

THIS SURPLUS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL SUCH NOTE IS REGISTERED UNDER SUCH ACT OR, IN THE OPINION OF COUNSEL REASONABLY ACCEPTABLE TO THE OBLIGOR, AN EXEMPTION FROM REGISTRATION IS AVAILABLE.

ACCEPTANCE OF THIS SURPLUS NOTE IMPOSES OBLIGATIONS ON THE NOTEHOLDER.

LONG TERM SURPLUS NOTE

No. LT-1
U.S. \$[●]¹

[●], 2009
New York, New York

For value received, SYNCORA GUARANTEE INC., a New York insurance corporation (“Obligor”), promises to pay to [●] (the “Noteholder”), the aggregate principal amount of U.S. \$[●]² (as may be increased from time to time pursuant to the terms herein, the “Principal Amount”), together with interest on the Principal Amount at the rate provided for herein, on the Maturity Date, as defined hereinafter. Obligor may prepay all or any portion of any amount of the unpaid Principal Amount at any time without penalty or premium, together with accrued and unpaid interest thereon to the date of payment.

The Principal Amount of this Surplus Note shall accrue interest at an interest rate equal to six percent (6%) per annum. Interest on the Principal Amount shall be payable on the 30th day of June and the 31st day of December in each year, commencing on

¹ [The \$475,000,000 aggregate long term surplus note amount shall be allocated as set forth on Schedule B to MTA II.]

² [Relevant amount from Schedule B for the particular Commuting Counterparty at issue.]

December 31, 2009, and on the Maturity Date (each such date being hereinafter referred to as an “Interest Payment Date” or a “Payment Date”). On or prior to June 30, 2013, the Obligor shall pay accrued interest either (as selected by the Obligor) (a) in cash or (b) through the addition of such amount (the “PIK Accrual”) to the then outstanding Principal Amount on the applicable Interest Payment Date. Interest shall accrue on the PIK Accrual and shall be payable as provided herein. After June 30, 2013, all interest accruing on the Principal Amount shall be payable in cash. The outstanding Principal Amount due on this Surplus Note shall mature on June 30, 2024 (the “Maturity Date”).

The outstanding Principal Amount of this Surplus Note shall be due and payable in twelve equal payments to be made on the 30th day of June and the 31st day of December in each year, commencing on December 31, 2018 (each such date, a “Principal Payment Date” or a “Payment Date”). Such principal payments shall each be in the amount calculated as one-twelfth of the outstanding principal balance (immediately prior to the making of any such payments) on December 31, 2018.

When payment would otherwise be due on a day other than a Business Day, the next succeeding Business Day shall be substituted for such day. Interest shall accrue on the basis of a year of 360 days and actual days elapsed from and including the first day of an Interest Period, to and including the last day of such Interest Period. “Business Day” shall mean a day when banks are open for business in New York City. “Interest Period” shall mean the period commencing on and including the date of this Surplus Note, to and including the first Interest Payment Date, and each successive period thereafter, commencing on and including the date immediately following each Interest Payment Date, to and including the next succeeding Interest Payment Date.

Unpaid Principal Amount and the interest accrued thereon shall be payable only out of free and divisible surplus of Obligor if and to the extent that the free and divisible surplus of Obligor (determined on a statutory basis in accordance with the New York Insurance Law) is sufficient for the payment thereof.

Any payment of unpaid Principal Amount and the interest thereon shall be paid only with the prior written consent of the Superintendent of Insurance of the State of New York (the “Superintendent”) in accordance with the applicable provisions of the New York Insurance Law.

If any payment of the Principal Amount of, or interest on, this Surplus Note cannot be paid when due because of the limitations set forth in either of the two preceding paragraphs (such limitations, collectively, the “Surplus Limitations”), then such unpaid amount shall accrue interest at the rate herein provided and such amount (together with interest) shall be paid at the earliest possible time, or times (including, without limitation, through multiple partial payments), as such payment may be made without violation of the Surplus Limitations.

The unpaid Principal Amount represented by this Surplus Note and the accrued interest thereon shall be a liability and claim against the Obligor, and any of its assets, to the extent permitted by Section 1307 of the New York Insurance Law. Until such amounts are repaid, all statements published by the Obligor or filed by the Obligor with the Superintendent shall report the issuance and holding of this Surplus Note in accordance with statutory accounting principles prescribed or otherwise permitted by the Superintendent.

