807
Total common shareholders' equity—end of year	57,524	164,691
Total shareholders' equity—end of year	$ 317,570	$ 424,737

See accompanying Notes to Consolidated Financial Statements.

SYNCORA HOLDINGS LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 and 2013
(U.S. dollars in thousands)

	2014	2013
Cash flows from operating activities:		
Premiums collected	$ 21,379	$ 27,767
Investment income collected	47,078	47,091
Tolls collected	23,867	7,020
Fees received on credit default swaps	10,367	18,128
Losses paid on credit default swaps	(710)	(11,962)
Fees paid for other derivative swaps	—	(5,563)
Interest collected on replacement bank warrants	—	13,901
Cash received from litigation settlements	405,714	216,378
Claims paid to policyholders	(138,592)	(117,831)
Operating expenses paid	(129,894)	(115,307)
Income taxes paid	(4,120)	(3,297)
Other cash receipts	1,202	5,962
Cash paid for insurance cash flow certificates	(73,327)	(58,408)
Cash received on insurance cash flow certificates	16,866	43,936
Investment income collected by variable interest entities	16,842	19,643
Interest and other expenses paid by variable interest entities	(13,363)	(14,268)
Net cash provided by operating activities	183,309	73,190
Cash flows from investing activities:		
Net proceeds from sales of investments	527,767	555,639
Net proceeds from maturity of investments	140,097	161,757
Purchases of investments	(936,441)	(734,285)
Purchases of property and equipment	(1,272)	(502)
Net cash received from acquisition	—	54,546
Net proceeds from consolidated variable interest entities' assets	7,515	241,608
Net cash (used in) provided by investing activities	(262,334)	278,763
Cash flows from financing activities:		
Net paydowns of consolidated variable interest entities' liabilities	(8,090)	(230,190)
Net cash used in financing activities	(8,090)	(230,190)
(Decrease) increase in cash and cash equivalents	(87,115)	121,763
Cash and cash equivalents—beginning of period	237,181	115,418
Cash and cash equivalents—end of period	$ 150,066	$ 237,181
Supplemental non-cash flow information:		
Acquisition of net assets upon American Roads' re-emergence from bankruptcy	—	205,319

See accompanying Notes to Consolidated Financial Statements.

1. Organization and Business

Syncora Holdings Ltd. ("Syncora Holdings") is a Bermuda holding company, which was formed on March 17, 2006 that provides, through its wholly-owned subsidiaries, financial guarantee insurance and reinsurance. Syncora Holdings collectively with its consolidated subsidiaries is hereafter referred to as the ("Company").

Syncora Holdings principal business operating subsidiaries consist of Syncora Guarantee Inc. ("SGI") and SGI's wholly-owned subsidiaries, Syncora Capital Assurance Inc. ("SCAI") and Syncora Guarantee (U.K.) Ltd. ("SGI-UK").

SGI is an insurance company domiciled in the State of New York, which is regulated by the New York State Department of Financial Services ("NYDFS") and at one time was licensed to conduct financial guarantee insurance business throughout all 50 of the United States and other jurisdictions. SGI collects and expects to continue to collect premiums on existing business, however, because of the events discussed herein; SGI ceased writing substantially all new business in January 2008 and is no longer licensed to do so in certain states and other jurisdictions.

SCAI is a New York domiciled financial guarantee insurance company also regulated by the NYDFS, which was formed and commenced operations on July 15, 2009, in connection with the restructuring of SGI as discussed in Note 3. SCAI collects and expects to continue to collect premiums on existing business but is prohibited from writing new business and, therefore, does not intend to seek to obtain licenses to transact new insurance business in any other state or jurisdiction.

SGI-UK is a domiciled and licensed financial guarantee insurance company formed in the United Kingdom and is regulated by the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA") in the United Kingdom. On April 24, 2009, SGI-UK filed an application for a Variation of Permission with the Financial Services Authority ("FSA") to remove its authority "to effect new contracts of insurance" and this application was approved by the FSA. SGI is currently in the process of transferring all the assets and liabilities of SGI-UK to SGI pursuant to Part VII of the Financial Services and Markets Act. Such transfer is subject to approval by the PRA and the High Court of England.

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 New York Insurance Law (the "NYIL"). These trusts are consolidated by the Company.

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

Pike Pointe

Pike Pointe Holdings, LLC ("Pike Pointe") is a wholly owned subsidiary of SGI, which was formed as a Delaware limited liability company to hold 100% of the equity ownership of a number of its subsidiaries that ultimately own and operate certain toll road facilities located in the United States and Canada (collectively, "American Roads"). The financial statements of Pike Pointe for the period from September 4, 2013 through December 31, 2013 and for the year ended December 31, 2014 have been included in the accompanying consolidated financial statements.

On July 25, 2013, American Roads LLC and certain of its affiliates filed "pre-packaged" bankruptcy cases under Chapter 11 of the United Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. SGI insured approximately $830 million of bonds and interest rate swap liabilities issued by American Roads LLC. On September 3, 2013, the approved bankruptcy plan went effective and SGI as an indirect owner of the American Roads, LLC interest rate swaps and issuer of related insurance policies received 100% of the equity ownership of the reorganized American Roads. The holders of the bonds originally issued by American Roads, which have been discharged in bankruptcy, continue to benefit from SGI's insurance policies, as SGI is obligated to pay 100% of all future principal and interest payments.

The Company has two reportable operating business segments, which are Financial Guarantee Insurance and Other. The Company's financial guarantee business segment is conducted primarily through its operating subsidiaries, SGI, SCAI and SGI-UK. The Company's other business segment relates to its non-insurance operations and includes primarily the operations of Pike Pointe.

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

Significant Risks and Uncertainties

Given the significant risks and uncertainties discussed below and that the Company's shareholders' equity and its capitalization includes debt, in the form of surplus notes, with a par value of $719 million, as well as two issues of preferred stock with an aggregate liquidation value of $384.5 million, the Company believes that there will likely be very little, if any, residual value available to the common shareholders of Syncora Holdings and cautions investors that an investment in Syncora Holdings common shares is extremely speculative and may result in a loss of substantially all of their investment. Additionally, given the risks outlined below, including those with respect to Syncora Holdings' liquidity position and SGI's liquidity and financial position, the Company cautions investors that investment in the preferred shares of Syncora Holdings or SGI or an investment in SGI's surplus notes should also be considered speculative. See Note 20 for further discussion.

Syncora Holdings is a holding company with no operations or significant assets other than $8.4 million of debt securities and cash and cash equivalents and its common equity ownership of its subsidiaries. Syncora Holdings' only potential sources of funds are dividends and/or reimbursements for certain expenses related to the general services agreement with its subsidiaries to provide funds for its working capital needs and to pay operating expenses. The remainder of its capital is held at SGI and SCAI, and any dividends and/or distributions from these entities are subject to contractual and regulatory prohibitions and limitations and to the prior claims of SGI's surplus noteholders and preferred shareholders. There can be no assurance that Syncora Holdings will be able maintain adequate capital or have sufficient liquidity in the future to pay its operating expenses. See Note 23 for condensed financial information of Syncora Holdings.

The Company is exposed to significant risks and uncertainties that may materially affect its financial and liquidity position. These relate to, among other things, (i) a potential "liquidity mismatch" resulting from the timing of anticipated future claims payments and subsequent cash recoveries related to these claims payments, (ii) the potential for future adverse loss and claims development on its insured obligations, (iii) the failure to receive payments on its Insurance Cash Flow Certificates ("ICFs"), (iv) the resolution of various litigation matters, including recoveries from the Company's insurance policy litigation claims, and (v) the failure to receive interest payments from SCAI on its long-term surplus note. These risks and uncertainties are discussed more fully below and could materially and adversely affect the Company's results of operations, financial condition and liquidity.

Description of Significant Risks and Uncertainties and Other Matters

- The Company continues to face a potential "liquidity mismatch" between expected future medium to long-term claim payments and recoveries relating to such claims. This potential liquidity mismatch results primarily from substantial projected claims payments. The Company anticipates it will be requested to make substantial gross claim payments in the period 2017 to 2029 of approximately $589.9 million, excluding remediated RMBS claims, followed in later years (in some cases significantly later years) by substantial anticipated recoveries of these claims payments. Certain of these claims are subject to variability and uncertainty and may, under certain scenarios, exceed the Company's claims paying resources at that time. In addition, the potential "liquidity mismatch" also results from the Company's exposure to other transactions with refinancing risk in the period 2015 to 2019, including one credit with a heightened risk of material claims payments with an aggregate par outstanding of $921.0 million and a number of other credits with exposure to refinancing risk and the risk of material principal repayments with an aggregate par outstanding of $3.81 billion, in each case as of December 31, 2014. Pursuant to the Company's accounting policy and guidance under Generally Accepted Accounting Principles ("GAAP"), the net present value of estimated claims and recoveries (including salvage and subrogation) are reflected in the Company's loss reserves (see the Company's accounting policy on reserves in Note 4). The amount and timing of the recoveries related to the anticipated future claims payments are subject to greater uncertainty and timing than the amount and timing of such future claims payments themselves. If realized, this liquidity mismatch is projected to have a material adverse effect on the Company, including its expected future liquidity position, and could have a material adverse effect on the Company's ability to satisfy its future medium to long-term obligations, including policyholder claims, interest and principal payments on its surplus notes, and other obligations. Because of the inherent uncertainty in estimating future claim payments and recoveries (including, whether, when and to what extent investment grade and non-investment grade credits may be able to refinance), no assurance can be given that the actual severity or timing of claims payments, related recoveries, or ultimate losses will not be different than the Company's estimates, and such differences could materially and adversely affect the Company's results

of operations, financial condition and liquidity. Further, no assurance can be given that the Company will be successful in further enhancing liquidity or mitigating adverse developments associated with its future claim payments, recoveries, reserves for losses or the aforementioned potential liquidity mismatch. See Note 12 "*Schedule of Insured Financial Obligations with Credit Deterioration*" caption for further discussion. The Company may experience significant adverse development on its insured obligations that may place further demands on the Company's liquidity and financial position. The Company cannot provide any assurance that, were it to experience further adverse loss and claims development, the NYDFS would not take regulatory action, which may include commencement of rehabilitation or liquidation proceedings.

- The Company's estimate of reserves for losses on its exposures is based on certain assumptions. Changes in such assumptions could materially adversely affect such reserve estimates, including the amount and timing of any claims. Under certain conditions, many of which are event-driven and outside the control of the Company, these exposures may result in significant increases in claims beyond those assumed in the Company's reserve estimate (that may or may not result in an increase in such loss reserves) in the near to medium term.

- The Company has entered into reinsurance contracts with certain third party (i.e. non-affiliated) ceding insurance companies primarily related to structured single risk credits. As reinsurer, the Company is subject to the inherent risk associated with the loss estimation process of the primary insurer and is exposed to the failure of the primary insurer to provide adequate notice of any claim or potential claim, which would require the Company to establish a reserve for unpaid losses for its share of claim loss.

- The Company is exposed to significant refinancing risks in its insured and reinsured portfolio. The Company had assumed at origination that certain of the debt issuances insured could be refinanced in the market. The Company is exposed to this risk and, accordingly, may be required to make claims payments and then seek to recover its payments from revenues produced by the transaction. The Company believes it has reserved appropriately to reflect this risk but a more difficult refinancing market at the time of refinancing could lead to the Company facing additional, material claims and losses (see the discussion of the potential "liquidity mismatch" described above). Through its guarantees of certain CDOs, the Company is also indirectly exposed to refinancing risk associated with debt obligations held or referenced in these portfolios. The underlying asset types for which refinancing risk is a factor primarily include US CLOs and European CLOs.

- The Company has direct insurance and reinsurance exposure to certain credits within European countries. Global economic conditions have been negatively affected with concerns about the continued sovereign debt crisis within the European region and the possibility that certain European Union member states will default on their debt obligations or leave the European Union. The continued uncertainty over the outcome of the European Union governments' efforts to provide financial support for sovereigns and sub-sovereigns and the possibility of further deteriorating conditions in Europe could have a material adverse effect on the Company's financial and liquidity position. As of December 31, 2014, the Company's in-force guaranteed principal exposure to the European Union was approximately $8.3 billion of which $265.8 million was specifically related to certain credits in higher risk countries, such as Portugal and Italy.

- The Company and its financial position will continue to be subject to risk of global financial and economic conditions that could materially and adversely affect the amount of losses (including the timing and amount of claims and subsequent recoveries) incurred on transactions it guarantees, the value of its investment portfolio, and otherwise materially and adversely affect the Company. Issuers or borrowers whose securities or loans the Company insures or holds as well as the Company's counterparties under swaps and other derivative contracts may default on their obligations to the Company due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud or other reasons. Additionally, the underlying assets supporting securities that the Company has guaranteed may deteriorate further, causing these securities to incur losses.

- The Company is materially exposed to foreign exchange risk as the Company's insured debt obligations are denominated in a number of foreign currencies and the U.S. dollar. The principal currencies creating foreign exchange risk are the British pound sterling, Australian dollar and the European Union euro. At current exchange rates, approximately $9.8 billion of the Company's in-force guaranteed net par outstanding exposure of $41.5 billion at December 31, 2014 was denominated in such currencies. The Company translates foreign currencies into U.S. dollars at the current market exchange rates. Changes in the exchange rates between foreign currencies and U.S. dollars may have an adverse effect on the settlement of potential claims or the value of salvage/recoveries and therefore could have a material adverse effect on the Company's liquidity and financial position. In addition, the Company is materially exposed to risks associated with its financial guarantees covering foreign denominated inflation indexed-linked bonds in connection with the bonds issued by UK and European utility and project finance issuers.

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

- As of December 31, 2014, the Company has $470.0 million of exposure to the Commonwealth of Puerto Rico predominantly in General Obligation bonds and other obligations of its instrumentalities. As a result of Puerto Rico’s high debt levels, weak economy and recent rating downgrades, there is significant risk and uncertainty related to Puerto Rico’s ability to access capital in the credit markets and its ability to pay its debt as they become due.

  The obligations of Puerto Rico Electric Power Authority (“PREPA”) are subject to additional risks. PREPA's access to liquidity may be adversely affected by the Government Development Bank for Puerto Rico's announcement that it will no longer extend loans to certain public corporations such as PREPA, for which there is not a demonstrated ability to repay. The Commonwealth also enacted the Puerto Rico Public Corporation Debt Enforcement and Recovery Act, which creates a legal framework for public corporations such as PREPA to restructure. On February 6, 2015, the Act was ruled unconstitutional by a federal court in Puerto Rico. The ruling has been appealed. PREPA reported that it did not make certain required payments under the terms of its bonds and the trustee for such bonds withdrew funds from a reserve account to cover shortfalls in the July 1, 2014 interest payments. On August 14, 2014, the Company, other financial guarantors and certain bondholders entered into a forbearance agreement with PREPA, which provides that, among other things, the forbearing creditors agree not to exercise remedies until March 31, 2015, unless the agreement is terminated earlier in accordance with its terms. PREPA announced that it missed a March 2, 2015 deadline under the forbearance agreement to deliver a proposed restructuring plan reasonably acceptable to two-thirds in principal amount of the forbearing creditors. In addition, PREPA missed a December 15, 2014 deadline to submit a five-year business plan, instead submitting only a draft. With large debt service payments due on July 1, 2015, PREPA sought an extension of the forbearance until June 30, 2015; however, the forbearing creditors granted extensions of the forbearance until April 30, 2015.

  If Puerto Rico or any of its instrumentalities were to default on their debt obligations, the Company may experience losses on these insured obligations which could have a material adverse effect on the Company’s liquidity and financial position.

- The Company also continues to have significant exposure to a number of large structured single risk transactions (11 transactions with an aggregate insured principal outstanding of $2.4 billion) with material risk of adverse development, including to event driven risks, such as political, operational, bankruptcy, legal and regulatory actions. Such adverse events could have a material adverse effect on the Company's liquidity and financial position.

- SGI also holds 100% of the common shares issued by SCAI. SCAI’s ability to pay dividends on such common shares is subject to risks and uncertainties, including, without limitation, prior regulatory approval by the NYDFS and compliance with certain contractual restrictions. No assurance can be given as to whether or when SGI or SCAI may be able to pay any dividends on its preferred and/or common shares.

- The Company’s subsidiary, SCAI has significant exposure to public finance transactions (including Puerto Rico), structured single risk and collateralized debt obligations and has experienced $56.7 million in adverse development for the year ended December 31, 2014. These exposures continue to pose a risk of material adverse development. Reductions in the carrying value of the Company’s investment in SCAI could, directly or indirectly, have a material adverse effect on the Company’s liquidity and financial position.

- Any payment of principal or interest on the long-term surplus note issued by SCAI, which is held by SGI, is subject to the satisfaction of conditions precedent, including, without limitation, prior regulatory approval by the NYDFS and compliance with contractual restrictions in the 2009 MTA. To date, the NYDFS has permitted SCAI to make payments to SGI on its long-term surplus note. In light of the significant losses incurred at SCAI noted above, in September 2014, SGI requested permission from the NYDFS and on November 7, 2014 the NYDFS granted permission to make a $30 million capital contribution to SCAI, which was made on November 13, 2014. On December 24, 2014, the NYDFS approved the payment of $6.1 million of interest on its long-term note from SCAI to SGI. No assurance can be given as to whether and when the NYDFS will approve future payments (approximately $12 million of interest per annum) on SCAI’s $200 million long-term surplus note. The failure of SGI to receive all future principal and interest payments of $282.2 million due from SCAI could have a material adverse effect on SGI’s anticipated liquidity position.

- Any payment of principal or interest on the short-term and long-term surplus notes issued by SGI is subject to the satisfaction of conditions precedent, including, without limitation, prior regulatory approval by the NYDFS. SGI was obligated by the terms of its short-term surplus notes to pay the outstanding principal balance of $150 million, together with paid-in-kind interest and accrued and unpaid interest, totaling approximately $169.6 million that matured on December 28, 2011, however, the NYDFS did not approve the payment, and accordingly, the payment was not made. In December 2014 (for both the short-term and long-term surplus notes), SGI sought approval for payment of interest. The NYDFS did not approve any such payments. Notwithstanding the Company's litigation settlements and its remediation transactions, SGI remains exposed to significant risks and uncertainties that may materially and adversely affect its financial condition, liquidity position and ability to make payments on its surplus notes. Consequently, there is significant uncertainty and there can be no assurance as to whether and when the NYDFS will approve any future payments on the short-term or long-term surplus notes. Any payment by SGI of principal or interest on its short-term or long-term surplus notes could have a potential material adverse effect on SGI's prospective financial and liquidity position.

