

REPORT ON ORGANIZATION
OF
SYNCORA CAPITAL ASSURANCE INC.
AS OF
JULY 15, 2009

DATE OF REPORT

JULY 16, 2009

EXAMINER

JOHN CONLEY

TABLE OF CONTENTS

<u>ITEM NO.</u>		<u>PAGE NO.</u>
1.	Scope of examination	2
2.	Incorporation	2
3.	Capitalization and subscription	4
4.	Balance sheet	5
5.	Authorization powers and minimum capital required	5
6.	Affiliated group	6
7.	Conclusion	7
	Affidavit	



STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

July 16, 2009

Mr. Kermitt J. Brooks
Acting Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 30363 dated July 10, 2009, attached hereto, I have made an examination on organization of Syncora Capital Assurance Inc. as of July 15, 2009, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, they should be understood to indicate Syncora Capital Assurance Inc.

Whenever the term "Department" appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at the office of the Company located at 1221 Avenue of the Americas, 32nd floor, New York, NY 10020-1001.

1. SCOPE OF EXAMINATION

The examination comprised a complete verification of the issuance of the Company's capital stock, the receipt of capital and surplus funds, and the determination of the Company's assets and liabilities. The records examined were the declaration of intention and charter, the by-laws, the certificate of incorporation, the corporate minutes, the stock register and the inter-company and custodial agreements entered into by the company as of the examination date. In addition, an affidavit, appended hereto, was obtained from two officers of the Company indicating that the transactions noted in this report were lawful and bona fide.

2. INCORPORATION

Syncora Capital Assurance Inc. was incorporated under the laws of the State of New York on April 1, 2009 as a wholly-owned subsidiary of Syncora Guarantee Inc. (Parent), a New York domiciled financial guaranty insurance company formerly known as XL Capital Assurance Inc. The sole purpose for the formation of the Company will be to reinsure certain of Parent's public finance business and certain of its global infrastructure business pursuant to a quota share reinsurance agreement, under which the Company will pay Parent an amount equal to ceded unearned premium net of a 17.5% ceding commission, and to assume certain of Parent's insurance policies covering existing credit default swaps between affiliates of Parent and certain financial counterparties pursuant to an assumption reinsurance and novation agreement. The declaration of intention and charter were approved by the Attorney General of the State of New York and filed with the Department on or about March 10, 2009. The Company's offices are located at 1221 Avenue of the Americas, 32nd floor, New York, NY 10020-1001.

As of the examination date, the Company's board of directors was comprised of the following eleven members:

Name and Residence

Principal Business Affiliation

Susan Comparato
Glen Ridge, NJ

Acting Chief Executive Officer, President, and
General Counsel,
Syncora Holdings Ltd. and Syncora Guarantee
Inc.

Michael P. Esposito Jr.
Sagaponack, NY

Chairman of the Board of Directors,
Syncora Holdings Ltd.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
E. Grant Gibbons Hamilton Parish, Bermuda	Member of Parliament (Bermuda) and Director of various companies
Duncan Hennes Rye, NY	Co-founder and Partner, Atrevida Partners
Drew D. Hoffman Cross River, NY	Senior Vice President, Syncora Holdings Ltd. and Syncora Guarantee Inc.
Robert M. Lichten Greenwich, CT	Retired, Chairman, Inter-Atlantic Group, Private Equity
Donald Matthews Far Hills, NJ	Retired, President and Chief Executive Officer, Children's Progress, Inc.
Thomas Norsworthy Bethel, CT	Executive, Kenning Financial Advisors
Coleman D. Ross, CPA Chapel Hill, NC	Retired Partner, Pricewaterhouse Coopers, LLP
Robert Strong New Vermont, NJ	Retired, Managing Director Capital Commitment, Bank of America
Robert White Los Angeles, CA	Retired Partner, O'Melvery & Myers, LLP

The principal officers of the Company were as follows:

Susan Comparato	President
Drew D. Hoffman	Executive Vice President and Head of Surveillance
Frederick B. Hnat	Vice President and Secretary
Arnold Brousell	Vice President and Chief Accounting Officer
R. Sharon Smith	Assistant Secretary

3. CAPITALIZATION AND SUBSCRIPTION

Syncora Capital Assurance Inc. is a wholly-owned subsidiary of Syncora Guarantee Inc. (formerly known as XL Capital Assurance Inc.), a New York insurer, which is ultimately controlled by Syncora Holdings Ltd, a Bermuda corporation.

The Company has authorized capital of \$2,500,000, consisting of 2500 shares of common stock with a par value of \$1000 per share. On July 9, 2009, the Company issued 2,500 shares of common stock to Syncora Guarantee Inc. for consideration \$2,500,000. Additionally, Syncora Guarantee Inc. has provided an additional \$539 million to the Company's capital and surplus in the form of (i) a \$150 million surplus note, bearing interest at 5% per annum and maturing 30 months after the closing date, subject to extension under certain conditions; (ii) a \$200 million surplus note bearing interest at 6% per annum and maturing on the 15th anniversary of the closing date; and (iii) a surplus contribution in the amount of \$189,000,000.