This Surplus Note is one of a series of surplus notes in the aggregate principal amount of \$475,000,000 (each, an “SGI Long Term Surplus Note” and, collectively, the “SGI Long Term Surplus Note Series”) issued pursuant to the Master Transaction Agreement, dated as of April 26, 2009 (as from time to time amended, the “Master Transaction Agreement”), among SYNCORA HOLDINGS LTD. (formerly known as Security Capital Assurance Ltd), a Bermuda exempted company (the “Parent”), Obligor, SYNCORA CAPITAL ASSURANCE INC., a newly formed New York insurance company and a wholly-owned subsidiary of Obligor (“DDC”), certain portfolio trusts that are party to the Master Transaction Agreement, and the counterparties to credit default swap agreements with affiliates of Obligor that are party to the Master Transaction Agreement and are entitled to the benefits thereof.

The Obligor will observe and perform for the benefit of the holders of the SGI Long Term Surplus Notes the covenants and agreements set forth in Sections 5.13 and 5.14 of the Master Transaction Agreement (subject to amendment or waiver as provided therein) and which covenants and agreements are hereby incorporated by reference.

The Obligor will not agree to any amendment, waiver, consent, modification, refunding or refinancing of any SGI Long Term Surplus Note (each, an “Amendment”), unless the Obligor concurrently offers the Noteholder the right to vote on such Amendment on the same terms as any other holder (each, an “SGI Long Term Noteholder”) of SGI Long Term Surplus Notes. The Obligor will provide each SGI Long Term Noteholder (irrespective of the amount of SGI Long Term Surplus Notes then owned by it) with sufficient information, sufficiently far in advance of the date a decision

is required, to enable such holder to make an informed and considered decision with respect to any proposed Amendment.

The Obligor will not directly or indirectly pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, or grant any security or provide other credit support, to any SGI Long Term Noteholder as consideration for or as an inducement to the entering into by any SGI Long Term Noteholder of any Amendment of any of the terms and provisions hereof, or of any amendment, waiver, consent or modification of any provisions of the Master Transaction Agreement of which the holders of the SGI Long Term Surplus Notes are third party beneficiaries, unless such remuneration is concurrently paid, or security is concurrently granted or other credit support concurrently provided, on the same terms, ratably to each holder of SGI Long Term Surplus Notes then outstanding even if such holder did not consent to such Amendment.

All payments (including prepayments) of the SGI Long Term Surplus Notes shall be made pro rata without preference of one SGI Long Term Surplus Note over any other. By accepting this Note, each Noteholder agrees, for the ratable benefit of the other SGI Long Term Noteholders, that if Noteholder shall, for any reason, directly or indirectly, receive from Obligor or any subsidiary thereof any payment in respect of any Principal Amount of or interest on this Surplus Note resulting in Noteholder receiving payment of a greater proportion of the aggregate amount of the Principal Amount of or interest on this Surplus Note than the proportion received from Obligor or any subsidiary thereof by any other holder of an SGI Long Term Surplus Note (a "Payment"), then Noteholder shall pay, promptly upon receipt thereof, the portion of any such Payment received by it

to the fiscal and paying agent maintained by Obligor with respect to the SGI Long Term Surplus Note Series, to the extent necessary so that the benefit of all payments in respect of any Principal Amount of or interest on this Surplus Note shall be shared by the SGI Long Term Noteholders ratably in accordance with the aggregate amount of Principal Amount of and accrued interest on their respective SGI Long Term Surplus Notes (such shared amount, the “Excess Payment”); provided that, if any such Excess Payment is made by Noteholder and all or any portion of the Payment giving rise thereto is recovered for any reason from Noteholder (including, without limitation, by reason of a judgment in an avoidance action or the settlement of an avoidance action), such Excess Payment shall be rescinded and each other SGI Long Term Noteholder receiving a payment of any portion of any such Excess Payment shall (and by accepting any such Excess Payment agrees that it shall) upon request made through the fiscal and paying agent, return to the fiscal and paying agent for return to Noteholder its share of the Excess Payment so recovered, without interest.