- As discussed in more detail in Note 12, the Company has exercised rights available to it in connection with certain RMBS it insures and has issued put-back notices to sponsors of such securities to require the repurchase of mortgage loans which back the securities and has recorded a reduction in its reserves for losses at December 31, 2014, which reflects its estimate of its ultimate recovery from such repurchases. Sponsors and originators have disputed the Company's right to require them to repurchase the aforementioned mortgages and the Company is involved in litigation to enforce these rights. If the Company is unsuccessful in enforcing its rights and does not realize the benefit it recorded through the aforementioned reduction in its reserves as and when expected, it may have a material effect on the Company's anticipated liquidity position and material adverse effect on the Company's financial position. Likewise, if the Company is successful in enforcing its rights in an amount greater than the benefit it recorded through the aforementioned reduction in reserves, it may have a materially positive effect on the Company's financial and liquidity positions. The Company periodically engages in discussions attempting to resolve these claims. While a negotiated resolution could result in an amount below that recorded in the aforementioned reserve reductions, it could also result in an amount greater than such reductions.

- As a result of the RMBS Offer (as defined in Note 3), alternative transactions effectively replicating the RMBS Offer and direct purchases of insured securities the Company has effectively defeased or, in substance, commuted its exposure to certain insured transactions. The effectiveness of these structures is dependent upon the ability of the Company to receive payments on its receivables from insurance cash flow certificates. Failure of the Company to receive these payments would have a material adverse effect on the Company.

- Establishment of case basis reserves for unpaid losses and loss adjustment expenses on the Company's in-force business requires the use and exercise of significant judgment by management, including estimates regarding the likelihood of occurrence, timing and amount of a loss on a guaranteed obligation. A material portion of the Company's case basis reserves reflect certain assumptions with respect to recoveries on rights available to the Company in connection with certain RMBS it insures that require the sponsors of such securities to repurchase mortgage loans that breached certain representations and warranties (see Note 12). Similarly, a material portion of the Company's case basis reserves reflects certain assumptions that affect reimbursements in the remainder of its insured and reinsured portfolio. Actual experience may, and likely will, differ from those estimates and such difference may be material due to the fact that the ultimate dispositions of claims are subject to the outcome of events that have not yet occurred and, in certain cases, will occur over many years in the future. Examples of these events include changes in the level of interest rates, credit deterioration of guaranteed obligations, recoveries in bankruptcy proceedings, changes in the value of specific assets supporting guaranteed obligations, changes in the level of investment yield and changes in the timing, level of success and collectability of the aforementioned mortgage loan repurchases. Both qualitative and quantitative factors are used in making such estimates. From time to time the Company reevaluates all such estimates. Changes in these estimates may be material and may result in material changes in the Company's financial position. Any estimate of future costs is subject to the inherent limitation on management's ability to predict the aggregate course of future events. It should, therefore, be expected that the actual emergence of losses and claims will vary, perhaps materially, from any estimate. The risk of loss under the Company's guarantees extends to the full amount of unpaid principal and interest on all debt obligations it has guaranteed.

- Failure to make claim payments by SGI in the future (see discussion of regulatory and legal matters below) 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 swap contracts guaranteed by SGI on which SGI 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 SGI's failure to make claim payments.

- The Company is involved in a number of legal proceedings, both as plaintiff and defendant. Management cannot predict the outcomes of these legal proceedings and other contingencies with certainty. The outcome of some of these legal proceedings and other contingencies could require the Company to take or refrain from taking actions which could adversely affect its business or could require the Company to pay (or fail to receive) substantial amounts of money. Similarly, a favorable outcome of the suits where the Company is the plaintiff, could entitle the Company to receive (directly or indirectly) substantial recoveries. A favorable or unfavorable outcome could have a material effect on the Company's financial and liquidity position. Prosecuting and defending these lawsuits and proceedings involves significant expense and diversion of management's attention and resources from other matters.

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

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

- Changes in laws and regulations or the adoption of new laws such as the Puerto Rico Recovery Act affecting insurance companies, the municipal and structured securities markets, the frequency with which municipalities file for protection under Chapter 9 of the bankruptcy code or similar insolvency laws and the loss severities associated therewith, the financial guarantee insurance and reinsurance markets and the credit derivatives markets, as well as other governmental regulations, or acts may subject the Company, its affiliates and subsidiaries to additional legal liability and regulatory requirements, affect the credit performance of the securities that the Company insures and otherwise affect the Company's financial condition.

- SCAI issued policies insuring interest rate swaps with respect to the City of Detroit that has an estimated mark to market value of $107 million at December 31, 2014. If these swaps are terminated by the swap counterparties, SCAI's potential exposure is capped at $27 million. SCAI is in a dispute with the swap counterparties, among other things, as to whether, and to what extent, SCAI is obligated under these insurance policies, and as a result of the uncertainty with respect to the resolution of such dispute, SCAI remains at risk of loss on these policies, which loss could have a material and adverse effect on SCAI's financial position.

- The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") may result in requirements for the Company to maintain a certain mandated amount of capital on its existing insured derivatives portfolio should it be required to register as a major security-based swap participant under the Dodd-Frank Act. The Company estimates that it is currently below the calculation thresholds. However, with limited or no access to sources of external capital, it is unlikely that the Company would be able to comply with such requirements. The consequences of non-compliance are not known.

- The Company's UK subsidiary, SGI-UK is regulated by the PRA and the FCA in the United Kingdom. The Solvency II Directive (2009/138/EC) was adopted by the European Union on November 25, 2009 and is currently expected to become effective for UK insurance companies in January 2016 ("Solvency II"). The Solvency II directive reforms the European insurance industry's solvency framework, including minimum capital and solvency capital requirements, governance requirements, risk management and public reporting standards. The currently proposed Solvency II-imposed minimum solvency and capitalization requirements may exceed SGI-UK's own capital resources. It is unknown what actions, if any, the PRA and the FCA may take for companies that fail to meet these requirements. SGI is currently in the process of transferring all the assets and liabilities of SGI-UK to SGI pursuant to Part VII of the Financial Services and Markets Act. Such transfer is subject to approval by the PRA and the High Court of England. Until such time as the transfer of SGI-UK assets and

liabilities to SGI is approved by the High Court of England, any such actions may have material and adverse effects on SGI-UK and the Company and its financial and liquidity position. In addition, as described in the risks and uncertainties noted above, the Company's investment in its subsidiary, SGI-UK, and its interest in the reinsurance premiums from SGI-UK, is subject to certain risks and uncertainties. Any reduction in the carrying value of the Company's investment in its subsidiaries or the cessation or material limitation of reinsurance premiums from SGI-UK would have a material adverse effect on the Company's financial and liquidity position.

- SGI's non insurance subsidiary, Pike Pointe is exposed to certain risks and uncertainties related to its toll road facilities, operations and toll collections. The carrying value of Pike Pointe's assets includes long-lived tangible and intangible assets whose recovery is predicated on toll collections. Any impairment of such assets could have a material adverse effect on SGI's financial position.

- SGI and SCAI have sought, and may in the future seek, the NYDFS's approval of permitted accounting practices and other regulatory relief which have, and if granted may have, a material effect on SGI's and SCAI's statutory policyholders' surplus. Once granted, these permitted accounting practices have been subject to an annual approval or confirmation. No assurance can be given that the NYDFS will continue to grant approval of SGI's and SCAI's past or any future permitted accounting practices or requested regulatory relief. Failure to obtain continuing approval of the past or future permitted accounting practices or requested regulatory relief could have a material adverse effect on SGI's and SCAI's statutory policyholders' surplus.

- Should the Company experience an "ownership change" for purposes of Section 382 of the Internal Revenue Code, the Company's ability to utilize its net operating loss carryforwards could be subject to an annual limitation in the future, which would be expected to result in a material increase in the Company's U.S. federal income tax liability, reduce reimbursements from profitable affiliates under its tax sharing agreement and therefore materially adversely affect the Company's financial and liquidity position. While the Syncora Holdings Ltd. bye-laws contain restrictions intended to reduce the likelihood of such an "ownership change," it remains possible that an "ownership change" could nonetheless occur. See Note 17 for more information.

- As discussed in Notes 3 and 20, the Company is subject to a number of contractual restrictions that limit its financial and operating flexibility and may materially and adversely impair its ability to execute on its strategic plan.

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

As a result of multiple substantial remediation transactions and litigation recoveries, management has concluded that, through December 31, 2015, there is not substantial doubt about the ability of the Company to continue as a going concern. Notwithstanding management's conclusion that there is not substantial doubt about the ability of the Company to continue as a going concern through December 31, 2015, the Company remains exposed to significant risks and uncertainties, including the potential "liquidity mismatch". The Company will assess its going concern status on an ongoing basis.

Description of the Company's On-Going Strategic Plan

Management continues to pursue opportunities to mitigate the aforementioned risks and the significant risks and uncertainties described above. In particular, management continues to actively seek to (i) remediate insured exposures (through their purchase on the open market or otherwise, commutation, defeasance or other restructuring) to minimize potential claim payments, maximize recoveries and mitigate potential losses, (ii) increase the Company's capital, financial position, liquidity, claims paying resources and reduce its liabilities (including through additional third-party capital), (iii) realize maximum value from its illiquid assets, including but not limited to its net operating losses, investments in subsidiaries and various legal proceedings described in Note 19 and from any other rights and remedies the Company may have, whether through litigation, settlement or other monetization, (iv) enhance returns from its investments to match its long-term liabilities (v) take other actions to enhance its current and future financial, liquidity and capital position, (vi) rationalize and optimize its capital structure, which could potentially involve the issuance, exchange and/or retirement of securities issued by the Company and its subsidiaries and/or modification of the corporate structure of the Company and its subsidiaries, (vii) continue to discuss and explore ways of increasing its financial and operating flexibility with existing security holders and other interested parties, including by seeking necessary consents to the removal, modification and/or waiver of financial, operating and other contractual constraints (see Notes 3 and 20 for a description of key constraints), and (viii) together with its subsidiaries and affiliates, to explore new business opportunities to enhance stakeholder value (hereafter collectively referred to as "Strategic Actions").

In regard to the Strategic Actions, the Company, working with its external advisors and counsel, is actively pursuing or exploring (including through input from and discussions with various holders of securities of the Company and its subsidiaries) a number of options available to it which, individually, or in the aggregate, may materially affect (favorably or adversely) the Company's policyholders' surplus, liquidity position or address other challenges that the Company faces. No assurances can be given that the Company will be successful in completing any of the aforementioned actions. Furthermore, certain of the Strategic Actions contemplated by the Company may be outside the ordinary course of the Company's operations or its control and may require consents, approvals or cooperation of parties outside of the Company, including the NYDFS, and there can be no assurance that any such consents, approvals or cooperation will be obtained.

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

On July 15, 2009, SGI consummated a master transaction agreement with certain of its financial counterparties to CDS contracts insured by its financial guaranty insurance policies and certain related transactions (hereafter referred to collectively as the "2009 MTA") which, along with approval of the NYDFS to apply certain accounting practices in connection with the preparation of SGI's statutory financial statements to certain of the transactions comprising the 2009 MTA, resulted in SGI's return to compliance with its regulatory minimum capital and surplus.

The 2009 MTA consisted of the following primary components:

(1) the restructure, effective defeasance or, in-substance, commutation (in whole or in part) of substantially all of SGI's exposure to such CDS contracts, in exchange for which SGI paid the Counterparties consideration comprising approximately $1.2 billion in cash, issuance of $625.0 million surplus notes of SGI and the transfer of common shares of Syncora Holdings;

(2) the reinsurance or novation of certain business to a newly formed, wholly-owned insurance subsidiary of SGI, SCAI, in which SGI also issued back-up guarantees on such novated guarantees, which would cover claims on such policies to the extent not satisfied by SCAI;

(3) the effective defeasance or, in-substance, commutation, of certain of SGI's exposure to insured RMBS. See below for further discussion; and

(4) certain other transactions to remediate loss exposure, which primarily consisted of certain commutations of other guarantees and assumed reinsurance, and the termination of its office lease agreement.

The 2009 MTA also contains a number of significant restrictive covenants applicable to SGI, SCAI and Syncora Holdings (collectively, the "Syncora MTA Parties"), which remain in effect until SGI's surplus notes have been paid in full and certain policies issued by and CDS contracts insured by SCAI are no longer in effect. These include prohibitions on:

i. the Syncora MTA Parties entering into a new or amending the existing tax sharing agreement or entering into specified related party transactions (subject to specified exceptions) or issuing equity securities;

ii. SGI and SCAI writing new business; incurring indebtedness and other material voluntary obligations (subject to specified exceptions); merging, consolidating or selling, assigning or transferring or disposing of (including by way of reinsurance, recapture or otherwise) all or any material portion of their respective assets (subject to specified exceptions); and

iii. SGI making any payments with respect to its short-term or long-term surplus notes except with respect to all such notes on a pro rata basis and on the same terms; failing to own all of the equity interests of SCAI; assigning, selling, transferring or creating a lien, security interest or other encumbrance on or over or otherwise disposing of its rights to receive payments under SCAI's surplus notes; paying dividends on or repurchasing, redeeming, exchanging or converting its equity securities (or of any of its direct or indirect parent's equity securities) or making investments (subject to specified exceptions).

Effective Commutation or Defeasance of Syncora Guarantee's Exposure to Insured RMBS Securities (the "RMBS Offer")

In connection with the 2009 MTA, the Company invested in a fund (the "RMBS Fund") that executed certain transactions designed to effectively defease or, in-substance, commute the Company's exposure on certain of its financial guarantee insurance policies written on RMBS. The RMBS Fund purchased certain of such 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 the Company'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"). In return for such investments, the Insurance Cash Flow Certificates were distributed to the Company. The Company will, should the cash flows from the underlying RMBS transaction be sufficient, receive certain reimbursement payments in respect of insurance payments previously made by the Company on such RMBS. The Company also entered into several alternative transactions effectively replicating the economics of the RMBS Offer.

In addition to the RMBS Offer, as part of its on-going strategic plan, the Company directly purchased certain RMBS and other securities that it had insured. Certain of these directly purchased securities were exchanged by the Company 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 the Company. The Company continues to purchase certain of its insured RMBS and other securities.

During the years ended December 31, 2014 and 2013, the Company purchased additional RMBS and other securities with an aggregate principal exposure of approximately $256.5 million and $163.3 million, respectively, for consideration of approximately $180.6 million and $126.7 million, respectively (excluding VIE activity).

The following table illustrates the components of net receivable on insurance cash flow certificates on the accompanying consolidated balance sheets at December 31, 2014 and 2013:

(U.S. dollars in thousands)

	2014	2013
Receivables on insurance cash flow certificates	$ 462,858	$ 556,410
Deferred gain	(86,560)	(100,656)
Receivables on insurance cash flow certificates, net	$ 376,298	$ 455,754

4. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements have been prepared in conformity with U.S. 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 primarily consist of those relating to the Company's reserves for losses and loss adjustment expenses, CDS contracts, variable interest entities' ("VIEs") assets and liabilities, deferred acquisition costs, and investments, as discussed in this note.

Consolidation

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and all other entities in which the Company has a controlling financial interest, including VIEs for which the Company is deemed to be the primary beneficiary. All intercompany accounts and transactions have been eliminated.

Reclassifications

Certain reclassifications have been made to prior period consolidated financial statement amounts to conform to the current period presentation. There were no effects on net income or shareholders' equity as a result of these reclassifications.

Investments

The Company determines the appropriate classification of investments at the time of purchase, which are recorded on the trade date. All of the Company's investments in debt (including Uninsured Cash flow Certificates ("UCFs") 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 determined using the Company's own internal model estimates. The net unrealized gains or losses on investments, net of deferred income taxes, is included in accumulated other comprehensive income. Any unrealized loss in value considered by management to be other-than-temporary is charged to income in the period that such determination is made. See Note 5 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 in the period such change is made.

Cash and Cash Equivalents

The Company's cash and cash equivalents include cash on hand, interest bearing bank deposits and money market funds. The Company defines cash equivalents as short-term, highly liquid securities and interest earning deposits with maturities at time of purchase of 90 days or less.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents are restricted as to withdrawal and use by the Company. Restricted cash and cash equivalents primarily include deposits held in escrow accounts and cash deposits or allowable funds held to satisfy regulatory requirements.

Unearned Premium Revenue and Receivable for Future Premiums

The Company recognizes a liability for unearned premium revenue at the inception of financial guarantee insurance and reinsurance contracts on a contract-by-contract basis. Unearned premium revenue recognized at inception of a contract is measured at the present value of the premium due or expected to be collected. For certain financial guarantee insurance contracts, the Company receives the entire premium due at the inception of the contract, and recognizes unearned premium revenue liability at that time. For other financial guarantee contracts, the Company receives premiums in installments over the term of the contract at stipulated due dates. Unearned premium revenue and a receivable for future premiums are recognized at the inception of an installment contract, and measured at the present value of premiums expected to be collected over the contract period or expected period using a risk-free discount rate. The expected period is used in the present value determination of unearned premium revenue and receivable for future premiums for contracts where (a) the insured obligation is contractually prepayable, (b) prepayments are probable, (c) the amount and timing of prepayments are reasonably estimable, and (d) a homogenous pool of assets is the underlying collateral for the insured obligation. The Company has determined that substantially all of its installment contracts are required to be measured based on contract period. The receivable for future premiums is reduced as installment premiums are collected. The Company reports the accretion of the discount on installment premiums receivable as premium revenue. The Company assesses the receivable for future premiums for collectability each reporting period, adjusts the receivable for uncollectible amounts and recognizes any write-off as an operating expense.

Premium Revenue Recognition

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.

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. Accordingly, 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").

Toll Revenue

Toll revenue is recognized at the time a vehicle travels on or through one of Pike Pointe's tunnel or bridges. Revenue recognition is deferred for automated tolls collected in advance and recognized at the time of travel.

Fees and Other Income

In connection with certain of its insured transactions, the Company may collect waiver, consent, termination and other fees. Depending upon the type of fee received, the fee is either earned when services are rendered and the fee is due, or deferred and earned over a stipulated period or the life of the related transaction.

Operating Expenses

Operating expenses primarily include interest expense, compensation and employee benefits, professional and legal fees, computer related costs, rent and occupancy costs, depreciation and amortization expense, foreign currency exchange losses and other general and administrative expenses.

Unpaid Loss and Loss Adjustment Expenses

A claim liability (loss reserve) is recognized at the measurement date on a contract-by-contract basis based on the weighted average probability of net cash outflows to be paid under the contract, on a present value basis, to the extent that the claim liability so determined exceeds the unearned premium revenue attributable to such contract at the measurement date (see Note 12).

Establishment of reserves for unpaid 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.

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 at December 31, 2014 and 2013 was 1.7% and 1.6%, respectively. 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. The Company estimates the likelihood of possible claims payments and possible recoveries using probability-weighted expected cash flows based on available information, 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.

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 due to refinements in the assumptions used in the Company's cash flow models based on research and information review. In other cases, 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 reserves for unpaid losses, 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.