In order to fulfill the deposit requirements of Section 4104 of the New York Insurance Law, the Company has placed securities with a par value totaling \$510,000 in an account in the name of the "Superintendent of Insurance of the State of New York in trust for the security of the policyholders of Syncora Capital Assurance Inc. within the United States, its territories and possessions." The custodian is The Bank of New York Mellon, and the securities are held pursuant to a custodian agreement that conforms to the provisions of Section 1314 of the New York Insurance Law.

4. BALANCE SHEET

The following balance sheet sets forth the Company's financial condition as of July 15, 2009 as determined by this examination:

<u>Assets</u>		
Cash		\$ 77,202,915
Bonds		823,751,353
Interest and dividends accrued		<u>5,838,709</u>
Total admitted assets		<u>\$906,792,977</u>
 <u>Liabilities</u>		
Contingency reserve		\$187,218,000
Unearned premiums		<u>437,977,000</u>
Total liabilities		\$625,195,000
Surplus Note 1	\$150,000,000	
Surplus Note 2	200,000,000	
Contributed surplus	189,000,000	
Common capital stock	2,500,000	
Unassigned funds (surplus)	<u>(259,902,023) *</u>	
Total surplus as regards policyholders		<u>281,597,977</u>
Total liabilities and surplus		<u>\$906,792,977</u>

* The unassigned funds is comprised of the following:

Contingency reserve assumed		\$(187,218,000)
Ceding commission on quota share treaty with Syncora Guarantee Inc.		(74,031,000)
Miscellaneous income		<u>1,346,977</u>
Total		<u>\$(259,902,023)</u>

5. AUTHORIZED POWERS AND MINIMUM CAPITAL REQUIRED

The Company is authorized to transact the kind of insurance as defined in the following numbered paragraph of Section 1113(a) of the New York Insurance Law:

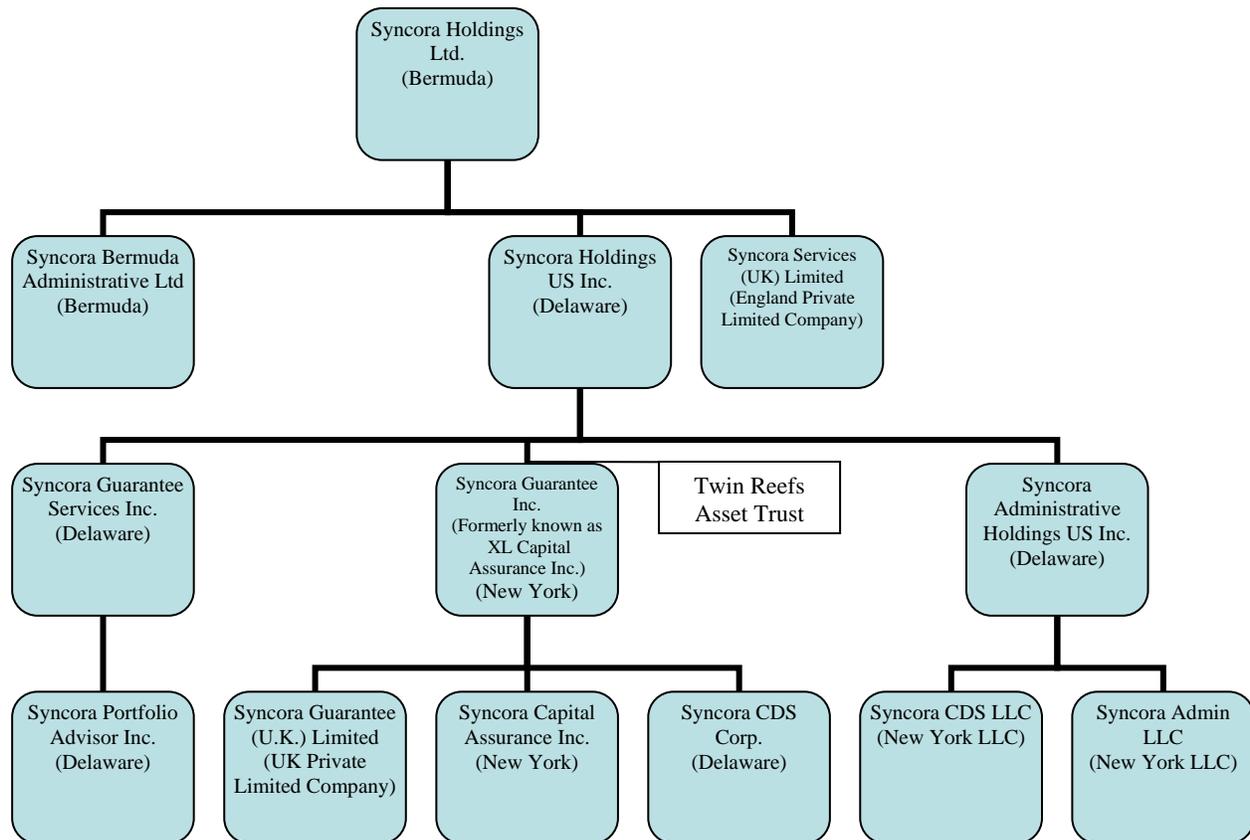
<u>Paragraph</u>	<u>Line of Business</u>
16 (C),(D),(E),(F),(G),(H),(I)	Surety Financial Guaranty Insurance