Obligor will appoint and maintain while the SGI Long Term Surplus Notes are outstanding, at Obligor’s expense, a fiscal and paying agent (the “Fiscal Agent”) acting pursuant to a fiscal and paying agency agreement (the “Fiscal and Paying Agency Agreement”) for purposes of distributing payments to the holders of the SGI Long Term Surplus Notes, maintaining a register of holders of the SGI Long Term Surplus Notes (available for inspection by the holders of the SGI Long Term Surplus Notes) and transmitting notices and other materials (including the Financial Reporting Package (as defined in the Master Transaction Agreement)) between and among Obligor and the holders of the SGI Long Term Surplus Notes. The holders of the SGI Long Term

Surplus Notes will be entitled to the benefits of, be bound by, and be deemed to have notice of, all of the provisions of the Fiscal and Paying Agency Agreement. A copy of the Fiscal and Paying Agency Agreement is on file and may be inspected at the corporate trust office of the Fiscal Agent.

The SGI Long Term Surplus Notes are issuable in definitive, fully registered form only, without coupons. The SGI Long Term Surplus Notes will be exchangeable and transfers thereof will be registerable, at the office of the Fiscal Agent in accordance with the further provisions hereof and the Fiscal and Paying Agency Agreement. The name and address of the registered holder of each SGI Long Term Surplus Note and the amount of each SGI Long Term Surplus Note will be recorded in the applicable security register, and the Fiscal Agent and the Obligor may treat the Person in whose name the SGI Long Term Surplus Note is registered as the owner of such SGI Long Term Surplus Note for all purposes.

In order to provide for the payment of the Principal Amount of and interest on the SGI Long Term Surplus Notes as the same shall become due and payable, the Obligor hereby agrees to pay to the Fiscal Agent by wire transfer of immediately available funds for credit to the account of the Fiscal Agent as specified in the Fiscal and Paying Agency Agreement, on the Business Day prior to each Payment Date (to the extent principal or interest is payable in cash on such date) and the Maturity Date of SGI Long Term Surplus Notes in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts, an amount in cash which (together with any cash then held by the Fiscal Agent and available for the purpose) shall be sufficient to pay the interest or principal or both, as the case may be, becoming due on

such date; provided, however, that if such date is not a Business Day, the Obligor shall make such payment on the preceding Business Day. The Fiscal Agent shall apply such amounts to the payment due on such date and, pending such application, such amounts shall be held in trust by the Fiscal Agent for the benefit of the Persons entitled thereto.

Payment of interest on the SGI Long Term Surplus Notes will be made to the Person in whose name such SGI Long Term Surplus Note is registered at the close of business on June 15 or December 15, as the case may be (each, a "Record Date"), next preceding the relevant Payment Date notwithstanding the cancellation of such SGI Long Term Surplus Note upon any transfer or exchange thereof subsequent to the Record Date and prior to such Payment Date; provided that: (i) interest payable at the Maturity Date or on any date the Principal Amount is prepaid will be payable to the Person to whom principal shall be payable; (ii) if and to the extent the Obligor shall default in the payment of interest due on such Interest Payment Date, such defaulted interest shall be paid to the Persons in whose names the SGI Long Term Surplus Notes are registered at the close of business on a subsequent record date established by notice given by mail by or on behalf of the Obligor to the holders of SGI Long Term Surplus Notes not less than 15 days preceding such subsequent record date, such record date to be not less than 10 days preceding the date of payment of such defaulted interest; and (iii) any Principal Amount or interest that was not paid when due because of the Surplus Limitations shall be paid to the Persons in whose names the SGI Long Term Surplus Notes are registered at the close of business on a subsequent record date approved by the Superintendent and established by notice given by mail by or on behalf of the Obligor to the holders of the SGI Long Term Surplus Notes not less than 15 days preceding such subsequent record date, such

record date to be not less than 10 days preceding the date of payment of such Principal Amount or interest.