Salvage and Subrogation Recoverable

The Company recognizes a salvage and subrogation recoverable based on net discounted anticipated recoveries in excess of net discounted anticipated paid claims on its financial guaranty insurance contracts up to the amount of previously paid claims or when the Company becomes entitled to the net cash inflows from the underlying collateral of an insured obligation under salvage and subrogation rights as a result of a claim payment or estimated future claim payments. Such recoverable amounts are included in salvage and subrogation recoverable on the accompanying consolidated balance sheets.

Property and Equipment

Property and equipment primarily relates to Pike Pointe and consists of land, leasehold improvements, roadways, bridges and facilities, buildings and toll plazas, furniture, computers, equipment, and construction in progress. All additions and improvements to property and equipment are recorded at cost and, except for land and construction in progress, are depreciated over the appropriate

useful life of the asset using the straight-line method. Expenditures for maintenance, repairs and inspections are charged to operating expenses as incurred.

Property and equipment are tested for impairment whenever events or changes in circumstances suggest that an asset or asset group's carrying value may not be fully recoverable. An impairment, calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized if the sum of the expected undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value. There were no impairment of property and equipment at December 31, 2014 and 2013.

Intangible Assets

Definite-lived intangible assets related to Pike Pointe consist of leasehold rights and software. Definite-lived intangible assets are amortized over their respective useful lives, which range from 3 to 7 years. Definite-lived intangible assets are evaluated for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through the estimated undiscounted future cash flows derived from the use of the assets. When a definite-lived asset is impaired, the related assets are written down to fair value. There was no impairment of definite-lived intangibles at December 31, 2014 and 2013.

Indefinite-lived intangible assets related to Pike Pointe include toll rights and goodwill. Management performs its annual impairment test as of August 31, or more frequently if facts and circumstances indicate that an impairment has occurred. In accordance with applicable guidance, the Company uses fair value techniques to evaluate indefinite-lived intangible assets for possible impairment. Management's test compares the fair value of the indefinite-lived intangible assets with its carrying amount. If the fair value of the indefinite-lived intangible asset is less than the carrying amount, impairment is recognized in an amount equal to the difference. The fair value of the indefinite-lived intangible is generally established using discounted cash flows. Management's assessment determined that indefinite-lived intangible assets were impaired on two of its toll bridges in 2014. This impairment primarily resulted from lower than expected traffic and revenues, and higher expenses. There was no impairment of indefinite-lived intangible assets at December 31, 2013.

Goodwill reflects the excess of the reorganization value of the Company over the fair value of tangible and identifiable intangible assets, net of liabilities, from the adoption of fresh start reporting. Pike Pointe recorded goodwill upon emergence from bankruptcy and does not amortize goodwill; however management performs its annual impairment test as of August 31, or more frequently if facts and circumstances indicate that impairment has occurred. This impairment test was calculated at the reporting unit level, which was determined to be each toll road facility. The goodwill impairment test has three steps. The first step evaluates events and circumstances to determine if it is more likely than not that the fair value of the reporting unit is less than its carrying amount. If the qualitative assessment concludes that the fair value of the reporting units exceeds the carrying amount, goodwill is not impaired and the additional steps are not necessary. The second step identifies potential impairments by comparing the fair value of a reporting unit with its book value, including goodwill. If the fair value of the reporting units exceeds the carrying amount, goodwill is not impaired and the third step is not necessary. If the carrying value exceeds the fair value, the third step calculates the possible impairment by comparing the implied fair value of goodwill with the carrying amount. If the implied goodwill is less than the carrying amount, a write-down is recorded. To derive the fair value of the reporting units, the Company utilizes the income approach, given the lack of comparable publicly-traded information. Under the income approach, fair value was determined based on estimated future cash flows discounted at an appropriate risk-adjusted discount rate which represents the rate of return an outside investor would expect to earn. Although the cash flow forecasts are based on assumptions that are considered reasonable by management and consistent with the plans and estimates used to manage the underlying business, there is significant judgment in determining the expected future cash flows attributable to these reporting units. Management believes the fair values estimated are reasonable, however actual performance in the short-term and long-term could be materially different from forecasts, which could impact future estimates of fair value of the reporting units and may result in impairment of goodwill. Management's test determined that goodwill was not impaired.

Retirement and Post-Retirement Benefits

The Company's subsidiary, Pike Pointe, has four non-contributory defined benefit pension and post-retirement plans, which provide certain benefits to its eligible employees. Pension and other post-retirement benefit costs and obligations are determined primarily based upon employees' length of service, the employee's average compensation during the last ten years of service, rates of return on pension plan assets, future health care costs and a contractually established rate for union employees represented by collective bargaining agreements. The Company recognizes the underfunded or overfunded status of a defined benefit pension and other post-retirement plan as an asset or liability and recognizes actuarial gains and losses in the year in which they occur through accumulated other comprehensive income, which is a component of stockholder's equity. These are amortized through the consolidated statements of operations and comprehensive income (loss).

The determination of defined benefit pension and postretirement plan obligations and their associated expenses requires the use of actuarial valuations to estimate participant plan benefits employees earn while working as well as the present value of those benefits. Inherent in these valuations are financial assumptions including discount rates at which liabilities can be settled, rates of increase of health care costs, as well as employee demographic assumptions such as retirement patterns, mortality and turnover. Management reviews these assumptions annually with its actuarial advisors. The actuarial assumptions used may differ materially from actual results due to changing market and economic conditions, higher or lower turnover rates or longer or shorter life spans of participants. Benefits are determined primarily based upon employees' length of service, the employee's average compensation during the last ten years of service, and a contractually established rate for union employees represented by collective bargaining agreements. The Company recognizes the underfunded or overfunded status of a defined benefit pension and postretirement plan as an asset or liability and recognizes changes in the funded status in the year in which the changes occur through accumulated other comprehensive income, which is a component of total shareholders' equity.

Credit Default Swap Contracts

Credit default swap contracts are derivative financial instruments and are recorded at fair value. Changes in fair value are recorded in "net change in fair value of credit default and other swap contracts" on the consolidated statements of operations. Realized gains (losses) and other settlements on credit default swap contracts include credit default swap derivative premiums received and receivable for credit protection the Company has sold under its insured CDS contracts, contractual claims paid and payable and received and receivable related to insured credit events under these contracts, ceding commissions expense or income and realized gains or losses related to their early termination. Net unrealized gains (losses) on credit default swaps contracts represent the adjustments for changes in fair value in excess of realized gains and other settlements that are recorded in each reporting period. Fair value of credit default swap contracts is reflected as either net assets or net liabilities determined on a contract by contract basis in the Company's consolidated balance sheets. See Note 8 for a discussion on the fair value methodology for credit default swap contracts.

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.

Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into U.S. dollar equivalents at exchange rates prevailing as of the date of the consolidated balance sheet. Revenues and expenses are translated at average exchange rates prevailing during the year. Gains and losses resulting from foreign currency transactions to U.S. dollar equivalents are recorded in current income and reflected in the operating expenses caption in the consolidated statements of operations.

Earnings Per Share

Basic earnings per share amounts are calculated by dividing net income by the weighted average number of common shares outstanding during the year, excluding the effect of dilutive securities. 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 potentially issued from all dilutive securities. There were no dilutive securities outstanding at December 31, 2014 and 2013, respectively.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

Effective January 1, 2014, the Company adopted the accounting pronouncement *"Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists"*. This standard requires an entity to present an unrecognized tax benefit in the financial statements as a reduction to a deferred tax asset for an NOL carryforward, a similar tax loss, or a tax credit carryforward except when: i) an NOL carryforward, a similar tax loss, or a tax credit carryforward is not available as of the reporting date under the governing tax law to settle taxes that would result from the disallowance of the tax position and ii) the entity does not intend to use the deferred tax asset for this purpose. If either of these conditions exists, an entity should present an unrecognized tax benefit in the financial statements as a liability and should not net the unrecognized tax benefit with a deferred tax asset. The adoption of this standard did not have a material effect on the Company's consolidated financial statements.

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income: In February 2013, the Financial Accounting Standards Board ("FASB") issued updated guidance regarding the presentation of comprehensive income. This standard requires an entity to present information about significant items reclassified out of accumulated other comprehensive income by component as well as changes in accumulated other comprehensive income balances either (1) on the face of the statement where net income is presented or (2) as a separate disclosure in the notes to the consolidated financial statements. The standard only affects the Company's disclosures and does not affect the Company's financial position, results of operations, or cash flows. The Company elected to early adopt this standard prospectively effective January 1, 2013. As a result of the adoption of this standard, the Company has elected to present amounts reclassified out of accumulated other comprehensive income as a separate disclosure in the notes to the consolidated financial statements. See Note 16.

Accounting Pronouncements Pending Adoption

In April of 2014, the FASB issued "*Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360)-Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*." This standard changes the criteria for determining whether a disposal of a component or group of components of an entity qualifies for discontinued operations presentation and requires new disclosures. This standard amends the definition of a discontinued operation to a disposal of components of an entity that represent strategic shifts that have, or will have, a major effect on an entity's operations and financial results. This standard is effective for interim and annual periods beginning January 1, 2015, with early adoption permitted but only for disposals or classifications as held for sale that have not been reported in previously issued financial statements. The adoption of this standard is not expected to have a material effect on the Company's consolidated financial statements.

In August 2014, the FASB issued "*Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern*", which provides guidance on determining when and how to disclose going concern uncertainties in the consolidated financial statements. Under the new guidance, management would be required to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. Certain disclosures must be provided if "conditions or events raise substantial doubt about an entity's ability to continue as a going concern." The new standard is effective for annual reporting periods ending after December 15, 2016, with early adoption permitted. The Company will adopt this standard for the year ending December 31, 2016. As this is a disclosure requirement, adoption of this standard will not have a material effect on the Company's consolidated financial statements.

In August of 2014, the FASB issued *"Consolidation (Topic 810)-Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity"*. This standard applies to a consolidated collateralized financing entity defined as a consolidated VIE that holds financial assets and issues beneficial interests in those financial assets that are classified as financial liabilities. The Company may elect to measure the financial assets and the financial liabilities of a consolidated collateralized financing entity using a measurement alternative provided in this standard. The measurement alternative requires both the financial assets and the financial liabilities of the consolidated collateralized financing entity to be measured using the more observable of the fair value of the financial assets and the fair value of the financial liabilities with the changes in fair value recognized to earnings. Upon adoption, a reporting entity may apply the measurement alternative to existing consolidated collateralized financing entities. This standard is effective for interim and annual periods beginning January 1, 2016 with early adoption permitted. The adoption of this standard is not expected to have a material effect on the Company's consolidated financial statements.

In February of 2015, the FASB issued "*Consolidation (Topic 810)-Amendments to the Consolidation Analysis*" for consolidation of legal entities including VIEs. This standard eliminates the specialized consolidation model and guidance for limited partnerships, amends the conditions for evaluating whether a fee paid to a decision maker or a service provider represents a variable interest in a VIE, amends the related party guidance for the determination of the primary beneficiary of a VIE, and requires certain investment funds designed as VIEs, except money market funds, to apply the amended consolidation guidance. The standard is effective for interim and annual periods beginning January 1, 2016 with early adoption permitted, and is applied on a retrospective or modified retrospective basis. The Company is evaluating the effect of adopting this standard.

5. Investments

The amortized cost and fair value of investments as of December 31, 2014 and 2013 are as follows:

(U.S. dollars in thousands)	December 31, 2014			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
Mortgage-backed securities:				
RMBS [1]	$ 108,445	$ 3,111	$ (820)	$ 110,736
CMBS	191,206	2,047	(1,575)	191,678
Asset-backed securities	250,802	253	(177)	250,878
U.S. Government and government agencies	335,720	2,888	(54)	338,554
Corporate and other	476,322	17,032	(1,069)	492,285
U.S. states and political subdivisions of the states	106,041	7,204	(9)	113,236
Total debt securities	$ 1,468,536	$ 32,535	$ (3,704)	$ 1,497,367

[1] Residential mortgage-backed securities include $0.6 million related to UCFs which represent both the fair value and carrying value of such securities at December 31, 2014.

(U.S. dollars in thousands)	December 31, 2013			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
Mortgage-backed securities:				
RMBS [1]	$ 158,670	$ 4,432	$ (3,484)	$ 159,618
CMBS	104,196	2,834	(1,776)	105,254
Asset-backed securities	209,274	411	(160)	209,525
U.S. Government and government agencies	257,467	3,531	(961)	260,037
Corporate and other	424,313	18,772	(1,458)	441,627
U.S. states and political subdivisions of the states	100,312	3,412	(2,135)	101,589
Total debt securities	$ 1,254,232	$ 33,392	$ (9,974)	$ 1,277,650

[1] Residential mortgage-backed securities include $0.7 million related to UCFs which represent both the fair value and carrying value of such securities at December 31, 2013 and reflect an other-than-temporary impairment charge of $2.8 million.

The change in net unrealized gains consists of changes in the valuation and holdings of debt securities of $5.4 million and $(38.4) million for the years ended December 31, 2014 and 2013, respectively.

Proceeds from sales of debt securities, net of receivables, for the years ended December 31, 2014 and 2013 were $532.6 million and $577.6 million, respectively.

The gross realized gains and gross realized (losses) for the years ended December 31, 2014 and 2013 were $10.4 million and $(10.1) million and $18.2 million and $(25.6) million, respectively. Realized investment gains and losses on the sale of investments are determined on the basis of the first-in first-out method and are included in net income.

The amortized cost and fair value of bonds at December 31, 2014 and 2013 by contractual maturity are shown below. Actual maturity may differ from contractual maturity because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities are generally more likely to be prepaid than other fixed-maturity securities. As the stated maturities of such securities may not be indicative of actual maturities, the totals for mortgage-backed securities are shown separately.

	2014		2013	
(U.S. dollars in thousands)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due within one year	$ 152,126	$ 152,763	$ 104,546	$ 102,813
Due after one through five years	501,229	506,464	424,886	432,494
Due after five through ten years	104,225	107,702	120,917	122,876
Due after ten years	160,503	177,146	131,743	145,070
Subtotal	918,083	944,075	782,092	803,253
Mortgage- and asset-backed securities	550,453	553,292	472,140	474,397
Total	$ 1,468,536	$ 1,497,367	$ 1,254,232	$ 1,277,650

Net investment income is derived from the following sources:

(U.S. dollars in thousands)	**2014**	**2013**
Debt securities and cash and cash equivalents	$ 40,685	$ 37,043
Equity securities	1,062	783
Other invested assets	94	45
Less: Investment expenses	(1,651)	(1,450)
Net investment income	$ 40,190	$ 36,421

The Company has a formal review process for all debt 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.

The Company's review process, in certain instances, also includes analyses of the ability to recover the amortized cost by comparing the net present value of projected future cash flows with the amortized cost of the security. If the Company believes a decline in the value of a particular investment is temporary, the Company records the decline as an unrealized loss on the Company's consolidated balance sheets in "accumulated other comprehensive income" in shareholders' equity. The Company recognizes an other-than-temporary impairment loss in the consolidated statements of operations for a debt security in an unrealized loss position when either the Company has the intent to sell the debt security or it is more-likely-than not that the Company will be required to sell the debt security before its anticipated recovery.

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

The Company also has a formal review process for all equity securities in the Company's investment portfolio, including a review for impairment losses. Factors considered when assessing impairment include; the length of the time and the extent to which the market value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value. Management considers all available evidence to evaluate the realizable value of its investment in equity securities classified as available-for-sale.

If it is determined that an impairment is other than temporary, then an impairment loss is recognized in the consolidated statements of operations equal to the difference between the investment's cost and its fair value at the balance sheet date for which the assessment is made. The measurement of the impairment shall not include partial recoveries after the balance sheet date. The fair value of the investment becomes the new cost basis of the investment and shall not be adjusted for subsequent recoveries in fair value. 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, 2014 and 2013, the Company recorded other-than-temporary impairment charges of $9.4 million and $20.2 million, respectively, on its debt securities. The other-than-temporary impairment charges recorded by the Company during the years ended December 31, 2014 and December 31, 2013 were primarily due to the Company's conclusion, resulting from its near term anticipated cash needs, that it was more-likely-than not that the Company would be required to sell certain debt securities (including its UCFs) before recovering their cost.

The following tables present the aggregate gross unrealized losses and fair value by investment category at December 31, 2014 and 2013, respectively:

	Less Than 12 Months					
	December 31 2014			December 31 2013		
(U.S. Dollars in thousands)	Fair Value	Unrealized Loss	Number of Securities	Fair Value	Unrealized Loss	Number of Securities
Mortgage-backed securities						
RMBS	$ 4,916	$ (4)	4	$ 58,850	$ (2,941)	29
CMBS	21,536	(259)	16	13,867	(537)	18
Asset-backed securities	20,049	(65)	22	15,681	(160)	31
U.S. Government and government agency	8,545	(14)	3	20,671	(961)	12
Corporate and other	54,781	(897)	46	55,152	(1,405)	90
U.S. states & political subdivisions	58	(1)	1	37,245	(2,135)	18
Total debt securities	**$ 109,885**	**$ (1,240)**	**92**	**$ 201,466**	**$ (8,139)**	**198**

	12 Months or More					
	December 31 2014			December 31 2013		
(U.S. Dollars in thousands)	Fair Value	Unrealized Loss	Number of Securities	Fair Value	Unrealized Loss	Number of Securities
Mortgage-backed securities						
RMBS	$ 23,580	$ (816)	15	$ 1,735	$ (543)	7
CMBS	16,655	(1,317)	22	5,621	(1,239)	9
Asset-backed securities	8,511	(111)	8	23	-	1
U.S. Government and government agency	1,555	(40)	3	-	-	-
Corporate and other	7,605	(172)	22	1,264	(53)	4
U.S. states & political subdivisions	413	(8)	2	-	-	-
Total debt securities	**$ 58,319**	**$ (2,464)**	**72**	**$ 8,643**	**$ (1,835)**	**21**

	Total					
	December 31 2014			December 31 2013		
(U.S. Dollars in thousands)	Fair Value	Unrealized Loss	Number of Securities	Fair Value	Unrealized Loss	Number of Securities
Mortgage-backed securities						
RMBS	$ 28,496	$ (820)	19	$ 60,585	$ (3,484)	36
CMBS	38,191	(1,576)	38	19,488	(1,776)	27
Asset-backed securities	28,560	(176)	30	15,704	(160)	32
U.S. Government and government agency	10,100	(54)	6	20,671	(961)	12
Corporate and other	62,386	(1,069)	68	56,416	(1,458)	94
U.S. states & political subdivisions	471	(9)	3	37,245	(2,135)	18
Total debt securities	**$ 168,204**	**$ (3,704)**	**164**	**$ 210,109**	**$ (9,974)**	**219**

6. Credit Default and Other Swap Contracts

Prior to suspending writing substantially all new business, 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 primarily include structured pools of obligations, such as collateralized loan obligations, corporate CDOs and commercial mortgage-backed securities ("CMBS") 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).