Sections 4103 and 6902 of the New York Insurance Law provides that in order to be licensed to transact the foregoing kinds of insurance, the Company shall have an initial surplus to policyholders of \$76,500,000, including \$2,500,000 of capital, and shall thereafter maintain a minimum surplus to policyholders of \$66,000,000. The Company has met these requirements.

6. AFFILIATED GROUP

Syncora Capital Assurance Inc. is a wholly owned subsidiary of Syncora Guarantee Inc., a New York corporation, which is ultimately owned by Syncora Holdings Ltd., a Bermuda corporation.

The following shows the Company's organizational chart at July 15, 2009:



7. CONCLUSION

Based on the foregoing examination, it is concluded that the Company sold 2,500 shares of common stock with a par value of \$1,000 per share. These shares represent the total authorized and issued stock for which the Company received a consideration of \$191,500,000, of which \$2,500,000 represents capital paid in and \$189,000,000 represents gross paid in and contributed surplus. Additionally, the Company received \$350,000,000 through the issuance of surplus notes to its parent.

Respectfully submitted,

_____/s/_____
John Conley
Senior Insurance Examiner

State of New York)
)ss.
County of New York)

JOHN CONLEY, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.

_____/s/_____
John Conley

Subscribed and sworn to before me
this _____ day of _____, 2009.

STATE OF NEW YORK,)
) SS:
COUNTY OF NEW YORK)

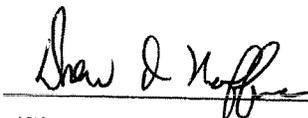
The undersigned each an executive officer of Syncora Capital Assurance Inc. (the "Company") duly sworn, depose and say under oath that, on the date of July 16, 2009:

- (1) Each of the undersigned is an officer of the Company.
- (2) The Company's capital and surplus equals \$280,250,000 consisting of common stock of two million, five hundred thousand dollars (\$2,500,000), paid in capital (including surplus notes) of five hundred and thirty nine million dollars (\$539,000,000) and an unassigned funds deficit of two hundred sixty one million and two hundred and fifty thousand dollars (\$261,250,000) ("Capital and Surplus"). The amounts respecting common stock are custodied at HSBC and the balance of funds are custodied at the Bank of New York Mellon.
- (3) No part of the Capital and Surplus has been withdrawn, pledged, or in any way impaired.
- (4) No part of the Capital and Surplus is to be invested or otherwise legitimately used or appropriated except for the sole and exclusive use and benefit of the Company.
- (5) There is no agreement or understanding, express or implied, made or existing between the Company and its officers, or any or either of them, or any person or persons, to the effect or import that the money paid in by any stockholder shall be loaned or returned to it except as evidenced by the surplus notes.
- (6) Neither the Company nor any of its officers is in any way, manner or form pledged or committed to make any investment, loan or disposition of the Capital and Surplus, or any part or portion thereof, which is not in strict conformity in all respects with the provisions of the Insurance Law of the State of New York.
- (7) The Capital and Surplus is the property of the Company and is possessed by the Company in its corporate name and capacity for the benefit of its policyholders.



(Signature) 7/16/09
(Date)

President
(title)



(Signature) 7/16/09
(Date)

Senior Vice President and Head of Surveillance
(title)

Subscribed and sworn to before me
this 16th day of July, 2009

Chiara Lane
(Signature)

Notary Public Stamp.

CHIARA LANE
NOTARY PUBLIC, State of New York
No. 01LA6059275
Qualified in Richmond County
Commission Expires: May 29, 2011

Appointment No. 30363

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, Kermitt J. Brooks, Acting Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

John Conley

as proper person to examine into the affairs of the

SYNCORA CAPITAL ASSURANCE INC.

and to make a report to me in writing of the condition of the said

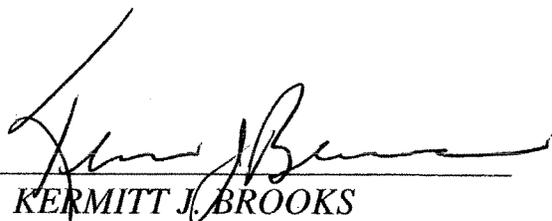
Corporation

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by the name and affixed the official Seal of this Department, at the City of New York,

this 10th day of July, 2009





KERMITT J. BROOKS
Acting Superintendent of Insurance