In case any SGI Long Term Surplus Note shall become mutilated, defaced or apparently destroyed, lost or stolen, the Obligor may execute, and, upon the request of the Obligor, the Fiscal Agent shall authenticate and deliver, a new SGI Long Term Surplus Note bearing a number not contemporaneously outstanding, in exchange and substitution for the mutilated or defaced SGI Long Term Surplus Note or in lieu of and in substitution for the apparently destroyed, lost or stolen SGI Long Term Surplus Note. In every case the applicant for a substitute SGI Long Term Surplus Note shall furnish to the Obligor and to the Fiscal Agent such security or indemnity as may be required by them to indemnify and defend and to save each of them and any agent of the Obligor or the Fiscal Agent harmless and, in every case of destruction, loss or theft, evidence to their satisfaction of the apparent destruction, loss or theft of such SGI Long Term Surplus Note and of the ownership thereof. Upon the issuance of any substitute SGI Long Term Surplus Note, the Obligor or the Fiscal Agent may require the payment of a sum sufficient to cover expenses of delivery by other than regular mail (if any) and any tax or other governmental charge or insurance charge that may be imposed in relation thereto.

Upon the terms and subject to the conditions set forth in the Fiscal and Paying Agency Agreement, an SGI Long Term Surplus Note or SGI Long Term Surplus Notes may be exchanged for an equal aggregate principal amount of SGI Long Term Surplus Notes in different denominations as set forth herein and in the Fiscal and Paying Agency Agreement by surrender of such SGI Long Term Surplus Note or SGI Long Term

Surplus Notes to the Fiscal Agent, duly endorsed or accompanied by a proper instrument of assignment and transfer, together with a written request for the exchange.

Upon the terms and subject to the conditions set forth in the Fiscal and Paying Agency Agreement (including the delivery of certificates or opinions necessary to evidence compliance with the Securities Act of 1933), an SGI Long Term Surplus Note may be transferred in whole or in part by the holder or holders surrendering the SGI Long Term Surplus Note for registration of transfer at the office of any Fiscal Agent, duly endorsed or accompanied by an executed instrument of assignment and transfer.

The costs and expenses of effecting any exchange or registration of transfer pursuant to the foregoing provisions, except for the expenses set forth above, will be borne by the Obligor.

The Fiscal Agent may decline to accept any request for an exchange or registration of transfer during the period of 15 days preceding (i) the due date for any payment of interest on the SGI Long Term Surplus Notes or (ii) the date on which the SGI Long Term Surplus Notes are scheduled to mature.

In acting under the Fiscal and Paying Agency Agreement and in connection with the SGI Long Term Surplus Notes, the Fiscal Agent is acting solely as agent of the Obligor and does not assume any obligation towards or relationship of agency or trust for or with the owners or holders of the SGI Long Term Surplus Notes, except that any funds held by the Fiscal Agent for payment of principal of or interest on the SGI Long Term Surplus Notes shall be held in trust by it for such owners and holders and applied as set forth herein, but need not be segregated from other funds held by it, except as required by law. For a description of the duties and the immunities and rights of the Fiscal Agent

under the Fiscal and Paying Agency Agreement, reference is made to the Fiscal and Paying Agency Agreement, and the obligations of the Fiscal Agent to the holder hereof are subject to such immunities and rights.

Notices to holders of SGI Long Term Surplus Notes will be mailed to them (or the first named of joint holders) by first class mail (or, if first class mail is unavailable, by airmail) at their respective addresses in the register and deemed to have been given on the fourth weekday after the date of mailing.

This Surplus Note shall not become valid or obligatory until the certificate of authentication hereon shall have been duly signed by the Fiscal Agent acting under the Fiscal and Paying Agency Agreement.

This Surplus Note will be governed by and construed in accordance with the laws of the State of New York, without regard to its principles of conflicts of laws.

SYNCORA GUARANTEE INC.

By: _____
Name:
Title:

[FORM OF CERTIFICATE OF AUTHENTICATION]

This is one of the SGI Long Term Surplus Notes referred to in the within-mentioned Fiscal and Paying Agency Agreement.

By or on behalf of

_____, as Fiscal Agent

By: _____
Name: _____
Authorized Officer

Date:

THIS SURPLUS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED, PLEDGED OR HYPOTHECATED UNLESS AND UNTIL SUCH NOTE IS REGISTERED UNDER SUCH ACT OR, IN THE OPINION OF COUNSEL REASONABLY ACCEPTABLE TO THE OBLIGOR, AN EXEMPTION FROM REGISTRATION IS AVAILABLE.

ACCEPTANCE OF THIS SURPLUS NOTE IMPOSES CERTAIN OBLIGATIONS ON THE NOTEHOLDER.