Typical market CDS contracts are standardized, liquid instruments that reference tradable securities such as corporate bonds. 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: timely interest and ultimate principal; ultimate principal only at final maturity; and 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 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 SGI being placed into receivership or rehabilitation or a regulator taking control of SGI or, in some instances, SGI's insolvency. Pursuant to the 2009 MTA, substantially all of the Company's guarantees of CDS contracts that were not commuted were novated to SCAI and amended to remove any events triggering mark-to-market termination payments except for SCAI failing to make payment under the applicable contract or being placed into receivership or rehabilitation or a regulator taking control of SCAI. Under current market conditions, if the Company were required to pay such termination payments, it would result in a liability to the Company which would be substantially in excess of that currently recorded by the Company and its ability to pay. 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.

Set forth below is certain information regarding the Company's in-force CDS and other swap contracts as of December 31, 2014 and December 31, 2013, including the aggregate notional amount outstanding, the weighted average life of such contracts, and the ratings of obligations referenced in such contracts.

	2014			2013		
(U.S. dollars in millions)	Syncora Guarantee	Syncora Capital Assurance	Consolidated	Syncora Guarantee	Syncora Capital Assurance	Consolidated
Notional amount outstanding	$ 351	$ 7,414	$ 7,765	$ 652	$ 10,528	$ 11,180
Weighted average life (years)	5.6	14.7	14.3	6.5	11.6	11.3
Percentage of referenced assets by rating [1]						
AAA	0.0%	22.4%	21.4%	0.0%	13.4%	12.6%
At or above investment grade but below AAA	0.0%	74.4%	71.0%	0.0%	68.4%	64.4%
Below investment grade	100.0%	3.2%	7.6%	100.0%	18.2%	23.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

[1] 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 table provides the components of the net change in fair value of credit default and other swap contracts for the years ended December 31, 2014 and 2013:

(U.S. dollars in thousands)	2014	2013
Change in fair value of credit default and other swap contracts:		
Realized gains (losses) and other settlements:		
Net CDS contract premiums received and receivable	$ 10,781	$ 17,663
Net CDS contract losses paid and payable	(710)	(20,644)
Total realized gains and losses and other settlements	10,071	(2,981)
Unrealized gains (losses):		
Change in fair value of CDS contracts	113,818	24,531
Net change in fair value of credit default and other swap contracts[1] [2]	$ 123,889	$ 21,550

[1] The change in realized/unrealized gains relating to the CDS and other swap contracts still held as of December 31, 2014 and 2013 was $124.6 million and $42.2 million, respectively.

[2] Includes unrealized gains of $8.9 million and $2.0 million for interest rate swap contracts for the years ended December 31, 2014 and 2013, respectively.

7. Consolidation of VIEs

The Company has exposure to VIEs through the issuance of financial guaranty insurance contracts that typically ensure the timely payment of principal and interest with respect to debt obligations of the VIEs. As part of the terms of its insurance contracts, at the outset of a contract, the Company obtains certain protective rights with respect to the VIE that are triggered by the occurrence of certain events, such as failure to be in compliance with a covenant due to poor deal performance or a deterioration in a servicer or collateral manager's financial condition. At deal inception, the Company typically is not deemed to control a VIE; however, once a trigger event occurs, the Company's control of the VIE typically increases. In addition, the Company has exposure to VIEs through the ownership of UCFs (see Note 3) and other interests.

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

The table below shows the fair value of the consolidated VIE assets and liabilities in the Company's consolidated balance sheets, segregated by the types of assets held by VIEs that collateralize their respective debt obligations. As of December 31, 2014, the Company's qualitative and quantitative analyses have indicated that it does not have a controlling financial interest in any other VIEs. The Company's exposure provided through its financial guarantee insurance with respect to debt obligations issued by VIEs is included within net par outstanding in Note 13.

(U.S. dollars in thousands)	As of December 31, 2014 Assets	As of December 31, 2014 Liabilities	As of December 31, 2013 Assets	As of December 31, 2013 Liabilities
Power & Utilities	$ 94,662	$ 99,699	$ 108,821	$ 116,442
Subprime (1st lien)	86,078	81,013	91,971	87,212
Prime (HELOC)	33,461	877	41,532	733
Alt-A (2nd lien)	7,880	2,021	7,746	2,117
Alt-A (1st lien)	11,719	76	14,581	89
General Obligation	-	-	66,661	-
Subprime (2nd lien)	17,198	-	14,675	-
Structured Single Risk	-	-	500	-
	$ 250,998	$ 183,686	$ 346,487	$ 206,593

The following table presents the revenues and expenses of consolidated VIEs included in the Company's consolidated statements of operations for the year ended December 31, 2014 and 2013:

(U.S. dollars in thousands)	2014	2013
Interest income	$ 1,861	$ 18,535
Interest expense	(12,797)	(28,535)
Other expenses	(490)	(253)
Net realized and unrealized losses	(47,078)	(98,367)
Net change in variable interest entities	$ (58,504)	$ (108,620)

Set forth below is the cumulative effect of consolidating VIEs on net income and shareholders' deficit as of December 31, 2014 and 2013:

(U.S. dollars in thousands)	2014	2013
Net premiums earned	$ (852)	$ (1,079)
Net investment income	(11,169)	(16,074)
Earnings on insurance cash flow certificates	49,023	17,315
Net realized losses on investments	49,918	100,478
Net losses and loss adjustment expenses	(40,959)	(1,464)
Unrealized gains and losses on credit derivatives	2,885	
Net change in variable interest entities	(58,504)	(108,620)
Total effect on net (loss) income	(9,658)	(9,444)
Total effect on other comprehensive (loss) income	(2,986)	(24,104)
Total effect on comprehensive (loss) income	(12,644)	(33,548)
Total effect on shareholders' equity- beginning of year	$ (41,045)	$ (7,497)
Total effect on shareholders' equity- end of year	$ (53,689)	$ (41,045)

8. Financial Instruments and Fair Value Measurements and Disclosures

A significant number of the Company's financial instruments are carried at fair value with changes in fair value recognized in earnings or loss each period. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). In determining fair value, the Company uses various valuation techniques and considers the fair value hierarchy.

The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical instruments (Level 1) and the lowest priority to valuation techniques using unobservable inputs (Level 3). Observable inputs are inputs that market participants would use in pricing the financial instruments that are based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's estimates of the assumptions market participants would use in pricing the financial instruments based on the best information available in the circumstances. These valuation techniques involve some level of management estimation and judgment. The degree to which management's estimation and judgment is required is generally dependent

upon the market price transparency for the instruments, the availability of observable inputs, frequency of trading in the instruments and the instrument's complexity.

In measuring the fair market values of its financial instruments, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs based on the fair value hierarchy. The hierarchy is categorized into three levels based on the reliability of inputs as follows:

Level 1—Unadjusted quoted prices for identical instruments in active markets. The Company generally defines an active market as a market in which trading occurs at significant volumes. Active markets generally are more liquid and have a lower bid-ask spread than an inactive market.

Level 2—Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and observable inputs other than quoted prices, such as interest rates or yield curves and other inputs derived from or corroborated by observable market inputs.

Level 3—Model derived valuations in which one or more significant inputs or significant value drivers are unobservable. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation.

A description of the valuation techniques applied to the Company's assets and liabilities measured at fair value follows:

Valuation Techniques — Credit Default Swap Contracts

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 (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 below.

The fair value of the Company's in-force portfolio of CDS contracts 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 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.

Key variables used in the Company's valuation of substantially all of its CDS contracts include the balance of unpaid notional, expected remaining 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, 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 proxy index (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 component of this relationship is the lack of liquidity reflected in the credit spread (the liquidity premium) that has historically flowed directly to the CDS counterparty as the funding institution and to cover the funders' additional funding costs and risks. Using the historical data available, a regression analysis was completed to determine the approximate rate of change of the premium percentage as underlying credit spreads move up and down. The resulting relationship from these analyses were applied to the current credit spread levels of the underlying reference securities, or their proxy index, to generate the expected current premium for each outstanding CDS.

In addition to that discussed above, the fair value of the Company's CDS contracts reflects the risk that SGI or SCAI, as applicable, will not be able to honor their obligations under their CDS contracts, or its Non-Performance Risk. Generally, the Company would measure Non-Performance Risk as implied by the market price of buying credit protection on SGI or SCAI, as applicable. Since SGI and SCAI do not have an observable market credit spread, SGI and SCAI estimate their 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.

Since the estimate of fair value of the Company's CDS contracts reflects significant unobservable inputs, the Company's CDS contracts are categorized in Level 3 of the fair value hierarchy.

Valuation Techniques — Interest Rate Swap Guarantees

The Company's interest rate swap exposure consists primarily of financial guarantees that cover one party's payment obligations to another party under an interest rate swap contract. These interest rate swap guarantees are considered derivative financial instruments and are recorded at fair value. The fair value of these interest rate swap guarantees is included in the caption "credit default and other swap contracts, at fair value" on the consolidated balance sheets.

The Company's interest rate swap guarantees cannot be legally traded and do not have observable market prices. The Company determines fair value based on valuation techniques involving management's judgment using internal valuation models. The estimated fair value of the interest rate swap guarantees are primarily based upon unobservable inputs, including estimated default probabilities of the obligor, contractual terms, estimated recovery rates and the application of credit value adjustments for the Company's own non-performance risk.

Since the estimate of fair value of the Company's interest rate swap guarantees reflects significant unobservable inputs, the Company's interest rate swap contracts are categorized in Level 3 of the fair value hierarchy.

Valuation Techniques — VIE Assets and Liabilities

The consolidated VIE assets and liabilities consist primarily of RMBS and other debt instruments. The fair value of the Company's consolidated VIE assets and liabilities is determined based on quoted market prices, if available. When observable quoted market prices are not available, fair value is determined based on internal discounted cash flow valuation models. The inputs to the valuation models primarily include estimated prepayment rates, market values of the underlying collateral, estimated default rates, market yields, credit spread indices, discount rates, estimated recovery rates, and for those liabilities insured by the Company, the benefit from the Company's insurance policy guaranteeing timely principal and interest for the VIE assets insured by the Company and the application of credit value adjustments for the Company's own non-performance credit risk. Since the majority of the significant inputs are unobservable, which reflect the Company's estimates of market assumptions, the fair value measurements of the consolidated VIE assets and liabilities are categorized as Level 3 in the fair value hierarchy.

Valuation Techniques — Debt Securities Available for Sale

U.S. Government and government agencies

U.S. Treasury securities are valued using unadjusted quoted market prices. Accordingly, U.S. Treasury securities are generally categorized in Level 1 of the fair value hierarchy. U.S. government agency securities are generally valued using quoted market prices obtained from an independent third-party investment service provider. U.S. government agency securities are generally categorized in Level 2 of the fair value hierarchy.

Mortgage and asset-backed securities

Mortgage and asset-backed securities are generally valued based on quoted prices or spread data, which are obtained from an independent third-party investment service provider. Mortgage and asset-backed securities are generally categorized in Level 2 of the fair value hierarchy. If external prices or significant inputs are unobservable, the Company will determine fair value using its own internal model estimates. In such cases, mortgage and asset-backed securities are categorized in Level 3 of the fair value hierarchy.

Corporate

The fair value of corporate bonds is determined using recently executed transactions or market price quotations obtained from an independent third-party investment service provider. Corporate bonds are generally categorized in Level 2 of the fair value hierarchy.

U.S. State and political subdivisions

The fair value of state and municipal securities is determined using recently executed transactions or market price quotations obtained from an independent third-party service provider. These bonds are generally categorized in Level 2 of the fair value hierarchy.

Non-U.S. sovereign government

Foreign sovereign government obligations are valued using quoted prices in active markets and obtained from an independent third-party service provider. These bonds are generally categorized in Level 2 of the fair value hierarchy.

Valuation Techniques — Cash and Cash Equivalents

The carrying amounts of these items approximate fair value due to the short-term maturity of these instruments. Cash and cash equivalents include deposits in banks, money market accounts and money market funds, which fair value of these instruments is based upon quoted market prices. The Company does not adjust the quoted market price for such instruments. Cash and cash equivalents are categorized in Level 1 of the fair value hierarchy.

Valuation Techniques — Other Invested Assets

Other invested assets primarily include direct investments in equity securities and exchange-traded direct equity investments. Equity securities and exchange-traded equity securities are generally valued based on quoted prices. Such investments are categorized in Level 1 of the fair value hierarchy. Investment in a certain fund that is not actively traded but inputs that are observable in the market or can be derived principally from observable market data is categorized in Level 2 of the fair value hierarchy.

Valuation Techniques — Interest Rate Derivative Instrument

The fair value of the Company's interest rate swap contract is based upon observable market data including contractual terms, market prices and interest rates and is obtained from the counterparty. The interest rate derivative instrument is categorized in Level 2 of the fair value hierarchy.

Valuation Techniques — Financial Guarantee Insurance Contracts

The Company believes that the best estimate of fair value for its insurance contracts is the discounted expected premiums less the discounted expected losses over the remaining life of each contract. To determine this fair value the Company utilized a discounted cash flow model based on inputs that include assumptions of expected losses net of expected recoveries where loss

reserves have been established (reserve contracts), and expected premiums and losses where loss reserves have not been recognized (non-reserve contracts). For non-reserve contracts, estimates of expected loss are driven by assumptions as to default and loss given default rates for each contract. Market-based discount rates that are credit adjusted for the premium payer and the Company's own credit risk are applied to the premium and loss cash flows, respectively, to ultimately determine the contract's fair value. The inputs used in determining fair value were mostly unobservable and as a result the fair value could change materially.

The fair value of the Company's insurance contracts was $397.7 million and $899.0 million at December 31, 2014 and 2013, respectively. The fair value of the Company's insurance contracts would be categorized into the Level 3 hierarchy since the significant inputs used were unobservable.

Fair Value Hierarchy Tables

The following fair value hierarchy table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 and 2013:

(U.S. dollars in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Assets / Liabilities at Fair Value	
ASSETS	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Debt securities available for sale:								
Mortgage and asset-backed securities								
RMBS	$ -	$ -	$ 110,145	$ 158,920	$ 591	$ 698	$ 110,736	$ 159,618
CMBS	-	-	191,678	105,254	-	-	191,678	105,254
Asset-backed securities	-	-	250,878	209,525	-	-	250,878	209,525
U.S. Government and government agencies	177,572	143,291	160,982	116,746	-	-	338,554	260,037
Corporate and other	4,025	4,040	488,260	437,587	-	-	492,285	441,627
U.S. states and political subdivisions	-	-	113,236	90,758	-	10,831	113,236	101,589
Total debt securities available for sale	181,597	147,331	1,315,179	1,118,790	591	11,529	1,497,367	1,277,650
Other invested assets	30,991	15,625	4,373	1,982	3,877	1,796	39,241	19,403
Cash and cash equivalents	150,066	237,181	-	-	-	-	150,066	237,181
Restricted cash and cash equivalents	13,457	3,725	205	-	-	-	13,662	3,725
Credit default swap contracts	-	-	-	-	58,606	173,840	58,606	173,840
Interest rate derivative instrument	-	-	3,182	7,033		-	3,182	7,033
Assets of consolidated variable interest entities	-	-	-	-	250,998	346,487	250,998	346,487
Total assets	$ 376,111	$ 403,862	$ 1,322,939	$ 1,127,805	$ 314,072	$ 533,652	$ 2,013,122	$ 2,065,319
LIABILITIES								
Credit default swap contracts	$ -	$ -	$ -	$ -	$ 298,575	$ 528,041	$ 298,575	$ 528,041
Liabilities of consolidated variable interest entities	-	-	-	-	183,686	206,593	183,686	206,593
Total liabilities	$ -	$ -	$ -	$ -	$ 482,261	$ 734,634	$ 482,261	$ 734,634

Level 3 Assets and Liabilities Reconciliation Tables

Level 3 Assets

The following table provides a reconciliation for the Company's assets measured at fair value on a recurring basis using unobservable inputs (Level 3) for the years ended December 31, 2014 and 2013:

(U.S. dollars in thousands)	Mortgage and Asset-Backed Securities		Corporate and Other		Credit Default Swap Contracts		Replacement Bank Warrants		Assets of Consolidated Variable Interest Entities	
LEVEL 3 ASSETS	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Balance, beginning of period	$ 698	$ 896	$ 12,627	$ 4,277	$ 173,840	$ 212,116	$ -	$ 138,132	$ 346,487	$ 473,912
Deconsolidation of VIEs	-	6,599	(6,856)	-	-	-	-	-	(67,161)	(60,139)
Realized gains (losses)	(2,221)	(7,375)	(4,580)	(5,831)	-	-	-	-	-	-
Unrealized gains (losses) included in earnings	-	-	-	-	(115,234)	(38,276)	-	-	(28,328)	(67,286)
Unrealized gains (losses) included in OCI	8	-	64	4	-	-	-	-	-	-
Purchases	2,401	2,854	2,783	18,782	-	-	-	-	-	-
Issuances	-	-	-	-	-	-	-	-	-	-
Settlements	-	-	-	-	-	-	-	(138,132)	-	-
Sales	(295)	(2,276)	(161)	(328)	-	-	-	-	-	-
Transfers into Level 3	-	-	-	-	-	-	-	-	-	-
Transfers out of Level 3	-	-	-	(4,277)	-	-	-	-	-	-
Balance, end of period	$ 591	$ 698	$ 3,877	$ 12,627	$ 58,606	$ 173,840	$ -	$ -	$ 250,998	$ 346,487

Level 3 Liabilities

The following table provides a reconciliation for the Company's liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3) for the years ended December 31, 2014 and 2013:

(U.S. dollars in thousands)	Credit Default and Other Swap Contracts		Liabilities of Consolidated Variable Interest Entities	
LEVEL 3 LIABILITIES	**2014**	**2013**	**2014**	**2013**
Balance, beginning of period	$ 528,041	$ 590,382	$ 206,593	$ 333,486
Deconsolidation of VIEs	-	-	(3)	(218)
Realized (gains) losses	(10,071)	(5,701)	-	-
Unrealized (gains) losses included in earnings	(219,395)	(56,640)	(22,904)	(126,675)
Balance, end of period	$ 298,575	$ 528,041	$ 183,686	$ 206,593

There were no purchases, issuances, settlements, sales, transfers into Level 3 or transfers out of Level 3 as of December 31, 2014 and 2013.

The following table provides quantitative information regarding the significant unobservable inputs used to measure the fair value of the Company's Level 3 assets and liabilities on a recurring basis as of December 31, 2014 and 2013:

(U.S. dollars in thousands) Level 3 Assets / Liabilities	Fair Value as of December 31, 2014	Fair Value as of December 31, 2013	Valuation Techniques	Significant Unobservable Inputs	Range of Inputs 2014	Range of Inputs 2013
Assets						
Mortgage- and asset-backed securities	$ 591	$ 698	Discounted cash flows	Constant prepayment rate	0.2% - 19.5%	0% - 7.4%
				Constant default rate	4.5% - 11.5%	4.2% - 13.3%
				Loss severity	59.9%	62%
				Yield	8%	8%
Corporate and other	3,877	12,627	Discounted cash flows	Yield	9.1%	11.2%
			Transaction price			
			Net asset value			
Credit default and other swap contracts	58,606	173,840	Discounted cash flows	Loss severity	5.8% - 63.4%	10% - 71.6%
				Default rate	55.7% - 59.2%	0% - 100%
				Market premiums	25 bps - 96 bps	23 bps - 36 bps
				Weighted average life	3.7 yrs - 6.5 yrs	0.25 yrs - 16 yrs
				Non-performance risk	7% - 12%	2% - 13%
Assets of consolidated VIEs	250,998	346,487	Discounted cash flows	Constant prepayment rate	0% - 20.9%	0% - 11.3%
				Constant default rate	4.4% - 24.6%	4.2% - 53.6%
				Loss severity	53.2% - 100%	59.7% - 100%
				Yield	5.75% - 12%	4.5% - 12%
				Non-performance risk	3% - 12%	2% - 13%
Liabilities						
Credit default and other swap contracts	$ 298,575	$ 528,041	Discounted cash flows	Loss severity	5.8% - 63.4%	10% - 71.6%
				Default rate	0.21% - 100%	0% - 100%
				Market premiums	9 bps - 260 bps	23 bps - 478 bps
				Weighted average life	0.30 yrs - 39 yrs	0.45 yrs - 40 yrs
				Non-performance risk	3% to 12%	2% - 13%
Liabilities of consolidated VIEs	183,686	206,593	Discounted cash flows	Constant prepayment rate	0% - 11.6%	0% - 11.3%
				Constant default rate	5.00% - 24.6%	5.75% - 37%
				Loss severity	53.2% - 100%	59.7% - 100%
				Yield	5.75% - 12%	4.5% - 12%
				Non-performance risk	3% - 12%	2% - 13%

The significant unobservable inputs used in the fair value measurement of the Company's credit default and other swap contracts and assets and liabilities of consolidated VIEs are shown in the table above. Significant changes in any of those inputs in isolation can result in a materially lower or higher fair value measurement.

Non-Performance Risk

The Company considers the effect of nonperformance risk in determining the fair value of its liabilities and the consolidated VIE liabilities. The fair value of the Company's CDS reflects the risk that SGI or SCAI, as applicable, will not be able to honor their obligations under their CDS contracts, or its Non-Performance Risk. Since neither the Company, SGI or SCAI have an observable market credit spread, the Company, SGI and SCAI each measure their Non-Performance Risk based on market observable credit spreads of comparable financial guarantee insurance companies.

The fair value of the Company's consolidated VIE liabilities reflects the Non-Performance Risk that the Company will not be able to honor VIE obligations where VIE liabilities exceed the value of the related pledged assets.

Set forth below is information regarding the Company's in-force CDS and other swap contracts as of December 31, 2014 and December 31, 2013, including the fair value of such contracts, the Non-Performance Risk discount on such contracts which is embedded in the credit default and other swap contracts liability on the accompanying consolidated balance sheets:

(U.S. dollars in millions)	Syncora Guarantee		Syncora Capital Assurance		Consolidated	
	2014	2013	2014	2013	2014	2013
Fair value of credit default and other swap contracts, before giving effect to Non-Performance Risk	$ 103.7	$ 274.6	$ 500.2	$ 677.6	$ 603.9	$ 952.2
Less:						
Non-Performance Risk	35.0	84.1	270.3	340.1	305.3	424.2
Fair value of credit default and other swap contracts, after giving effect to Non-Performance Risk	$ 68.7	$ 190.5	$ 229.9	$ 337.5	$ 298.6	$ 528.0

Set forth below is certain information regarding the Company's VIE liabilities as of December 31, 2014 and 2013, including the fair value, the Non-Performance Risk discount on such liabilities which is embedded in the VIE liability on the accompanying balance sheet:

(U.S. dollars in thousands)	December 31, 2014	December 31, 2013
Fair value of VIE liabilities, before giving effect to Non-Performance Risk	$ 184,510	$ 207,558
Less:		
Non-Performance Risk	824	965
Fair value of VIE liabilities, after giving effect to Non-Performance Risk	$ 183,686	$ 206,593

Financial Instruments Not Carried at Fair Value

At December 31, 2014 and 2013, the carrying value of the Company's notes was $341.0 million and $322.0 million, respectively. The interest rate on these notes is 5.0% and 6.0% for each series with the first maturity date on such notes scheduled for December 2011 and in June 2024. The fair value of the Company's notes is difficult and complex to estimate as such notes are not listed on any exchange or publicly traded in any market. Any trading activity is inherently limited, and the prices are not necessarily indicative of the fair value of the notes. Additionally, as described in Note 2, there are many risks and uncertainties affecting the Company that could affect its financial and liquidity position and consequently, management believes that the fair value of these notes is subject to significant volatility. See Note 11 for further discussion.

9. Property and Equipment

Property and equipment consist of the following at December 31, 2014 and 2013:

(U.S. dollars in thousands)

Asset Class	Depreciation Life	2014	2013
Land	-	$ 2,138	$ 2,623
Leasehold improvements	Shorter of life of lease or asset	11,759	11,512
Roadways	15 years	2,533	1,913
Bridges and facilities	75 years	37,557	37,552
Buildings and toll plazas	3-20 years	1,404	1,170
Furniture, computers and equipment	3-5 years	894	1,268
Construction in progress	-	16	177
Total		56,301	56,215
Less accumulated depreciation and amortization		(3,719)	(971)
Property and equipment, net		$ 52,582	$ 55,244

10. Intangible Assets

Definite-lived intangible assets subject to amortization consist of the following at December 31, 2014 and 2013:

(U.S. dollars in thousands)	2014	2013
Lease rights	$ 13,954	$ 13,954
Software	1,516	1,516
Total	15,470	15,470
Less accumulated amortization	(3,127)	(767)
Definitive-lived intangible assets, net	$ 12,343	$ 14,703

Indefinite-lived intangible assets not subject to amortization consist of the following at December 31, 2014 and 2013:

(U.S. dollars in thousands)	2014	2013
Goodwill	$ 28,209	$ 28,136
Toll rights	71,785	71,785
Total	99,994	99,921
Less impairment	(5,478)	-
Total	$ 94,516	$ 99,921

11. 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, SGI issued the notes described in the table below to the counterparties of such CDS contracts. 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 using the interest method. Such accretion is recorded as interest expense which is reflected in other "Operating expenses" in the accompanying consolidated statements of operations.

Scheduled repayment of the Company's short-term notes on December 28, 2011 was subject to conditions (including the approval of the NYDFS as discussed below) that were not met and consequently principal and interest payments were not approved by the NYDFS as described in footnote (a) below. Further, in December 2013 and December 2014, SGI again sought approval for payment on its short-term surplus notes, and on December 24, 2013 and December 24, 2014, respectively, the NYDFS did not approve such payment. Although the terms of the short-term notes do not require the Company to seek NYDFS approval for such payments according to any schedule, the Company intends to seek approval thereof on an annual basis. There can be no assurance as to when or whether the conditions to payment of the Company's short-term notes, including NYDFS approval thereof, will be satisfied.

In addition, Syncora Guarantee was obligated by the terms of its long-term surplus notes to pay interest of approximately $19.6 million on the outstanding principal balance of $475 million together with paid-in-kind interest that was scheduled to be paid on December 28, 2014. In December 2014, Syncora Guarantee sought approval for payment of interest on its long-term surplus notes, and on December 24, 2014, the NYDFS did not approve such payment. Notwithstanding the Company's litigation settlements, Syncora Guarantee remains exposed to significant risks and uncertainties that may materially and adversely affect its financial condition, liquidity position and ability to make payments on its surplus notes. Consequently, there is significant uncertainty and there can be no assurance as to whether and when the NYFDS will approve any future payments on the short-term or long-term surplus notes.

Each payment of interest on (other than that paid-in-kind) or principal of the notes is subject to restrictions under the terms of the notes themselves and the NYIL, including that such payments may only be made with the prior approval of the NYDFS, and then only to the extent the Company has sufficient free and divisible surplus to make such payment. Absent the satisfaction of these conditions, the Company may not make any payments on its notes.

Although the terms of the short-term surplus notes do not require the Company to seek NYDFS approval for payments according to any schedule, the Company intends to seek approval for such payments on at least an annual basis.

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, 2014	Total Interest Expense Year Ended December 31, 2013	Carrying Value At December 31, 2014	Carrying Value At December 31, 2013	Estimated Yield to Maturity
7/15/2009	5.00%	(a)	12/28/2011	$ 144,197,488	$ 91,155,000	$ 8,392,973	$ 7,983,143	$ 144,197,488	$ 144,197,488	31.88%
7/15/2009	6.00%	(b)	6/27/2024	574,944,298	49,875,000	55,957,292	47,259,445	196,843,329	177,783,363	31.88%
				$ 719,141,786	$ 141,030,000	$ 64,350,265	$ 55,242,588	$ 341,040,817	$ 321,980,851	

(a) Interest on the short-term surplus notes was payable semi-annually, on June 27th and December 28th of each year (commencing December 28, 2009). Such interest was payable in cash or in-kind at the election of the Company through June 27, 2011. Interest subsequent to June 27, 2011 was required to be paid in cash, subject in each case to the prior approval of the NYDFS. Absent the satisfaction of the conditions to payment, including the approval of the NYDFS, the Company is not entitled to make payments on its surplus notes. Failure to make any payment as a result of the failure of any such condition (as in the present case) would not constitute a default thereunder. Accordingly, any interest not approved for payment by the NYDFS on or after December 28, 2011 will not be capitalized on the outstanding principal balance reflected above, but will accrue interest at the existing rate. The outstanding principal balance of the short-term surplus notes as of June 27, 2011 also will separately accrue interest at such rate.

(b) Interest on the long-term surplus notes was payable semi-annually on June 27th and December 28th of each year (commencing December 28, 2009). Such interest was payable in cash or in-kind at the election of the Company through June 27, 2013. Interest subsequent to June 27, 2013 was required to be paid in cash, subject in each case to the prior approval of the NYDFS. Absent the satisfaction of the conditions to payment, including the approval of the NYDFS, the Company is not entitled to make payments on its surplus notes. Failure to make any payment as a result of the failure of any such condition (as in the present case) would not constitute a default thereunder. Accordingly, any interest not approved for payment by the NYDFS on or after December 28, 2013 will not be capitalized on the outstanding principal balance reflected above, but will accrue interest at the existing rate. The outstanding principal balance of the long-term surplus notes as of June 27, 2013 also will separately accrue interest at such rate. 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 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 the Company's stockholders.

12. Liabilities for Unpaid Losses and Loss Adjustment Expenses

The Company's reserve for unpaid losses and loss adjustment expenses as of December 31, 2014 and 2013 consists of case basis reserves, which represent the probability weighted average of the Company's estimates of the present value, discounted at the risk free rate of interest, of expected losses on insured debt obligations that have defaulted or are expected to default. As of December 31, 2014, the range of risk free rates used to discount the Company's liability for losses and loss adjustment expenses was 0.0% to 2.7%.

Activity in the Company's liability for unpaid losses and loss adjustment expenses for the years ended December 31, 2014 and 2013 are summarized as follows:

(US dollars in thousands)	2014	2013
Gross unpaid losses and loss adjustment expenses at beginning of year	$ 1,359,547	$ 1,232,045
Salvage and subrogation recoverable	(468,003)	(139,226)
Reinsurance balances recoverable on unpaid losses and loss adjustment expenses	(165)	(3,715)
Net unpaid losses and loss adjustment expenses at beginning of year	891,379	1,089,104
Increase (decrease) in net losses and loss adjustment expenses incurred in respect of losses occurring in:		
Current year	62,839	98,203
Prior years	(81,022)	(495,501)
Current year effect for consolidation of VIEs	14,932	1,262
Net losses and loss adjustment expenses recovered	208,688	198,311
Net unpaid losses and loss adjustment expenses at end of period	1,096,816	891,379
Salvage and subrogation recoverable	72,823	468,003
Reinsurance balances recoverable on unpaid losses and loss adjustment expenses	139	165
Gross unpaid losses and loss adjustment expenses at end of period	$ 1,169,778	$ 1,359,547

Case Basis Reserves for Losses and Loss Adjustment Expenses

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 $824.2 million and $883.3 million as of December 31, 2014 and 2013, respectively ($824.2 million and $883.3 million, respectively, before giving effect to reinsurance). The change in reserves from December 31, 2013 to December 31, 2014 is primarily attributable to positive loss development of $52.6 million.

The aforementioned reserves as of December 31, 2014 and 2013 represent the Company's probability weighted average estimate of the: (i) the net present value of claims to be paid subsequent to the balance sheet date, less (ii) the net present value of recoveries subsequent to the balance sheet date, and (iii) any unearned premium revenue relating to such guarantees at the balance sheet date. The Company's probability weighted average estimate of losses on the aforementioned guarantees is based on assumptions and estimates extending over many years into the future. Such assumptions and estimates are subject to the inherent limitation on management's ability to predict the aggregate course of future events. It should, therefore, be expected that the actual emergence of losses and loss adjustment expenses will vary, perhaps materially, from any estimate. Among other things, the assumptions could be affected by an increase in unemployment, further decreases in house prices, increase in consumer costs, lower advance rates by lenders or other parties, lower than expected revenues or other events or trends. The Company's estimates are determined based on an analysis of results of a cash flow model.

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

The Company bases its default assumptions for the second lien transactions (HELOCs and CESs) in large part on recent observed default rates and the current pipeline of delinquent loans. The losses for the second lien transactions are estimated based on a model using a constant default rate curve.

The Company generally observed peak defaults for the second lien transactions in 2009 and 2010. Default rates at December 31, 2014 are forecasted to further ramp down for as long as 30 months, although some deals are now forecasted with steady state default rates. Exceptions to this may include transactions for which there is an excessive build-up of severely delinquent loans for which defaults are anticipated or transactions whose collateral includes loans whose interest-only periods will end, at which point temporary increases to default rates are expected.

After all ramp down periods, the Company assumes a steady state constant default rate at a rate well above historical norms. Net losses will be greater if the time it takes the mortgage performance to stabilize is longer than currently anticipated or if ramp down periods are extended beyond the Company's current assumption. The constant default rate is a function of several factors, two of which is the state of the economy and unemployment.

The Company's default assumptions for the first lien transactions at December 31, 2014 were based on current delinquent loans and analysis of historical defaults for loans with similar characteristics. A loss severity was applied to the first lien defaults ranging from 47% to 78% based upon actual loss severity observances and collateral characteristics to determine the expected loss on the collateral in those transactions.

The Company has exercised rights available to it in connection with its insurance of certain RMBS to require the sponsor of such securities and/or the originator of mortgage loans backing such securities to repurchase mortgage loans backing such securities that breached certain representations and warranties and/or to pay damages, and in the case of claims against GreenPoint Mortgage Funding, Inc. ("GreenPoint"), these claims are now being pursued by U.S. Bank as indenture trustee. While a sponsor and GreenPoint have disputed, and may in the future dispute, their obligations to repurchase all or a portion of these mortgages and/or to pay damages, if the Company or the indenture trustee is successful in enforcing its rights, whether through litigation or otherwise, it will reduce the ultimate losses the Company expects to incur through its insurance of the aforementioned securities. As of December 31, 2014 and December 31, 2013, the Company estimated that it would realize a net benefit for certain of these cases from such recoveries, which are subject to material discounts for uncertainty, timing and collectability. This benefit is recorded in the Company's financial statements through a reduction in reserves for losses that it would otherwise have had to carry. Given the inherent uncertainty of litigation, no assurance can be given that the Company or indenture trustee will be successful in enforcing its rights to require a sponsor or GreenPoint to repurchase the mortgages and/or pay damages discussed above or, if successful, in collecting. If the Company or indenture trustee were successful in enforcing these rights, the ability of the Company to realize a financial benefit from the repurchase of mortgages loans and/or damages paid by a sponsor or originator is limited to the losses incurred by the Company through its insurance of the RMBS backed by such mortgages and by the financial ability of the sponsor or GreenPoint to honor their obligations. As a result, and due to the risks involved in any litigation, the actual recoveries and therefore benefit to the Company may vary materially (favorably or unfavorably) from the Company's estimates.

As of December 31, 2014 and 2013, the Company's reserves for losses and loss adjustment expenses, after giving effect to reinsurance, on public finance transactions was $101.3 million and $231.3 million ($101.5 million and $231.5 million before giving effect to reinsurance), respectively.

As of December 31, 2014 and 2013, the Company's reserves for losses and loss adjustment expenses, after giving effect to reinsurance, on structured single risk transactions was $242.9 million and $239.2 million ($242.9 million and $239.2 million before giving effect to reinsurance), respectively. As described in Note 1, although the Company received 100% of the equity ownership of the reorganized American Roads and the debt of American Roads has been discharged in bankruptcy, the holders of the originally issued debt continue to benefit from the Company's insurance policy and therefore a reserve has been established by the Company.

As of December 31, 2014 and 2013, the Company's reserves for losses and loss adjustment expenses, after giving effect to reinsurance, on its guarantees of CDOs was $1.2 million and $5.6 million ($1.2 million and $5.6 million before giving effect to reinsurance), respectively.

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 could be incurred by the company 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 certain subsectors within the ABS, CDO, Public Finance and Structured Single Risk portfolios. For the ABS and CDO portfolios, it tracks performance monthly to determine whether or not covenants have 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. For the Public Finance portfolio, the surveillance department uses a Frequency of Review Schedule to prioritize reviews to ensure lower rated and larger exposure credits are being looked at more frequently. In addition, the surveillance department uses screening tools to review the entire Public Finance portfolio based upon news feeds, trade data, material event notices and other third party information. For the Structured Single Risk portfolio, the surveillance department will retain technical consultants as needed to track construction and operational risk and reviews this portfolio based upon reports it receives on a monthly, quarterly or annual basis.

The Company estimates claims based on its surveillance department's best estimate of net cash outflows under a contract, on a present value basis. 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 cases, 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 tables set forth certain information in regard to Syncora Guarantee's closely monitored credits as of December 31, 2014 and 2013, respectively. 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	30	35	78	64	207
Remaining weighted-average contract period (in years)	16.0	12.8	5.8	10.2	11.0
Insured contractual payments outstanding:					
Principal	$ 1,038	$ 1,535	$ 1,327	$ 1,397	$ 5,297
Interest	790	902	365	393	2,450
Total	$ 1,828	$ 2,437	$ 1,692	$ 1,790	$ 7,747
Gross loss and LAE liability	$ 1	$ 47	$ 220	$ 1,711	$ 1,979
Less:					
Gross potential recoveries	-	3	19	446	468
Unearned premium reserve[(1)]	-	17	18	25	60
Discount, net	-	2	52	227	281
Loss and LAE liabilities reported in the balance sheet	$ 1	$ 25	$ 131	$ 1,013	$ 1,170

(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.