SHORT TERM SURPLUS NOTE

No. ST-1
U.S. [●]¹

[●], 2009
New York, New York

For value received, SYNCORA GUARANTEE INC., a New York insurance corporation (“Obligor”), promises to pay to [●] (the “Noteholder”), the aggregate principal amount of U.S. \$[●]² (as may be increased from time to time pursuant to the terms herein, the “Principal Amount”), together with interest on the Principal Amount at the rate provided for herein, on the Maturity Date, as hereinafter defined (but subject to the proviso to the last sentence of the next following paragraph). Obligor may prepay all or any portion of unpaid Principal Amount at any time without penalty or premium together with accrued and unpaid interest on the Principal Amount being prepaid on the date of payment.

The Principal Amount of this Surplus Note shall accrue interest at an interest rate equal to five percent (5%) per annum. Interest on the Principal Amount shall be payable

¹ [The \$150,000,000 aggregate short term surplus note amount shall be allocated as set forth on Schedule B to MTA II.]

² [Relevant amount from Schedule B for the particular Commuting Counterparty at issue.]

on the 30th day of June and the 31st day of December in each year, commencing on December 31, 2009, and on the Maturity Date (each such date being hereinafter referred to as an "Interest Payment Date" or a "Payment Date"). On or prior to June 30, 2011 the Obligor shall pay accrued interest either (as selected by the Obligor) (a) in cash or (b) through the addition of such amount (the "PIK Accrual") to the then outstanding Principal Amount on the applicable Interest Payment Date. Interest shall accrue on the PIK Accrual and shall be payable as provided herein. After June 30, 2011, all interest accruing on the Principal Amount shall be payable in cash. The outstanding Principal Amount due (including any PIK Accrual) on this Surplus Note shall mature on [insert date that is 30 months from issuance] (the "Maturity Date"); *provided* that if and to the extent that the scheduled maturity date of all or any of the principal amount of the DropDownCo Short Term Surplus Note (as defined in the Master Transaction Agreement referred to below) is extended to a later Interest Payment Date pursuant to the terms thereof (which terms may not be amended or waived for purposes of this proviso without the consent of all Noteholders), then the Obligor shall be entitled to extend the maturity of a like proportion of the Principal Amount of this Surplus Note to such later Interest Payment Date and such like proportion of the Principal Amount, together with accrued and unpaid interest thereon, will be due and payable on such later Interest Payment Date; *provided further* that the Principal Amount, together with accrued and unpaid interest thereon, in any event shall be due and payable in full not later than on the fifth anniversary of the Closing Date (as defined in the Master Transaction Agreement referred to below).

If, pursuant to the proviso to the last sentence of the preceding paragraph, the Obligor does not pay the Principal Amount in full on the originally scheduled Maturity Date, then no later than 15 days before each subsequent Interest Payment Date the Obligor shall provide written notice to the Noteholder of the Principal Amount that will be paid on such Interest Payment Date, together with a certification by the Obligor (including reasonably detailed calculations and supporting data) that the Obligor has extended the maturity date to the same date as to a proportionate amount of the principal amount of the DropDownCo Short Term Surplus Note.

When payment would otherwise be due on a day other than a Business Day, the next succeeding Business Day shall be substituted for such day. Interest shall accrue on the basis of a year of 360 days and actual days elapsed from and including the first day of an Interest Period, to and including the last day of such Interest Period. "Business Day" shall mean a day when banks are open for business in New York City. "Interest Period" shall mean the period commencing on and including the date of this Surplus Note, to and including the first Interest Payment Date, and each successive period thereafter, commencing on and including the date immediately following each Interest Payment Date, to and including the next succeeding Interest Payment Date.

Unpaid Principal Amount and the interest accrued thereon shall be payable only out of free and divisible surplus of Obligor if and to the extent that the free and divisible surplus of Obligor (determined on a statutory basis in accordance with the New York Insurance Law) is sufficient for the payment thereof.

Any payment of unpaid Principal Amount and the interest thereon shall be paid only with the prior written consent of the Superintendent of Insurance of the State of New

York (the “Superintendent”) in accordance with the applicable provisions of the New York Insurance Law.