(U.S. dollars in millions)	Special Monitoring List	Yellow Flag List	Red Flag List	Loss List	Total
Number of policies	126	28	8	43	205
Remaining weighted-average contract period (in years)	13.8	11.2	8.0	11.5	11.3
Insured contractual payments outstanding:					
Principal	$ 2,088	$ 1,394	$ 1,565	$ 1,239	$ 6,286
Interest	1,277	847	459	607	3,190
Total	$ 3,365	$ 2,241	$ 2,024	$ 1,846	$ 9,476
Gross loss and LAE liability	$ 2	$ 31	$ 9	$ 2,437	$ 2,479
Less:					
Gross potential recoveries	2	3	3	515	523
Unearned premium reserve[(1)]	1	3	-	67	71
Discount, net	-	-	-	525	525
Loss and LAE liabilities reported in the balance sheet	$ (1)	$ 25	$ 6	$ 1,330	$ 1,360

(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.

13. Exposures Under Guarantees

While the Company establishes reserves for losses and loss adjustment expenses on obligations it has guaranteed or reinsured, 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, 2014. 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.

The following table sets forth the Company's in-force guaranteed principal and interest exposure by bond sector as of December 31, 2014 and 2013, respectively:

Bond Exposure
(U.S. dollars in millions)

	GPO[1]		NPO[1]	
	2014	**2013**	**2014**	**2013**
Public Finance				
Special Revenue	$ 7,933	$ 9,999	$ 7,788	$ 9,999
General Obligation	7,700	8,755	7,700	8,609
Utility	3,944	4,311	3,944	4,311
Non Ad Valorem	2,587	3,028	2,587	3,028
Appropriation	1,333	1,618	1,333	1,618
Other	5	–	5	–
Total Public Finance	$ 23,502	$ 27,711	$ 23,357	$ 27,565
Asset-Backed Securities				
RMBS	$ 971	$ 1,370	$ 963	$ 1,362
Commercial ABS	178	474	178	474
Total Asset-Backed Securities	$ 1,149	$ 1,844	$ 1,141	$ 1,836
Collateralized Debt Obligations				
Cashflow CDO	$ 2,217	$ 3,555	$ 2,217	$ 3,555
Synthetic CDO	1,043	2,684	1,043	2,684
Total Collateralized Debt Obligations	$ 3,260	$ 6,239	$ 3,260	$ 6,239
Structured Single Risk				
Power & Utilities	$ 6,700	$ 7,273	$ 6,700	$ 7,273
Global Infrastructure	6,296	7,260	6,244	7,203
Specialized Risk	842	1,172	842	1,172
Total Structured Single Risk	$ 13,838	$ 15,705	$ 13,786	$ 15,648
Total Outstanding	$ 41,749	$ 51,499	$ 41,544	$ 51,288

[1] GPO and NPO represent Gross Principal Outstanding and Net Principal Outstanding, respectively.

The following table sets forth the number of years to maturity of the Company's in-force guaranteed principal and interest exposure at December 31, 2014:

Years to Maturity - Debt Service Amortization
(U.S. dollars in millions)

	Scheduled Net Debt	NPIO[1]
2014 Q4	$ -	$ 64,797
2015 Q1	1,021	63,776
2015 Q2	1,042	62,734
2015 Q3	1,149	61,585
2015 Q4	1,314	60,271
2015	$ 4,526	$ 60,271
2016	4,750	55,521
2017	3,896	51,625
2018	3,179	48,446
2019	2,749	45,697
Total 2015-2019	$ 19,100	
2020-2024	$ 13,002	$ 32,695
2025-2029	10,184	22,511
2030-2034	7,068	15,443
2035 and thereafter	15,443	-
Total 2020-thereafter	$ 45,697	
Total	$ 64,797	

[1] NPIO represents Net Principal and Interest Outstanding.

The following table sets forth the Company's in-force guaranteed principal exposure by geographic concentration at December 31, 2014 and 2013, respectively:

Geographic Distribution - Par Exposure
(U.S. dollars in millions)

	GPO		NPO		NPO	
	2014	2013	2014	2013	2014	2013
United States						
California	$ 4,567	$ 4,998	$ 4,522	$ 4,952	10.9 %	9.7 %
New York	2,510	3,019	2,510	3,019	6.0	5.9
Illinois	1,784	2,099	1,784	2,099	4.3	4.1
Florida	1,647	1,741	1,547	1,641	3.7	3.2
Texas	1,439	1,787	1,439	1,787	3.5	3.5
Pennsylvania	1,033	1,176	1,033	1,176	2.5	2.3
Alabama	958	1,289	958	1,289	2.3	2.5
Colorado	842	940	842	940	2.0	1.8
Georgia	685	912	685	912	1.6	1.8
Virginia	657	664	657	664	1.6	1.3
New Jersey	610	744	610	744	1.5	1.5
Ohio	605	635	605	635	1.5	1.2
Tennessee	594	665	594	665	1.4	1.3
Washington	594	654	594	654	1.4	1.3
South Carolina	496	534	496	534	1.2	1.0
District Of Columbia	477	–	477	–	1.1	–
Puerto Rico	470	615	470	615	1.1	1.2
Massachusetts	436	566	436	566	1.0	1.1
Indiana	434	554	434	554	1.0	1.1
Michigan	–	562	–	562	–	1.1
Minnesota	–	529	–	529	–	1.0
Other[1]	4,949	5,516	4,948	5,516	12.1	10.8
Non-PF Multi[2][3]	4,000	7,381	3,993	7,373	9.6	14.3
Total United States	$ 29,787	$ 37,580	$ 29,634	$ 37,426	71.3 %	73.0 %
International						
United Kingdom	$ 7,125	$ 7,846	$ 7,073	$ 7,789	17.2 %	15.2 %
Australia	1,638	1,791	1,638	1,791	3.9	3.5
Chile	654	756	654	756	1.6	1.5
New Zealand	593	624	593	624	1.4	1.2
Netherlands	513	685	513	685	1.2	1.3
France	428	771	428	771	1.0	1.5
Other[1]	745	1,175	745	1,175	1.8	2.3
Non-PF Multi[2][4]	266	271	266	271	0.6	0.5
Total International	$ 11,962	$ 13,919	$ 11,910	$ 13,862	28.7 %	27.0 %
Total Par Outstanding	$ 41,749	$ 51,499	$ 41,544	$ 51,288	100.0 %	100.0 %

[1] Single state/country with NPO < 1% of the total exposure plus any multi-state/country Public Finance exposures.
[2] Non-Public Finance deals with underlying securities in multiple states/countries.
[3] Consists of $2,746 million and $5,492 million in 2014 and 2013, respectively, in CDO, $1,103 million and $1,683 million in 2014 and 2013, respectively, in ABS, and $144 million and $198 million in 2014 and 2013, respectively, in SSR net par.
[4] Consists of $266 million in SSR net par.

Exposure to Residential Mortgage Market

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

As of December 31, 2014, the Company's total net direct exposure to RMBS aggregated approximately $1.0 billion (the amount excludes exposure related to guarantees which were effectively defeased or, in-substance, commuted pursuant to ICFs – see Note 3), representing approximately 2.3% 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, 2014 (excluding exposure related to guarantees which were effectively defeased or, in-substance, commuted pursuant to ICFs 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[1] as of December 31, 2014 and 2013, respectively:

RMBS Exposure
(U.S. dollars in millions)

	NPO		% NPO	
	2014	**2013**	**2014**	**2013**
Prime (1st lien)	$ 37	$ 41	3.9 %	3.0 %
Prime (2nd lien)	28	38	2.9	2.8
Prime (HELOC)	179	212	18.6	15.5
Alt-A (1st lien)	353	656	36.5	48.4
Alt-A (2nd lien)	6	12	0.6	0.9
Subprime (1st lien)	292	313	30.4	22.9
Subprime (2nd lien)	35	51	3.6	3.7
Subprime (1st lien) - International	33	39	3.5	2.8
Total RMBS Outstanding	$ 963	$ 1,362	100.0 %	100.0 %

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

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, 2014. Net principal outstanding in the table below excludes principal effectively defeased or, in-substance, commuted by the Company in connection with its acquisition of ICFs, 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 ICFs).

RMBS Exposure
(U.S. dollars in millions)

	2004	2005	2006	2007	Total
Prime/Alt-A	$ 132	$ 52	$ 90	$ 329	$ 603
Subprime	44 [1]	97	-	219	360
Total RMBS Outstanding	$ 176	$ 149	$ 90	$ 548	$ 963
(U.S. dollars in millions)					
Net case reserves for unpaid losses	$ 58	$ 158	$ 319	$ 217	$ 752

[1] Includes $0.8 million relating to business underwritten and issued in 1999.

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

RMBS Ratings
(U.S. dollars in millions)

	Vintage	Internal Rating	S&P Rating[1]	Moody's Rating[1]	NPO
Prime (1st lien)					
1. ……………………………………	2004	bbb+	NR	Ba2	$ 22
2. ……………………………………	2004	aa	AA+	NR	11
3. ……………………………………	2004	aa	AA+	Ba1	4
Total					$ 37
Prime (2nd lien)					
1. ……………………………………	2006	d	D	C	$ 28
Total					$ 28

Prime (HELOC)					
1. ……………………………………..	2004	d	CCC	Ca	$ 57
2. ……………………………………..	2004	d	CCC	Ca	38
3. ……………………………………..	2005	d	D	C	17
4. ……………………………………..	2006	d	D	C	40
5. ……………………………………..	2006	d	D	Ca	18
6. ……………………………………..	2006	d	NR	C	4
7. ……………………………………..	2006	d	NR	Ca	-
8. ……………………………………..	2007	d	D	Ca	5
Total					$ 179
Alt-A (1st lien)					
1. ……………………………………..	2005	c	AA+	Ba3	$ 26
2. ……………………………………..	2005	d	CC	Caa2	9
3. ……………………………………..	2007	bb	NR	Caa3	207
4. ……………………………………..	2007	b	CCC	Caa3	111
5. ……………………………………..	2007	d	NR	C	-
Total					$ 353
Alt-A (2nd lien)					
1. ……………………………………..	2007	d	NR	Ca	$ 6
2. ……………………………………..	2007	d	D	B1	-
Total					$ 6
Subprime (1st lien)					
1. ……………………………………..	1999	b	NR	Caa1	$ 1
2. ……………………………………..	2004	a+	AAA	A1	20
3. ……………………………………..	2004	b-	AA-	B2	16
4. ……………………………………..	2004	aa	AAA	A1	7
5. ……………………………………..	2005	c	CCC	-	93
6. ……………………………………..	2005	bbb+	AA+	A1	3
7. ……………………………………..	2005	bbb+	BBB+	Baa1	1
8. ……………………………………..	2007	c	CCC	C	151
Total					$ 292
Subprime (2nd lien)					
1. ……………………………………..	2007	bb	CCC	Caa3	$ 26
2. ……………………………………..	2007	c	CC	C	5
3. ……………………………………..	2007	c	CCC	Ca	4
Total					$ 35
Subprime (1st lien) - International					
1. ……………………………………..	2007	bbb	BBB	Baa2	$ 33
Total					$ 33
Total RMBS Outstanding					$ 963

(1) A "-" rating indicates the deal is not rated by the rating agency.

Exposure to CDOs

The following table presents the net notional exposure of the Company's guaranteed CDOs by type[1] of referenced asset as of December 31, 2014 and 2013, respectively. A CDO is a security that is collateralized by, or synthetically references, a pool of debt obligations such as corporate loans, bonds and ABS:

CDO Exposure
(U.S. dollars in millions)

	NPO		% NPO		# of Credits	
	2014	**2013**	**2014**	**2013**	**2014**	**2013**
Cashflow CDO						
US CLO	$ 1,588	$ 2,629	48.6 %	42.2 %	11	12
Euro CLO	513	748	15.8	12.0	1	4
TRUPS CDO	114	169	3.5	2.7	5	5
Multi-Sector CDO	–	7	–	0.1	–	1
ABS CDO	2	2	0.1	0.0	1	1
Total Cashflow CDO	$ 2,217	$ 3,555	68.0 %	57.0 %	18	23
Synthetic CDO						
CMBS CDO	$ 893	$ 934	27.4 %	28.0 %	1	1
Corporate Synthetic CDO	150	1,750	4.6	15.0	1	7
Total Synthetic CDO	$ 1,043	$ 2,684	32.0 %	43.0 %	2	8
Total Collateralized Debt Obligations Outstanding	$ 3,260	$ 6,239	100.0 %	100.0 %	20	31

[1] Asset type is defined as follows. A Cash flow CDO is a securitized bond that is collateralized by a pool of debt obligations such as corporate loans, bonds and ABS. A US CLO is a CDO with underlying collateral primarily consisting of senior secured bank loans made to corporate entities domiciled in the United States and rated below investment grade at inception (i.e., rated below "BBB-" by S&P, "Baa3" by Moody's and "BBB-" by Fitch). A Euro CLO is a CDO with underlying collateral primarily consisting of senior secured bank loans made to corporate entities domiciled in Europe and generally rated below investment grade at inception (i.e., rated below "BBB-" by S&P, "Baa3" by Moody's and "BBB-" by Fitch). A Trups CDO is a CDO with underlying collateral primarily consisting of trust preferred securities issued by bank holding companies. A Multi-Sector CDO is a CDO with underlying collateral primarily consisting of ABS securities (including less than 50% RMBS bonds). An ABS CDO is a CDO with underlying collateral primarily consisting of RMBS bonds (greater than 50%) and other ABS securities.

A Synthetic CDO is a CDO that synthetically references a portfolio of debt obligations through the use of credit default swaps. A CMBS CDO is a CDO that synthetically references a portfolio of Commercial Mortgage Backed Securities. A Corporate Synthetic CDO is a CDO that references a pool primarily consisting of senior unsecured corporate credits rated investment grade at inception (i.e., rated at least "BBB-" by S&P, "Baa3" by Moody's and "BBB-" by Fitch or higher).

The following table presents the net notional exposure of the Company's guaranteed CDOs by rating as of December 31, 2014:

CDO Ratings[1]
(U.S. dollars in millions)

	NPO	% NPO
AAA	$ 1,475	45.3 %
AA	775	23.7
A	79	2.4
BBB	929	28.5
Below Investment Grade	2	0.1
Total Collateralized Debt Obligations Outstanding	$ 3,260	100.0 %

[1] Based on S&P rating as reflected in Syncora's records, if available, and internal Syncora rating if no S&P rating is available.

14. Insurance Premiums

As of December 31, 2014, the Company reported a premium receivable of $165.3 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 2.5% and the weighted average collection term of the premium receivable was 11.5 years. For the year ended December 31, 2014, the accretion of the premium receivable was $4.6 million and is reported in “Premiums earned” on the accompanying consolidated statement of operations. As of December 31, 2014, the Company reported a reinsurance premium payable of $1.3 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, 2014:

(US dollars in thousands)	**2014**	**2013**
Premium receivable, beginning of year	$ 202,947	$ 227,493
Premium payments received	(22,049)	(27,073)
Premiums from new business written	—	—
Adjustments:		
Changes in expected term of policies	(20,131)	(2,708)
Accretion of premium receivable discount	4,568	5,235
Premium receivable, end of year	$ 165,335	$ 202,947

The following table presents, as of December 31, 2014, the Company’s installment premiums on direct business 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 $35.4 million (on a present value basis) relating to assumed reinsurance business at December 31, 2014:

(U.S. dollars in thousands)	**Expected Collection of Premiums**
Three months ended:	
March 31, 2015	$ 3,560
June 30, 2015	2,373
September 30, 2015	3,237
December 31, 2015	1,289
Twelve months ended:	
December 31, 2015	10,459
December 31, 2016	9,217
December 31, 2017	8,676
December 31, 2018	8,437
December 31, 2019	8,288
Five years ended:	
December 31, 2019	45,077
December 31, 2024	35,305
December 31, 2029	23,780
December 31, 2034	16,133
December 31, 2039	6,982
December 31, 2044	586
December 31, 2049	216
December 31, 2054	6
Total	$ 128,085

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 $79.5 million relating to assumed reinsurance business at December 31, 2014.

(U.S. dollars in thousands)	Expected Collection of Premiums	Unearned Premium Revenue	Expected Premium Earnings			
			Upfront	Installments	Accretion	Total
Three months ended:						
March 31, 2015	$ 3,560	$ 369,294	$ 5,889	$ 2,817	$ 980	$ 9,686
June 30, 2015	2,373	361,223	5,308	2,763	959	9,030
September 30, 2015	3,237	353,292	5,205	2,726	941	8,872
December 31, 2015	1,289	345,505	5,121	2,666	916	8,703
Twelve months ended:						
December 31, 2015	10,459	345,505	21,523	10,972	3,796	36,291
December 31, 2016	9,217	315,702	19,913	9,890	3,492	33,295
December 31, 2017	8,676	287,926	18,923	8,853	3,204	30,980
December 31, 2018	8,437	261,703	17,818	8,406	2,930	29,154
December 31, 2019	8,288	236,855	16,802	8,046	2,665	27,513
Five years ended:						
December 31, 2019	45,077	236,855	94,979	46,167	16,087	157,233
December 31, 2024	35,305	135,944	68,094	32,817	9,706	110,617
December 31, 2029	23,780	71,526	44,030	20,388	5,230	69,648
December 31, 2034	16,133	32,646	26,512	12,368	2,280	41,160
December 31, 2039	6,982	14,113	13,403	5,130	488	19,021
December 31, 2044	586	8,296	5,349	468	60	5,877
December 31, 2049	216	4,441	3,700	155	12	3,867
December 31, 2054	6	668	3,768	5	-	3,773
December 31, 2059	-	-	668	-	-	668
Total	$ 128,085		$ 260,503	$ 117,498	$ 33,863	$ 411,864

The following sets forth the components of premiums earned for the years ended December 31, 2014 and 2013:

(U.S. dollars in thousands)	2014	2013
Gross premiums written	$ (9,602)	$ (1,110)
Reinsurance premiums assumed	(1,125)	7,151
Total premiums written	(10,727)	6,041
Change in direct unearned premium revenue	70,960	124,722
Change in assumed unearned premium revenue	9,918	2,704
Gross premiums earned	70,151	133,467
Reinsurance premiums ceded	(47)	8
Change in prepaid reinsurance premiums	(329)	(761)
Ceded premiums earned	(376)	(753)
Net premiums earned	$ 69,775	$ 132,714

For the years ended December 31, 2014 and 2013, net premiums earned include $16.4 million and $67.6 million, respectively, of earned premium relating to Refundings.

15. 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, 2014 and 2013 are as follows:

(U.S. dollars in thousands)	2014	2013
Deferred acquisition costs, net—beginning of year	$ 76,184	$ 95,270
Acquisition costs and ceding commission revenue amortized:		
Acquisition costs amortized	(12,028)	(18,488)
Ceding commission revenue amortized	49	79
Amortization of deferred acquisition costs	(11,979)	(18,409)
Commutations	—	(677)
Deferred acquisition costs, net—end of year	$ 64,205	$ 76,184

Accelerated amortization of deferred acquisition costs due to Refundings was $3.0 million and $9.7 million for the years ended December 31, 2014 and 2013, respectively.

16. Accumulated Other Comprehensive Income

Changes in accumulated other comprehensive income by components are as follows:

(U.S dollars in thousands)	2014	2013
Available-for-sale securities		
Balance, Beginning	$ 25,811	$ 62,308
Other comprehensive income (loss) before reclassifications	2,753	(19,220)
Amounts reclassified from accumulated other comprehensive income:		
Realized gains on sale of securities	(5,600)	(21,842)
Other-than-temporary impairments	151	4,565
Current period other comprehensive, net	(2,696)	(36,497)
Balance, Ending	$ 23,115	$ 25,811
Unrecognized pension and postretirement benefit costs		
Balance, Beginning	$ 996	$ -
Other comprehensive income (loss) before reclassifications	(1,610)	996
Amounts reclassified from accumulated other comprehensive income:		
Current period other comprehensive, net	(1,610)	996
Balance, Ending	$ (614)	$ 996
Replacement bank warrants		
Balance, Beginning	$ -	$ 54,851
Other comprehensive income (loss) before reclassifications		-
Amounts reclassified from accumulated other comprehensive income:		-
Jefferson County litigation and claims settlement	-	(54,851)
Current period other comprehensive, net	-	(54,851)
Balance, Ending	$ -	$ -
Total	**$ 22,501**	**$ 26,807**

17. 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.

As 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. Federal 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 2009 MTA. If any of the positions taken by the Company were successfully challenged by the Internal Revenue Service, there could be a material adverse effect on the amount of NOLs available to the Company to offset future taxable income.

SGI and SCAI, file a consolidated U.S. federal tax return with Syncora Holdings U.S. Inc. (the U.S. common parent of the Syncora Holdings' group) and its subsidiaries (which consists of SGI, SCAI 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 each subsidiary determines its payment due to/from Syncora Holdings U.S., Inc. on a separate company return basis. Further, if the subsidiary's separate return computation results in a taxable loss for the period, Syncora Holdings U.S., Inc. is obligated to reimburse the subsidiary to the extent that such loss reduces the Company's consolidated income tax liability. The tax sharing agreement calls for the reimbursement to take place within thirty days of Syncora Holdings filing its federal consolidated tax return.

SGI has subsidiary and branch operations in certain international jurisdictions that are subject to relevant taxes in those jurisdictions.

The Company's income tax provision for the years ended December 31, 2014 and 2013 was $2.5 million and $2.8 million, respectively.

The provision for income taxes incurred is different from that which would be obtained by applying the U.S. Federal income tax rate to income before income tax expense. The difference between the expected and actual tax benefit or expense for each of the years ending December 31, 2014 and 2013 is primarily attributable to the following items discussed below:

(U.S. dollars in thousands)

	2014	2013
Theoretical Federal income tax expense at		
U.S. statutory rate of 35%	$ (35,133)	$ 204,626
Change in valuation allowance	34,948	(201,802)
Other	2,666	25
Consolidated income tax expense	$ 2,481	$ 2,849

As of December 31, 2014 and 2013, respectively, the Company had no unrecognized tax benefit and no adjustments to liabilities or operations were required.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense, which were zero for the years ended 2014 and 2013. Tax years 2011 through 2014 are subject to examination by U.S. federal authorities. There are currently no U.S. federal, state or local tax audits underway for the Company as of December 31, 2014.

At December 31, 2014, the Company had net operating loss carryforwards expiring from 2027 through 2032 of $2.8 billion.

The Company's net deferred tax assets and liabilities as of December 31, 2014 and 2013 consist of the following:

(U.S. dollars in thousands)	2014	2013
Deferred Tax Assets:		
Salvage and subrogation	188,259	290,658
Loss reserves and loss adjustment expenses	271,560	45,612
Credit default swaps at fair value	114,636	184,814
NOL and capital loss carryforwards	1,047,471	1,077,558
Other	-	19,138
Total gross deferred tax assets	1,621,926	1,617,780
Valuation allowance	(1,459,146)	(1,423,972)
Total net deferred tax assets	162,780	193,808
Deferred Tax Liabilities:		
Deferred acquisition costs	31,523	35,564
Insurance cash flow certificates	131,704	159,514
Other	1,429	-
Total deferred tax liabilities	164,656	195,078
Net deferred tax assets/(liabilities)	(1,876)	(1,270)

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 Company's U.S. deferred tax assets, thus a valuation allowance has been established against the entire U.S. deferred tax assets of the Company at December 31, 2014 and December 31, 2013. The valuation allowance was calculated in accordance with the provisions of the accounting pronouncements for income taxes, which place primary importance on operating results in recent periods when assessing the need for a valuation allowance. The Company intends to maintain a full valuation allowance for its net U.S. deferred tax assets until sufficient positive evidence exists to support reversal of all or a portion of the valuation allowance.

As of December 31, 2014 and 2013, the Company recorded net deferred tax liabilities of $1.9 million and $1.3 million, respectively, and are included in "Other liabilities" on the Company's consolidated balance sheet.

At December 31, 2014, the Company's cumulative U.S. net operating losses ("NOLs"), which may be carried forward to offset future taxable income, are $2.8 billion. The Company's ability to utilize its NOLs at December 31, 2014 expires from 2027 through 2032. Approximately $161.3 million of the Company's NOLs as of December 31, 2014 are subject to limitation under Section 382 of the Internal Revenue Code ("Section 382") 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 Section 382 generally occurs if the percentage stock ownership of shareholders owning (or deemed under Section 382 to own) 5% or more of Syncora Holdings' common shares increases by more than 50 percentage points over the lowest percentage of Syncora Holdings' common shares owned by such shareholders during 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.

The Company's significant NOLs are expected to reduce future U.S. tax liability that otherwise would be payable by the Company. The ability to utilize these NOLs would be limited in certain events, including if an "ownership change" under Section 382 were to occur. Section 382 limits the ability of a corporation that experiences an ownership change to utilize its NOLs and certain built-in losses after the ownership change. An ownership change is generally any change in ownership of more than 50 percentage points of a corporation's stock over a rolling 3-year period. These rules generally operate by focusing on ownership changes among shareholders owning directly or indirectly 5% or more of the stock of a corporation (including for this purpose certain groupings of shareholders each of whom owns less than the 5% threshold) or any change in ownership arising from a new issuance or a redemption of stock by the corporation. Generally under Section 382, in the event of an ownership change, the amount of taxable income that a corporation can offset by its "pre-change losses" (which include its NOLs) is restricted to an annual amount equal to the equity value of the corporation immediately prior to the ownership change multiplied by the long-term tax-exempt rate. These limitations generally prohibit transactions that result in the creation of a new 5% shareholder or increases the ownership interest of an existing 5%

shareholder. A 5% shareholder for this purpose is defined in Syncora Holdings bye-laws by reference to Section 382 and the Treasury Regulations issued thereunder, and includes "public groups". A prohibited transaction under Syncora Holdings bye-laws is void at inception.

18. Preferred and Common Shares

Non-Controlling Interest in Subsidiary – Series B Perpetual Non-Cumulative Preferred Shares of SGI

On February 11, 2008, Syncora Guarantee Re Ltd., a former affiliate of SGI 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. The put option fair value was $180.0 million at date of exercise. Upon the exercise of the put option, the Company reduced the amount of the Series B Preferred Shares by such amount. Accordingly, the original carrying value of the Series B Preferred Shares of $20.0 million represented the net proceeds received upon the issuance less the reversal of the fair value of the put option on the date of exercise. After the merger of Syncora Guarantee Re with and into SGI, the Series B Preferred Shares became preferred shares of SGI. 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 SGI's common shares non-cumulative cash dividends at a percentage rate per Series B Preferred Share for any dividend period ending on or prior to December 9, 2009, one-month LIBOR plus 1.00% per annum, calculated on an actual/360 day basis; and for any subsequent dividend period, one-month LIBOR plus 2.00% per annum, calculated on an actual/360 day basis.

The holders of the Series B Preferred Shares are not entitled to any voting rights as shareholders of SGI 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 SGI 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. SGI has not declared or paid dividends on the Series B Preferred Shares during the years ended December 31, 2014 and 2013. In connection with the Countrywide, Bank of America Corp. ("BAC") settlement, SGI holds 655 shares of its non-cumulative perpetual Series B preferred shares, which were transferred by BAC.

Series A Perpetual Non-Cumulative Preferred Shares

On April 5, 2007, Syncora Holdings consummated a private placement sale of $250.0 million of its Series A Preferred Shares. Net proceeds from the offering were $246.6 million after offering costs of $3.4 million. The Series A Preferred Shares are perpetual securities with no fixed maturity date and, if declared by the Board of Syncora Holdings, pay a fixed dividend, on a semi-annual basis during the first and third quarters of each fiscal year, at the annualized rate of 6.88% until September 30, 2017. After such date, the Series A Preferred 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 Preferred Shares are non-cumulative. The Syncora Holdings Series A Preferred Shares have a liquidation preference of $1,000 per preferred share. There are 250,000 Syncora Holdings Series A preferred shares outstanding. See Note 24 for further discussion.

Common Shares

In connection with the Company's previously reported 2012 settlement of RMBS-related claims and other claims with Countrywide, Bank of America Corp. and affiliates thereof, the Company reported that as part of such settlement, subsidiaries of BAC transferred or agreed to transfer to SGI or its designee certain of SGI's and the Company's preferred shares, surplus notes and other securities. The transfer of the Company's common shares and preferred shares had remained subject to the Company's board approval and with respect to the preferred shares, regulatory approval. During the fourth quarter of 2014, the common shares were transferred from BAC to SGI and such shares are held as treasury shares by the Company, but remain legally outstanding for voting and other purposes. See Note 20 for further discussion on dividend restrictions.

19. Commitments and Contingencies

a. Legal Matters

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

Set forth below is a description of certain legal proceedings to which Syncora Guarantee is a party.

Bond Insurers Conspiracy Litigation

From July 2008 to July 2010, lawsuits were filed by a number of California municipal entities in California state court against several bond insurers, including Syncora Guarantee, the three major credit rating agencies, and two individual defendants, which alleged bond insurer defendants failed to fully disclose their investments in and insurance of subprime mortgage-backed securities and that the defendants conspired to perpetuate and maintain a dual system of bond rating. In April 2014, Syncora Guarantee and the plaintiffs settled all their claims against Syncora Guarantee for a de minimis payment.

RMBS Litigation

On February 5, 2009, Syncora Guarantee, together with co-plaintiffs U.S. Bank National Association ("US Bank") and CIFG Assurance North America, Inc. ("CIFG"), filed suit in the Supreme Court of the State of New York, New York County, against GreenPoint, alleging that GreenPoint breached representations and warranties in connection with a securitization of primarily home-equity mortgage loans originated by GreenPoint, and for which Syncora Guarantee acted as credit enhancer, and seeking damages and other relief for breach of contract. Following a series of appeals, Syncora Guarantee's litigation against GreenPoint was terminated. US Bank's prosecution of its claims as Indenture Trustee on behalf of Syncora Guarantee and CIFG continues and Syncora Guarantee has been actively involved in discovery. The Court has ordered that the first phase of fact discovery be directed toward the issue of standing on the part of US Bank, on the theory that certain agreements in the securitization were not properly assigned, which was substantially completed on November 15, 2013. On December 16, 2013, US Bank and GreenPoint each served motions for summary judgment on the issue of US Bank's standing, these motions have been fully briefed and oral argument was heard on September 9, 2014 and a supplemental submission requested by the court was provided on October 20, 2014. The motion has not yet been decided.

On September 16, 2009, Syncora Guarantee filed a proof of claim against Lehman Brothers Holdings Inc. ("LBHI") in the United States Bankruptcy Court for the Southern District of New York in connection with the same securitization as that at issue in the case described immediately above, which proof of claim was amended on January 13, 2010. On September 21, 2009, U.S. Bank as Indenture Trustee filed a proof of claim on behalf of this and other trusts against LBHI in the same court (the "Trustee's Claim"). Neither Syncora Guarantee's nor the Trustee's Claim has been resolved and the hearing on LBHI's objection to Syncora Guarantee's proof of claim has been adjourned without rescheduling another date for a hearing. On May 2, 2013, in connection with Syncora Guarantee's proof of claim, LBHI commenced an adversary proceeding against Syncora Guarantee also in the United States Bankruptcy Court for the Southern District of New York seeking to disallow that part of Syncora Guarantee's claim against the Lehman bankruptcy estate which LBHI alleges is contingent and/or subordinating any allowed claim. On September 26, 2013, LBHI filed a motion for summary judgment, which Syncora Guarantee opposed. Oral argument on the summary judgment motions was held on February 19, 2014 and, in light of the Court's response at argument to LBHI's motion, LBHI and Syncora Guarantee each withdrew, without prejudice, its motion for summary judgment.

Syncora Guarantee filed a number of suits against EMC Mortgage LLC, JPMorgan Securities LLC (formerly known as Bear, Stearns & Co.) and JPMorgan Chase Bank in connection with various securitizations of home equity loans. On February 24, 2014, Syncora Guarantee settled all such claims for a cash settlement of $400 million.

ARPA Litigation

The Arkansas River Power Authority ("ARPA") is a joint action agency in Colorado formed in 1979 to provide electricity to its constituent municipalities. ARPA currently has six member municipalities. ARPA's members are contractually obligated to purchase their electricity requirements from ARPA. In 2004, ARPA announced plans to convert an existing natural gas-fired generator in Lamar, Colorado to a coal-fired facility (the "Repowering Project"). To raise funds for the Repowering Project, ARPA issued several series of bonds guaranteed by Syncora Guarantee. The costs of the Repowering Project went over budget necessitating ARPA to issue additional debt. The Lamar plant is not currently operating and will not be operated through 2022 pursuant to a consent decree entered into by ARPA and the WildEarth Guardians – an environmental advocacy group that sued ARPA.

On July 14, 2014, Lamar, Colorado – one of six ARPA member municipalities – along with several Lamar businesses and one Lamar citizen, filed a complaint against ARPA and Syncora Guarantee in Colorado state court (the "Ratepayer Litigation"). The Lamar complaint alleged substantially similar claims to those raised by another member municipality (Trinidad, Colorado) against ARPA in 2011 – namely, that ARPA had mismanaged the Repowering Project and seeking, among other things, to terminate its membership in ARPA. Trinidad, and Syncora Guarantee settled that earlier litigation and, in conjunction with the settlement, four of the other five ARPA member municipalities approved resolutions releasing claims and reaffirming their obligations to ARPA. The settlement agreement also contained a settlement offer to Lamar in exchange for the release of claims and reaffirmation of its obligations to ARPA, including dismissal of the July 14, 2014 lawsuit. That offer to Lamar expired on October 31, 2014.

On August 19, 2014 Syncora Guarantee filed a motion to dismiss Lamar's July 14 complaint. ARPA also filed a motion to dismiss. Those motions are fully briefed.

On October 6, 2014, Lamar and the Lamar Utilities Board filed a second complaint against ARPA and Syncora Guarantee. In their complaint, plaintiffs seek injunctive relief to prevent ARPA from dismantling the Repowering Project. In addition, plaintiffs seek injunctive relief to prevent Syncora Guarantee's settlement offer from expiring on October 31, 2014.

On October 11, 2014, plaintiffs filed a motion for temporary restraining order. A hearing was held on plaintiffs' motion for temporary restraining order on October 22, 2014. At the conclusion of the hearing, the Court denied plaintiffs' motion in full and dismissed the motion for injunctive relief against Syncora.

Syncora and ARPA both filed motions to dismiss the October 6, 2014 complaint. Those motions are also fully briefed and awaiting decision. On January 14, 2015, the two pieces of litigation were consolidated. On April 10, 2015, Lamar and the Lamar Utilities Board filed a notice of voluntary dismissal, which dismissed all claims in the second complaint against Syncora. As a result, Syncora is no longer a party in the second action.

Detroit Bankruptcy and Litigation

The Company's historical public finance exposures include the City of Detroit (the "City"), which filed for bankruptcy protection under Chapter 9 of the United States Bankruptcy Code on July 18, 2013. Syncora Capital Assurance reinsured 100% of Syncora Guarantee's Detroit Certificates of Participation ("COPs") exposure and was therefore responsible for Syncora Guarantee's loss and loss adjustment expenses in connection with the COPs insured by Syncora Guarantee.

On February 21, 2014, the City filed with the bankruptcy court a Plan of Debt Adjustment, which was amended numerous times during the pendency of the City's bankruptcy (as amended, the "Plan"). The Plan set forth, among other things, the City's proposed treatment for its various proposed classes of creditors. The City and Syncora Guarantee were involved in various litigations and disputes during the City's bankruptcy. On November 7, 2014 the Bankruptcy Court issued an order confirming the Plan. On December 10, 2014 the Plan of Adjustment went effective. In connection with the City's settlement with Syncora Guarantee, upon Plan effectiveness Syncora Guarantee received, and ceded to Syncora Capital Assurance as salvage under the reinsurance treaty between Syncora Guarantee and Syncora Capital Assurance, recoveries consisting of cash, obligations of the City of Detroit and certain credits that can be used to offset the future purchase price of eligible City assets. Each of these settlement items were recorded as recoveries as of December 31, 2014. All litigation between the City and Syncora and in connection with the Plan was resolved on the effectiveness of the Plan.

Other Litigation

On April 18, 2012, Syncora Guarantee initiated an action in the Supreme Court of the State of New York against Macquarie Capital (USA) Inc. ("Macquarie"), among others. The case remains pending only against Macquarie, with Syncora Guarantee having entered into a stipulation dismissing the other defendants from the lawsuit. Syncora Guarantee alleges that Macquarie made misrepresentations and omissions in obtaining insurance from it on bonds issued by American Roads LLC. Macquarie's motion to dismiss the claims was decided in Syncora Guarantee's favor, and, as a result, the parties have proceeded to discovery, which is currently continuing.

b. Lease and Other Commitments

The Company has lease commitments for office premises at 135 West 50th Street, New York, New York, Merritt 7 Corporate Park, Norwalk, Connecticut, and 76 South Orange Avenue, South Orange, New Jersey.

In addition, Pike Pointe has a lease agreement with the City of Detroit, Michigan, that provides for the right to operate the U.S. portion of the Detroit-Windsor Tunnel through December 31, 2040. A portion of this leased office space and off-site facilities is sublet through December 31, 2020 to the United States Federal Agency which also includes reimbursement for maintenance and operating services.

In addition, in October 2013, the Company entered into an amended three year agreement with International Business Machines Corporation for information technology outsourcing services, effective January 1, 2014. Fees associated with the new agreement were $1.8 million in 2014, and then are expected to be approximately $1.9 million in 2015 and 2016, respectively.