If any payment of the Principal Amount of, or interest on, this Surplus Note cannot be paid when due because of the limitations set forth in either of the two preceding paragraphs (such limitations, collectively, the “Surplus Limitations”), then such unpaid amount shall accrue interest at the rate herein provided and such amount (together with interest) shall be paid at the earliest possible time, or times (including, without limitation, through multiple partial payments), as such payment may be made without violation of the Surplus Limitations.

The unpaid Principal Amount represented by this Surplus Note and the accrued interest thereon shall be a liability and claim against the Obligor, and any of its assets, to the extent permitted by Section 1307 of the New York Insurance Law. Until such amounts are repaid, all statements published by the Obligor or filed by the Obligor with the Superintendent shall report the issuance and holding of this Surplus Note in accordance with statutory accounting principles prescribed or otherwise permitted by the Superintendent.

This Surplus Note is one of a series of surplus notes in an aggregate principal amount of \$150,000,000 (each, an “SGI Short Term Surplus Note” and, collectively, the “SGI Short Term Surplus Note Series” or the “SGI Short Term Surplus Notes”) issued pursuant to the Master Transaction Agreement, dated as of April 26, 2009 (as from time to time amended, the “Master Transaction Agreement”), among SYNCORA HOLDINGS LTD. (formerly known as Security Capital Assurance Ltd), a Bermuda exempted company (the “Parent”), Obligor, SYNCORA CAPITAL ASSURANCE INC., a newly

formed New York insurance company and a wholly-owned subsidiary of Obligor (“DDC”), certain portfolio trusts that are party to the Master Transaction Agreement, and the counterparties to credit default swap agreements with affiliates of Obligor that are party to the Master Transaction Agreement and are entitled to the benefits thereof.

The Obligor will observe and perform for the benefit of the holders of the SGI Short Term Surplus Notes the covenants and agreements set forth in Sections 5.13 and 5.14 of the Master Transaction Agreement (subject to amendment or waiver as provided therein) and which covenants and agreements are hereby incorporated by reference.

The Obligor will not agree to any amendment, waiver, consent, modification, refunding or refinancing of any SGI Short Term Surplus Note (an “Amendment”), unless the Obligor concurrently offers the Noteholder the right to vote on such Amendment on the same terms as any other holder (each, an “SGI Short Term Noteholder”) of SGI Short Term Surplus Notes. The Obligor will provide each SGI Short Term Noteholder (irrespective of the amount of SGI Short Term Surplus Notes then owned by it) with sufficient information, sufficiently far in advance of the date a decision is required, to enable such holder to make an informed and considered decision with respect to any proposed Amendment.

The Obligor will not directly or indirectly pay or cause to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, or grant any security or provide other credit support, to any SGI Short Term Noteholder as consideration for or as an inducement to the entering into by any SGI Short Term Noteholder of any Amendment of any of the terms and provisions hereof, or of any amendment, waiver, consent or modification of any provisions of the Master Transaction

Agreement of which the holders of the SGI Short Term Surplus Notes are third party beneficiaries, unless such remuneration is concurrently paid, or security is concurrently granted or other credit support concurrently provided, on the same terms, ratably to each holder of SGI Short Term Surplus Notes then outstanding even if such holder did not consent to such Amendment.

All payments (including prepayments) of the SGI Short Term Surplus Notes shall be made pro rata without preference of one SGI Short Term Surplus Note over any other. By accepting this Note, each Noteholder agrees, for the ratable benefit of the other SGI Short Term Noteholders, that if Noteholder shall, for any reason, directly or indirectly, receive from Obligor or any subsidiary thereof any payment in respect of Principal Amount of or interest on this Surplus Note resulting in Noteholder receiving payment of a greater proportion of the aggregate amount of the Principal Amount of or interest on this Surplus Note than the proportion received from Obligor or any subsidiary thereof by any other holder of an SGI Short Term Surplus Note (a "Payment"), then Noteholder shall pay, promptly upon receipt thereof, the portion of any such Payment received by it to the fiscal and paying agent maintained by Obligor with respect to the SGI Short Term Surplus Note Series, to the extent necessary so that the benefit of all payments in respect of any Principal Amount of or interest on this Surplus Note shall be shared by the SGI Short Term Noteholders ratably in accordance with the aggregate amount of Principal Amount of and accrued interest on their respective SGI Short Term Surplus Notes (such shared amount, the "Excess Payment"); provided that if any such Excess Payment is made by Noteholder and all or any portion of the Payment giving rise thereto is recovered for any reason from Noteholder (including, without limitation, by reason of a judgment in

an avoidance action or the settlement of an avoidance action), such Excess Payment shall be rescinded and each other SGI Short Term Noteholder receiving a payment of any portion of any such Excess Payment shall (and by accepting any such Excess Payment agrees that it shall) upon request made through the fiscal and paying agent, return to the fiscal and paying agent for return to Noteholder its share of the Excess Payment so recovered, without interest.