Net minimum aggregate lease commitments are $1.1 million, $1.0 million, $0, $0 and $0 for the years ended December 31, 2015 through December 31, 2019.

Net rent expense was $1.1 million and $1.2 million for the years ended December 31, 2014 and 2013, respectively.

20. Dividend Restrictions and Insurance Regulatory Requirements

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 its Series A Preferred Shares during the years ended December 31, 2014 or 2013 or at any time thereafter through to the issuance date of these financial statements. 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 its Series A Preferred Shares have not been paid in an aggregate amount equivalent to dividends for at least six full quarterly periods, holders of its Series A Preferred Shares exercised their right to nominate two persons to serve as additional directors to the Board of Directors of Syncora Holdings. Two persons were so elected and are to be seated as directors following their approval by the NYDFS.

SGI and SCAI

The ability of SGI and SCAI to declare and pay a dividend to shareholders is governed by applicable New York law, including the NYIL. Under Section 4105 of the NYIL, each of SGI and SCAI is permitted to pay dividends to shareholders in any 12-month period, without the prior approval of the NYDFS in an amount equal to the lesser of 10% of its policyholders' surplus as of last financial statement filed with the NYDFS (annual or quarterly) or their adjusted net investment income for the 12-month period, as determined in accordance with Statutory Accounting Practices prescribed or permitted by the NYDFS. The NYIL also provides that each of SGI and SCAI may distribute dividends to shareholders in excess of the aforementioned amount only upon approval thereof by the NYDFS. Notwithstanding the foregoing, SGI and SCAI may not declare or distribute any dividends to shareholders except out of "earned surplus" (an amount equal to "unassigned funds (surplus)" as shown on SGI's and SCAI's respective statutory balance sheets, which as of December 31, 2014 and 2013 were ($1.990) billion and ($1.873) billion, respectively, for SGI and ($257) million and ($205) million, respectively, for SCAI, less in each case their respective "unrealized appreciation of assets"). The NYDFS may disapprove such dividends to shareholders if it finds that the company will retain insufficient surplus to support its obligations and writings.

Pursuant to the terms of the 2009 MTA, SGI is not permitted to pay dividends or repurchase, redeem, exchange or convert any equity securities until such time as all notes issued by SGI (see Note 11) are paid in full and the Back-Up Guarantees (see Note 3) no longer exist (the last maturing Back-up Guarantee is scheduled to mature on July 11, 2053).

Pursuant to the terms of the 2009 MTA, SCAI is not permitted to pay any dividend or make any distribution to SGI of any other affiliate unless SCAI's remaining surplus note has been paid in full (the terms of which provide for full repayment on June 27, 2024) and provided that, after giving effect to any such dividend or distribution SCAI would have sufficient capital as calculated pursuant to the 2009 MTA.

Among other requirements, Article 69 of the NYIL provides that financial guarantee insurance companies maintain minimum policyholders' surplus of $66 million. In accordance with accounting practices prescribed or permitted by the NYDFS, as of December 31, 2014 and 2013, SGI and SCAI reported policyholders' surplus of $856.0 million and $973.3 million, respectively and $164.5 million and $186.5 million, respectively. For the years ended December 31, 2014 and 2013, SGI and SCAI reported net (loss) income of $(52.7) million and $391.5 million, respectively and $(74.3) million and $(108.6) million, respectively.

SGI and SCAI Statutory Insurance Regulatory Requirements

SGI and SCAI prepare their statutory basis financial statements in accordance with accounting practices prescribed or permitted by the NYDFS. The NYDFS recognizes only statutory accounting practices prescribed or permitted by the State of New York for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under insurance law. The National Association of Insurance Commissioners ("NAIC") Accounting Practices and Procedures manual ("NAIC SAP"), has been adopted as a component of prescribed or permitted practices by the State of New York. The state has adopted certain prescribed accounting practices that differ with those found in NAIC SAP. The NYDFS has the right to permit other specific practices which deviate from prescribed practices.

Set forth below are reconciliations of the net income (loss) and capital and surplus (deficit) of SGI and SCAI prepared in accordance with statutory accounting practices prescribed or permitted by the NYDFS to such amounts reported in accordance with NAIC SAP as of and for the years ended December 31, 2014 and 2013:

SGI

(U.S. Dollars in thousands)

Description	Net Income (Loss) 2014	Net Income (Loss) 2013	Capital and Surplus 2014	Capital and Surplus 2013
NAIC SAP Basis	$ (40,505)	$ 438,543	$ (1,719,990)	$ (1,600,647)
Effect of NY prescribed practices				
(a)	-	-	-	-
(b)	-	-	387,424	373,723
Effect of NY permitted practices				
(c)	47,705	(155,982)	2,136,888	2,089,183
(d)	-	-	-	-
(e)	(59,942)	108,937	51,674	111,073
NY Basis	$ (52,742)	$ 391,498	$ 855,996	$ 973,332

Permitted or Prescribed Practices

(a) Pursuant to certain prescribed accounting practices under Articles 14 and 69 of the NYIL that differ with those found in NAIC SAP, the admissible carrying value of a share of an insurer is limited to a stipulated percentage of policyholders' surplus, and investments in certain securities (including the Uninsured Cash Flow Certificates) are also subject to limitations. In connection with the 2009 MTA, the NYDFS permitted the Company to admit these assets notwithstanding the otherwise applicable limitations. As of December 31, 2014 and December 31, 2013, there were no limitations.

(b) Pursuant to approval granted by the NYDFS in accordance with section 6903 of the NYIL, as of December 31, 2014 and December 31, 2013, the Company has de-recognized $387.4 million and $373.7 million, respectively, in the aggregate, of contingency reserves on terminated policies, and policies on which the Company has established case reserves, whereas under NAIC SAP the Company would still be required to carry such reserves. The Company applies the permitted practice described above to release contingency reserves on an obligation by obligation basis under policies insuring multiple obligations rather than on a policy by policy basis.

(c) The NYDFS granted the Company a permitted practice to de-recognize reserves for unpaid losses, unearned premium reserve and contingency reserves relating to, and expense payments (which are reflected in "Net losses and loss adjustment expenses " on the Statements of Operations and Changes in Capital and Surplus ("Statements of Operations")) made to effect, certain transactions executed in connection with its continued remediation efforts which effectively defeased or, in-substance, commuted, in whole or in part, the policies relating thereto, whereas under NAIC SAP such reserves would continue to be carried until such time the underlying contracts were legally extinguished and the payments made to effect the transactions would have resulted in the recording of an asset, as such payments were made in exchange for the assignment to the Company or an affiliate of the Company of all rights under the aforementioned policies. As of December 31, 2014, such de-recognized reserves for unpaid losses, unearned premium reserve and contingency reserves (as of the date of the effective defeasance or, in-substance commutations) aggregated $6.1 billion, $4.2 million and $3.1 million, respectively. As of December 31, 2013, such de-recognized reserves for unpaid losses, unearned premium reserve and contingency reserves (as of the date of the effective defeasance or, in-substance commutations) aggregated $6.1 billion, $4.2 million and $3.1 million, respectively.

(d) The NYDFS granted the Company a permitted practice to value the surplus notes issued by the Company in settlement of certain policy obligations in connection with 2009 MTA at original face value of $625.0 million in the aggregate, as compared to the estimated fair value thereof, that the Company would otherwise have been required to reflect such surplus notes in accordance with NAIC SAP. Any adjustment to the carrying value of surplus notes would result in an equal and offsetting adjustment to unassigned funds. As both surplus notes and unassigned funds are elements of policyholders' surplus, a change in the value of the surplus notes would not affect policyholders' surplus.

(e) The NYDFS granted the Company a permitted practice to account for its ownership of the common stock of American Roads entities as salvage recoverable using discounted cash flow model, which is deducted from the liability for unpaid claims or losses, whereas under NAIC SAP, the Company would be required to record its 100% equity ownership of the American Roads entities using GAAP equity value.

SCAI

(U.S. Dollars in thousands)

	Net Income (Loss)		Capital and Surplus	
Description	**2014**	**2013**	**2014**	**2013**
NAIC SAP Basis	$ (180,727)	$ (149,814)	$ (297,508)	$ (128,508)
Effect of NY prescribed practices				
(a)	-	-	-	-
(b)	-	-	311,160	270,514
Effect of NY permitted practices				
(c)	-	-	-	-
(d)	106,389	41,186	150,845	44,456
NY Basis	$ (74,338)	$ (108,628)	$ 164,497	$ 186,462

Permitted or Prescribed Practices

(a) Pursuant to certain prescribed accounting practices under Articles 14 and 69 of the New York Insurance Law ("NYIL") that differ with those found in NAIC SAP, the admissible carrying value of investments in certain securities including Uninsured Cash Flow Certificates are subject to limitations. In connection with remediation efforts, the NYDFS permitted the Company to admit the Uninsured Cash Flow Certificates notwithstanding the otherwise applicable limitations.

(b) Pursuant to approval granted by the NYDFS, in accordance with section 6903 of the NYIL, as of December 31, 2014 and December 31, 2013, the Company has de-recognized $311.2 million and $270.5 million, respectively, in the aggregate, of contingency reserves on terminated policies, and policies on which the Company has established case basis reserves, whereas under NAIC SAP the Company would still be required to carry such reserves. The Company applies the permitted practice described above to release contingency reserves on an obligation by obligation basis under policies insuring multiple obligations rather than on a policy by policy basis. In addition to the foregoing, the Company releases contingency reserves based on a methodology pursuant to a permitted practice granted by the NYDFS.

(c) The NYDFS granted the Company a permitted practice to value the surplus notes issued by the Company in connection with its initial capitalization at face value, as compared to the estimated fair value thereof, that the Company would otherwise have been required to reflect such surplus notes at in accordance with NAIC SAP. In accordance with NAIC SAP, the capitalization of the Company must be attributed to the instruments issued by the Company for such capital based on their relative fair values. Any adjustment to the carrying value of surplus notes would result in an equal and offsetting adjustment to accumulated deficit. As both surplus notes and accumulated deficit are elements of capital and surplus, a change in the value of the surplus notes would not affect capital and surplus.

(d) The NYDFS granted the Company a permitted practice to de-recognize reserves for unpaid losses, unearned premium reserves and contingency reserves relating to, and expense payments (which are reflected in "Net losses and loss adjustment expenses incurred" on Statements of Operations and Changes in Capital and Surplus ("Statements of Operations")) made to effect, certain transactions which effectively defeased or, in-substance, commuted, in whole or in part, the policies relating thereto, whereas under NAIC SAP such reserves would continue to be carried until such time the underlying contracts were legally extinguished and the payments made to effect the transactions would have resulted in the recording of an asset, as such payments were made in exchange for the assignment to the Company of all rights under the aforementioned policies. As of December 31, 2014, such de-recognized reserves for unpaid losses, unearned premium reserves and contingency reserves (as of the date of the effective defeasance or, in-substance commutations) aggregated $135.9 million, $13.2 million and $1.8 million, respectively. As of December 31, 2013, such de-recognized reserves for unpaid losses, unearned premium reserves and contingency reserves (as of the date of the effective defeasance or, in-substance commutations) aggregated $54.4 million, $6.5 million and $1.8 million, respectively.

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

As of December 31, 2014 and 2013, the Company had, in the aggregate, approximately $124.1 million and $122.1 million, respectively, on deposit to collateralize its contractual obligations under certain agreements, including reinsurance, lease, and letter of credit agreements. Of such deposits, $13.5 million and $3.5 million, $20.0 million and $17.8 million and $90.6 million and $100.8 million are recorded on the accompanying consolidated balance sheet in "Restricted cash and cash equivalents", "Other assets" and "Debt securities available for sale, at fair value", respectively. In addition, debt securities with an amortized cost and fair value of $6.3 million and $6.9 million at December 31, 2014 and $6.3 million and $7.0 million at December 31, 2013, respectively, were on deposit with various regulatory authorities as required by insurance laws.

22. Business Segments

The Company's reportable business segments are based upon the Company's internal organizational structure, the manner in which the Company's operations are managed and performance is evaluated, the availability of separate financial information and overall materiality considerations.

The Company's two reportable operating business segments are Financial Guarantee Insurance and Other. The financial guarantee insurance business segment provides financial guarantee insurance and reinsurance on public finance, structured single risk, collateralized debt and asset-backed securities obligations. The other business segment relates to the Company's non-insurance business and primarily includes the operations of Pike Pointe, the owner and operator of certain toll road facilities located in the United States and Canada.

The following tables contain financial information for each reportable business segment for the year ended December 31, 2014 and 2013:

	Financial Guarantee Insurance		Other		Eliminations		Consolidated	
(U.S. dollars in thousands)	2014	2013	2014	2013	2014	2013	2014	2013
Revenues								
Net premiums earned	$ 69,775	$ 132,714	$ -	$ -	$ -	$ -	$ 69,775	$ 132,714
Net investment income	39,687	36,398	503	23	–	–	40,190	36,421
Net realized (losses) gains on investments	321	(7,355)	(16)	–	–	–	305	(7,355)
Net earnings on insurance cash flow certificates	(165,362)	232,604	–	–	–	–	(165,362)	232,604
Toll revenue	–	–	23,295	6,805	–	–	23,295	6,805
Fees and other income	10,126	12,922	4,410	1,501	–	–	14,536	14,423
Net earnings on credit default and other swap contracts	123,889	21,550					123,889	21,550
Net change in fair value of consolidated VIEs	(58,504)	(108,620)	–	–	–	–	(58,504)	(108,620)
Total Revenues	19,932	320,213	28,192	8,329	–	–	48,124	328,542
Expenses								
Net (recoveries) losses and loss adjustment expenses	(18,183)	(397,298)	–	–	–	–	(18,183)	(397,298)
Amortization of deferred acquisition costs, net	11,979	18,409	–	–	–	–	11,979	18,409
Realized loss (gain) on interest rate derivative instrument	3,852	(1,470)	–	–	–	–	3,852	(1,470)
Operating expenses	121,387	116,824	29,469	7,431	–	–	150,856	124,255
Total Expenses	119,035	(263,535)	29,469	7,431	–	–	148,504	(256,104)
(Loss) income before income taxes	(99,103)	583,748	(1,277)	898	–	–	(100,380)	584,646
Income tax expense	1,741	1,914	21	935	719		2,481	2,849
Net (loss) income	$ (100,844)	$ 581,834	$ (1,298)	$ (37)	$ (719)	$ -	$ (102,861)	$ 581,797
Total assets	$ 2,664,238	$ 3,246,533	$ 231,513	$ 230,086	$ -	$ -	$ 2,895,751	$ 3,476,619

Net premiums earned on financial guarantee insurance are generated within and outside the United States. The following table summarizes net premiums earned by geographic location for the years ended December 31, 2014 and 2013.

	Financial Guarantee Insurance	
(U.S. dollars in thousands)	**2014**	**2013**
Country		
United States	$ 39,401	$ 80,240
United Kingdon	15,451	35,128
Chile	6,402	6,472
Europe (excluding United Kingdom)	4,068	5,292
Other	4,453	5,582
Total	$ 69,775	$ 132,714

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

The condensed balance sheets, statements of operations and shareholders' equity, and statements of cash flows (on an unconsolidated basis) of Syncora Holdings as of December 31, 2014 and 2013 and for the years then ended are set forth below:

(U.S. dollars in thousands)	2014	2013
Assets		
Debt securities available for sale, at fair value (amortized cost: $6,824 and $11,438)	$ 6,960	$ 11,718
Cash and cash equivalents	1,406	1,395
Accrued investment income	12	20
Investment in subsidiaries on an equity basis:		
Syncora Guarantee	270,942	372,916
Other subsidiaries	19,306	19,588
Other assets	5,491	5,647
Total assets	$ 304,117	$ 411,284
Liabilities and Shareholders' Equity		
Liabilities— accounts payable, accrued expenses, and other liabilities	$ —	$ —
Shareholders' equity		
Series A perpetual non-cumulative preferred shares and additional paid-in capital	246,593	246,593
Common shares and additional paid-in capital	2,678,374	2,678,374
Accumulated deficit	(2,643,351)	(2,540,490)
Accumulated other comprehensive income	22,501	26,807
Total common shareholders' equity	57,524	164,691
Total shareholders' equity	304,117	411,284
Total liabilities and shareholders' equity	$ 304,117	$ 411,284

	2014	2013
Revenues		
Net investment income	$ 61	$ 63
Net realized gains on investments	3	1
Total revenues	64	64
Operating expenses	2,923	2,930
Loss before equity in net (loss) income of subsidiaries	(2,859)	(2,866)
Equity in net (loss) income of Syncora Guarantee	(97,664)	586,657
Equity in net income (loss) of other subsidiaries	(2,338)	(1,994)
Equity in net (loss) income of subsidiaries	(100,002)	584,663
Net (loss) income	(102,861)	581,797
Other comprehensive income:		
Net unrealized gains (losses) on investments	4	(106)
Equity in other comprehensive (loss) income of Syncora Guarantee	(4,310)	(90,245)
Total other comprehensive loss	(4,306)	(90,351)
Total comprehensive (loss) income	(107,167)	491,446
Change in additional paid-in-capital	—	(3,339)
Change in shareholders' equity (deficit)	(107,167)	488,107
Total shareholders' equity (deficit)- beginning of year	411,284	(76,823)
Total shareholders' equity- end of year	$ 304,117	$ 411,284

	2014	2013
Cash flows from operating activities:		
Operating expenses paid	$ (2,902)	$ (2,967)
Investment income collected	85	133
Other cash receipts	126	8,551
Net cash (used in) provided by operating activities	(2,691)	5,717
Cash flows from investing activities:		
Proceeds from sale of debt securities	1,964	1,619
Proceeds from maturity of debt securities	3,443	4,832
Purchases of debt securities	(645)	(9,018)
Net cash provided by (used in) operating activities	4,762	(2,567)
Cash flows from financing activities:		
Capital contribution to subsidiary	(2,060)	(3,238)
Net cash used in financing activities	(2,060)	(3,238)
(Decrease) increase in cash and cash equivalents	11	(88)
Cash and cash equivalents—beginning of year	1,395	1,483
Cash and cash equivalents—end of year	$ 1,406	$ 1,395

24. Subsequent Events

In February 2015, an agreement was reached to restructure a structured single risk credit that the Company insures. This transaction provided additional information on the estimated losses and has been recognized in the Company's ultimate reserve estimates for unpaid losses at December 31, 2014. Accordingly, the December 31, 2014 reserve for unpaid losses recorded in the financial statements reflects the updated assumptions and estimates derived from this remediation transaction.

In February 2015, the Company’s subsidiary, SGI, was transferred 84,584 preferred shares of the Company from Bank of America Corp. in connection with the Company's previously reported 2012 settlement of RMBS-related claims and other claims with Countrywide, Bank of America Corp. and affiliates thereof.

The Company has evaluated all subsequent events through April 29, 2015, the date the consolidated financial statements were available to be issued.