Obligor will appoint and maintain while the SGI Short Term Surplus Notes are outstanding, at Obligor's expense, a fiscal and paying agent (the "Fiscal Agent") acting pursuant to a fiscal and paying agency agreement (the "Fiscal and Paying Agency Agreement") for purposes of distributing payments to the holders of the SGI Short Term Surplus Notes, maintaining a register of holders of the SGI Short Term Surplus Notes (available for inspection by the holders of the SGI Short Term Surplus Notes) and transmitting notices and other materials (including the Financial Reporting Package (as defined in the Master Transaction Agreement)) between and among Obligor and the holders of the SGI Short Term Surplus Notes. The holders of the SGI Short Term Surplus Notes will be entitled to the benefits of, be bound by, and be deemed to have notice of, all of the provisions of the Fiscal and Paying Agency Agreement. A copy of the Fiscal and Paying Agency Agreement is on file and may be inspected at the corporate trust office of the Fiscal Agent.

The SGI Short Term Surplus Notes are issuable in definitive, fully registered form only, without coupons. The SGI Short Term Surplus Notes will be exchangeable and transfers thereof will be registerable, at the office of the Fiscal Agent in accordance with the further provisions hereof and the Fiscal and Paying Agency Agreement. The name

and address of the registered holder of each SGI Short Term Surplus Note and the amount of each SGI Short Term Surplus Note will be recorded in the applicable security register, and the Fiscal Agent and the Obligor may treat the Person in whose name the SGI Short Term Surplus Note is registered as the owner of such SGI Short Term Surplus Note for all purposes.

In order to provide for the payment of the Principal Amount of and interest on the SGI Short Term Surplus Notes as the same shall become due and payable, the Obligor hereby agrees to pay to the Fiscal Agent by wire transfer of immediately available funds for credit to the account of the Fiscal Agent as specified in the Fiscal and Paying Agency Agreement, on the Business Day prior to each Payment Date (to the extent principal or interest is payable in cash on such date) and the Maturity Date of SGI Short Term Surplus Notes in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts, an amount in cash which (together with any cash then held by the Fiscal Agent and available for the purpose) shall be sufficient to pay the interest or principal or both, as the case may be, becoming due on such date; provided, however, that if such date is not a Business Day, the Obligor shall make such payment on the preceding Business Day. The Fiscal Agent shall apply such amounts to the payment due on such date and, pending such application, such amounts shall be held in trust by the Fiscal Agent for the benefit of the Persons entitled thereto.

Payment of interest on the SGI Short Term Surplus Notes will be made to the Person in whose name such SGI Short Term Surplus Note is registered at the close of business on June 15 or December 15, as the case may be (each, a "Record Date"), next preceding the relevant Payment Date notwithstanding the cancellation of such SGI Short

Term Surplus Note upon any transfer or exchange thereof subsequent to the Record Date and prior to such Payment Date; provided that: (i) interest payable at the Maturity Date or on any date the Principal Amount is prepaid will be payable to the Person to whom principal shall be payable; (ii) if and to the extent the Obligor shall default in the payment of interest due on such Interest Payment Date, such defaulted interest shall be paid to the Persons in whose names the SGI Short Term Surplus Notes are registered at the close of business on a subsequent record date established by notice given by mail by or on behalf of the Obligor to the holders of SGI Short Term Surplus Notes not less than 15 days preceding such subsequent record date, such record date to be not less than 10 days preceding the date of payment of such defaulted interest; and (iii) any Principal Amount or interest that was not paid when due because of the Surplus Limitations shall be paid to the Persons in whose names the SGI Short Term Surplus Notes are registered at the close of business on a subsequent record date approved by the Superintendent and established by notice given by mail by or on behalf of the Obligor to the holders of the SGI Short Term Surplus Notes not less than 15 days preceding such subsequent record date, such record date to be not less than 10 days preceding the date of payment of such Principal Amount or interest.

In case any SGI Short Term Surplus Note shall become mutilated, defaced or apparently destroyed, lost or stolen, the Obligor may execute, and, upon the request of the Obligor, the Fiscal Agent shall authenticate and deliver, a new SGI Short Term Surplus Note bearing a number not contemporaneously outstanding, in exchange and substitution for the mutilated or defaced SGI Short Term Surplus Note or in lieu of and in substitution for the apparently destroyed, lost or stolen SGI Short Term Surplus Note. In every case

the applicant for a substitute SGI Short Term Surplus Note shall furnish to the Obligor and to the Fiscal Agent such security or indemnity as may be required by them to indemnify and defend and to save each of them and any agent of the Obligor or the Fiscal Agent harmless and, in every case of destruction, loss or theft, evidence to their satisfaction of the apparent destruction, loss or theft of such SGI Short Term Surplus Note and of the ownership thereof. Upon the issuance of any substitute SGI Short Term Surplus Note, the Obligor or the Fiscal Agent may require the payment of a sum sufficient to cover expenses of delivery by other than regular mail (if any) and any tax or other governmental charge or insurance charge that may be imposed in relation thereto.

Upon the terms and subject to the conditions set forth in the Fiscal and Paying Agency Agreement, an SGI Short Term Surplus Note or SGI Short Term Surplus Notes may be exchanged for an equal aggregate principal amount of SGI Short Term Surplus Notes in different denominations as set forth herein and in the Fiscal and Paying Agency Agreement by surrender of such SGI Short Term Surplus Note or SGI Short Term Surplus Notes to the Fiscal Agent, duly endorsed or accompanied by a proper instrument of assignment and transfer, together with a written request for the exchange.

Upon the terms and subject to the conditions set forth in the Fiscal and Paying Agency Agreement (including the delivery of certificates or opinions necessary to evidence compliance with the Securities Act of 1933), an SGI Short Term Surplus Note may be transferred in whole or in part by the holder or holders surrendering the SGI Short Term Surplus Note for registration of transfer at the office of any Fiscal Agent, duly endorsed or accompanied by an executed instrument of assignment and transfer.

The costs and expenses of effecting any exchange or registration of transfer pursuant to the foregoing provisions, except for the expenses set forth above, will be borne by the Obligor.

The Fiscal Agent may decline to accept any request for an exchange or registration of transfer during the period of 15 days preceding (i) the due date for any payment of interest on the SGI Short Term Surplus Notes or (ii) the date on which the SGI Short Term Surplus Notes are scheduled to mature.

In acting under the Fiscal and Paying Agency Agreement and in connection with the SGI Short Term Surplus Notes, the Fiscal Agent is acting solely as agent of the Obligor and does not assume any obligation towards or relationship of agency or trust for or with the owners or holders of the SGI Short Term Surplus Notes, except that any funds held by the Fiscal Agent for payment of principal of or interest on the SGI Short Term Surplus Notes shall be held in trust by it for such owners and holders and applied as set forth herein, but need not be segregated from other funds held by it, except as required by law. For a description of the duties and the immunities and rights of the Fiscal Agent under the Fiscal and Paying Agency Agreement, reference is made to the Fiscal and Paying Agency Agreement, and the obligations of the Fiscal Agent to the holder hereof are subject to such immunities and rights.

Notices to holders of SGI Short Term Surplus Notes will be mailed to them (or the first named of joint holders) by first class mail (or, if first class mail is unavailable, by airmail) at their respective addresses in the register and deemed to have been given on the fourth weekday after the date of mailing.

This Surplus Note shall not become valid or obligatory until the certificate of authentication hereon shall have been duly signed by the Fiscal Agent acting under the Fiscal and Paying Agency Agreement.

This Surplus Note will be governed by and construed in accordance with the laws of the State of New York, without regard to its principles of conflicts of laws.

SYNCORA GUARANTEE INC.

By: _____
Name:
Title:

[FORM OF CERTIFICATE OF AUTHENTICATION]

This is one of the SGI Short Term Surplus Notes referred to in the within-mentioned Fiscal and Paying Agency Agreement.

By or on behalf of

_____, as Fiscal Agent

By: _____

Name:

Authorized Officer

Date: