

REPORT ON EXAMINATION

OF

SYNCORA GUARANTEE INC.

AS OF

DECEMBER 31, 2016

DATE OF REPORT

MARCH 5, 2018

EXAMINER

KEVIN MCNAMEE

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

March 5, 2018

Honorable Maria T. Vullo
Superintendent
New York State Department of Financial Services
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 31648 dated July 19, 2017 attached hereto, I have made an examination into the condition and affairs of Syncora Guarantee Inc. as of December 31, 2016, and submit the following report thereon.

Wherever the designation “the Company” or “SGI” appears herein without qualification, it should be understood to indicate Syncora Guarantee Inc.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

The examination was conducted at the Company’s home office located at 135 West 50th Street, New York, New York 10020.

1. SCOPE OF EXAMINATION

The Department has performed an examination of the Company, a multi-state insurer. The previous examination was conducted as of December 31, 2011. This examination covered the five-year period from January 1, 2012 through December 31, 2016. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner. This examination was performed in conjunction with the examination of Syncora Capital Assurance Inc., the Company's subsidiary.

This examination was conducted in accordance with the National Association of Insurance Commissioners' ("NAIC") Financial Condition Examiners Handbook ("Handbook"), which requires that we plan and perform the examination to evaluate the financial condition and identify current and prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with New York Laws, statutory accounting principles, and annual statement instructions.

This examination report includes, but is not limited to, the following:

- Company history
- Management and control
- Territory and plan of operation
- Holding company description
- Reinsurance
- Loss review and analysis
- Financial statement presentation
- Significant subsequent events
- Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regards to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

The Company was incorporated as a property and casualty insurer under the laws of the State of New York as The London Assurance of America, Inc. on July 25, 1991, and commenced business on January 1, 1992. Effective July 1, 2000, business previously written by the Company, together with all its liabilities, were ceded to an affiliate pursuant to a reinsurance, assignment and assumption agreement.

On February 22, 2001, all the outstanding shares of the Company were acquired by XL Reinsurance America, Inc. (“XL Re”), a New York domiciled insurer, which was ultimately controlled by XL Capital Ltd. (“XL Capital”), a Cayman Islands corporation. On the same date, the Company was merged with XL Capital Assurance Inc., a wholly-owned subsidiary of XL Re, with the Company as the surviving entity. Simultaneous with the merger, the surviving company adopted the name XL Capital Assurance Inc.

On March 17, 2006, XL Capital formed Syncora Holdings Ltd. (“Syncora Holdings”) (formerly known as Security Capital Assurance Ltd.), a wholly-owned Bermuda holding company. On July 1, 2006, XL Capital contributed all of its ownership interests in its financial guarantee insurance and financial guarantee reinsurance operating businesses to Syncora Holdings. On August 4, 2006, Syncora Holdings completed an initial public offering (“IPO”). XL Capital sold common shares of Syncora Holdings directly to the public in a secondary offering concurrent with the IPO.

On August 4, 2008, the Company adopted its current title, Syncora Guarantee Inc. On September 4, 2008, Syncora Guarantee Re Ltd. merged with and into the Company, with the Company being the surviving entity.

A. Corporate Governance

Pursuant to the Company’s charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven nor more than nineteen members. The board meets four times during each calendar year. At December 31, 2016, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Susan Comparato * Glen Ridge, NJ	President and Chief Executive Officer, Syncora Guarantee Inc.
Michael Patrick Esposito Jr. Longboat Key, FL	Chairman, Syncora Guarantee Inc.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Edmund Graham Gibbons Hamilton Parish HS02, Bermuda	Member of Parliament, Bermuda
Robert Martin Lichten Jupiter, FL	Co-Chairman, Inter-Atlantic Securities Corporation
Thomas Stanley Norsworthy Bethel, CT	President and Chief Financial Officer, Aylesbury Insurance Acquisitions, Inc.
Coleman DeVane Ross Chapel Hill, NC	Director, Pan-American Insurance Group
Robert Joel White Los Angeles, CA	Director, Various corporations

Section 312(b) of the New York Insurance Law states, in part:

“A copy of the report shall be furnished by such insurer or other person to each member of its board of directors and each such member shall sign a statement which shall be retained in the insurer's files confirming that such member has received and read such report...”

Although the Company provided the prior Report on Examination to its board of directors, the Company could not provide a statement signed by each director confirming that they have received and read the prior Report on Examination. It is recommended that the Company retain signed statements from each member of its board of directors confirming that each has received and read the Report on Examination in accordance with Section 312(b) of the New York Insurance Law.

As of December 31, 2016, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Susan Comparato *	President and Chief Executive Officer
Frederick Hnat	Chief Operating Officer
David Grande	Chief Financial Officer

* Susan Comparato resigned effective May 31, 2017

B. Territory and Plan of Operation

SGI was licensed to conduct financial guarantee insurance business throughout all fifty states as well as in the Commonwealth of Puerto Rico, the District of Columbia, and the U.S. Virgin Islands. As of December 31, 2016, twenty-eight states have suspended or revoked the Company's license to conduct insurance business in such states of jurisdiction, placed an order of impairment against it, or the Company voluntarily agreed to cease writing business in such states.

Prior to January 2008, the Company was primarily engaged in the business of providing:

1. Credit enhancement on fixed and variable rate debt obligations through the issuance of financial guarantee insurance policies.
2. Credit protection on specified reference credits or on pools of specified reference credits through the issuance of financial guarantee insurance policies covering the obligations under credit default swap ("CDS") contracts issued by trusts to comply with the New York Insurance Law.

Beginning in the second half of 2007 and continuing through 2009, adverse developments in the credit markets generally and the mortgage market specifically, resulted in significant deterioration of the Company's financial condition, which resulted in the Company's failure to maintain its \$66 million minimum surplus to policyholders, pursuant to Article 69 of the New York Insurance Law. Ratings downgrades by several major rating agencies caused the Company to cease writing substantially all new business in January 2008. Typically, the financial guarantor must have the same or better financial strength ratings than the debt obligations that it insures.

In the fourth quarter of 2008 and the first two quarters of 2009, the Company recorded additional material adverse development of reserves for unpaid losses and loss adjustment expenses. As a result, the Company reported negative surplus as of December 31, 2008. In April 2009, the Department issued an order pursuant to Section 1310 of the New York Insurance Law for the Company to remove the impairment and to suspend claims payments.

Effective July 15, 2009, the Company consummated a master transaction agreement ("2009 MTA") with counterparties to CDS contracts insured by its financial guaranty insurance policies and certain related transactions. This resulted in the Company remediating previously reported policyholders' deficit and reestablishing compliance with regulatory minimum policyholders' surplus. The 2009 MTA consisted of the following primary components:

- (1) the restructuring, effective defeasance or, in substance, commutation (in whole or in part) of substantially all of the Company's exposures to the CDS contracts and certain insured RMBS securities,
- (2) the reinsurance or novation of certain business to Syncora Capital Assurance Inc. ("SCAI"), a newly formed, wholly-owned insurance subsidiary of the Company. SCAI's sole purpose was to reinsure the Company's public finance business and certain of its global infrastructure business.
- (3) certain other transactions to remediate loss exposure.

The 2009 MTA was approved by the Department pursuant to Section 1505 of the New York Insurance Law. Additionally, the Company obtained permission from the Department to apply certain accounting practices in connection with the preparation of statutory financial statements concerning certain transactions comprising the 2009 MTA that resulted in the Company's return to compliance with its regulatory minimum capital and surplus.

On August 12, 2016, Syncora Holdings US Inc. ("SHI"), a wholly-owned subsidiary of Syncora Holdings Ltd. ("SHL"), completed a surplus note exchange offer and proxy solicitation for the variation of rights to the SHL Preferred Shares, which are part of its restructuring transactions. Upon closing of the transactions (collectively "Restructuring Transactions"), the following interrelated events occurred:

- (1) Holders of SGI's outstanding long-term and short-term surplus notes provided a \$70.0 million discount (\$55.2 million and \$14.8 million of long-term and short term surplus notes, respectively), including principal, paid-in-kind interest and accrued interest, in exchange for 17.3 million newly issued common shares of SHL.
- (2) The rights attached to all externally held SHL Preferred Shares were varied such that they were automatically converted into 13.0 million newly issued SHL common shares and \$40.0 million of reallocated surplus notes (\$31.5 million and \$8.5 million of long-term and short-term surplus notes, respectively) provided from the discount described above. In addition, upon completion of the variation, all of the SHL Preferred Shares held by SHL, or its affiliates were cancelled and no SHL Preferred Shares remain outstanding.
- (3) The remaining \$30.0 million of discounted long-term and short-term surplus notes were transferred to and cancelled by SGI. The principal component of the \$30.0 million discount is considered an equity transaction as it was transacted between related parties, and therefore reported through gross paid in and contributed.
- (4) Pursuant to an amended and restated tax sharing agreement, Syncora Guarantee reallocated \$1.75 billion of excess net operating losses to SHI for its sole use and benefit, where these net operating losses may be used more broadly. In addition, SHI provided contractual protections relating to the preservation and utilization of Syncora Guarantee retained net operating losses. The amendments to the tax sharing agreement did not have any effect on the Company's policyholders' surplus.

- (5) SGI made a net cash payment of \$55.0 million on its long-term and short-term externally held surplus notes after receiving approval from the Department. In accordance with statutory accounting principles, interest was not recorded by the Company as an expense until approval for such payment was granted by the Department. This payment was recorded as an \$8.2 million reduction to principal of short-term surplus notes and a \$46.8 million payment of paid-in-kind and accrued interest on both the long-term and short-term surplus notes.
- (6) SGI increased its unassigned surplus to the greatest extent possible given its current gross paid in and contributed surplus by allocating the entire balance of that account to unassigned surplus.

The Restructuring Transactions were approved by the Department on August 5, 2016. The effect of the Restructuring Transactions described above resulted, for the Company in a net forgiveness of surplus note principal in the amount of \$19,951,199 and a surplus note payment of \$8,224,632. Gross paid in and contributed surplus was reduced to \$0, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
2012	Beginning gross paid in and contributed surplus	\$ 2,006,306,151
2012	Transfer of surplus notes-Countrywide*	\$ 40,666,000
2016	Surplus note discount	\$ 19,951,199
2016	Reclass to unassigned funds	<u>\$(2,066,923,350)</u>
2016	Ending gross paid in and contributed surplus	<u>\$_____0</u>

*On July 17, 2012, the Company settled its RMBS-related claims and other claims with Countrywide, Bank of America Corp. ("BAC") and affiliates. Subsidiaries of BAC transferred to the Company, short-term and long-term surplus notes of the Company. The Company recorded a decrease of surplus notes and a corresponding increase to gross paid in and contributed surplus.

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law.

<u>Paragraph</u>	<u>Line of Business</u>
16 (C)(D)(E)(F)	Surety
25	Financial guaranty

Based upon the lines of business for which the Company is licensed, the Company's current capital structure, and pursuant to the requirements of Articles 13, 41 and 69 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$66 million.

The following schedule shows the direct and assumed premiums written by the Company for the period under examination:

<u>Calendar Year</u>	<u>Direct Premiums</u>	<u>Assumed Premiums</u>	<u>Total Gross Premiums</u>
2012	\$26,779,931	\$ 12,234,679	\$39,014,610
2013	\$17,686,351	\$ 12,240,917	\$29,927,268
2014	\$18,242,177	\$ 7,075,553	\$25,317,730
2015	\$72,626,047	\$(52,161,116)	\$20,464,931
2016	\$11,879,340	\$ 2,896,732	\$14,776,072

The Company stopped writing new business in January 2008. The premiums included in the table above reflect installment premiums on existing run-off business. Since 2008, the Company has commuted most of its business, which resulted in gains and losses to the Company's surplus position. No commutations occurred during the examination period.

The Company's assumed reinsurance accounted for 19.6% of its gross premium written at December 31, 2016, on existing runoff business. The business is primarily assumed pursuant to a facultative reinsurance agreement with Assured Guaranty Municipal Corp., an authorized reinsurer. The Company utilizes reinsurance accounting as defined in Statement of Statutory Accounting Principle ("SSAP") No. 62R for its assumed reinsurance business.

Syncora Guarantee-UK, a formerly wholly owned subsidiary licensed and domiciled as a financial guarantee insurance company in England, was dissolved following the completion of Part VII of the UK Financial Services and Markets Act (the "Part VII Transfer"). On July 1, 2015, the High Court of England and Wales approved the transfer of all Syncora Guarantee-UK's assets and liabilities, including its policies and the right to receive premiums therefrom, to the Company pursuant to Part VII of the UK Financial Services and Markets Act (the "Part VII Transfer"). The Part VII Transfer became effective on July 2, 2015 and Syncora Guarantee-UK was dissolved on July 10, 2015. Under this, all property of Syncora Guarantee-UK, including all rights and powers under or by virtue of the transferred financial guarantee policies issued by Syncora Guarantee-UK (including rights to premium, consent rights and rights of enforcement), were transferred to the Company. The Part VII Transfer resulted in fluctuations in direct and assumed premiums noted in the table above.

C. Reinsurance Ceded

Affiliated Reinsurance Agreements

The Company entered into the following agreements as part of the 2009 MTA:

1. Effective July 15, 2009, the Company entered into a 100% quota share reinsurance agreement with its subsidiary, SCAI. Under the terms of this agreement, the Company cedes 100% of certain of its public finance business and certain of its global infrastructure business.
2. Effective July 15, 2009, the Company entered into an assumption reinsurance and novation agreement with its subsidiary, SCAI. Under this agreement, the Company cedes through novation certain of the Company's non-public finance and non-commuted policies on CDS contracts.

The vast majority of the Company's \$180.5 million of net reinsurance recoverables reported as of 12/31/16 are related to the affiliated reinsurance agreements with SCAI listed above. Our concurrent examination of SCAI did not require any adjustments to the financial statements. SCAI and the Company merged effective December 31, 2017, with the Company being the surviving entity.

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. The affiliated reinsurance agreements were filed with the Department and non-disapproved pursuant to Section 1505(d)(2) of the New York Insurance Law. The affiliated reinsurance agreements were also reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

Examination review of the Schedule F data reported by the Company in its filed annual statement indicated that it accurately reflects its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in SSAP No. 62R. Representations were supported by an attestation from the Company's Chief Executive Officer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

D. Holding Company System

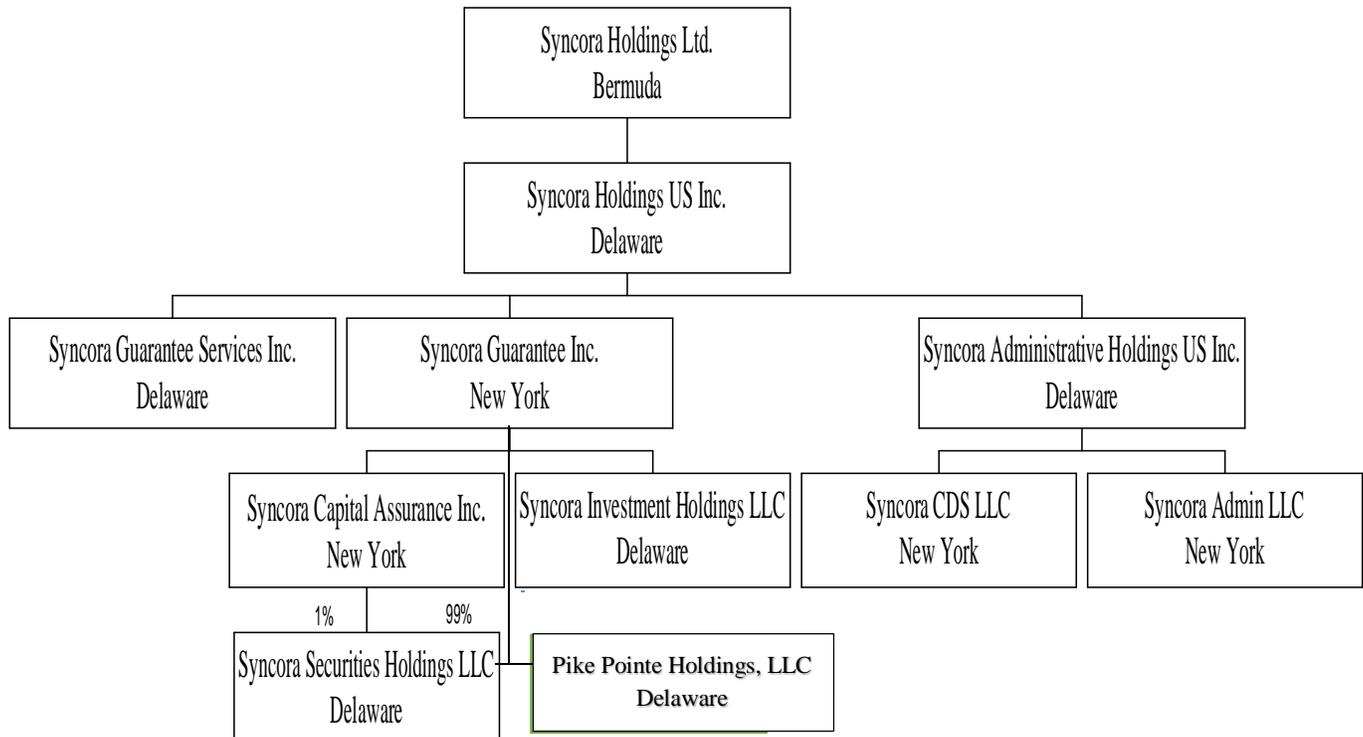
The Company is a member of Syncora Holdings Ltd., a Bermuda based holding company. The Company is a wholly-owned subsidiary of Syncora Holdings US Inc., a Delaware corporation, which is ultimately controlled by Syncora Holdings Ltd.

The Company wholly-owns Syncora Capital Assurance Inc., a New York domiciled financial guarantee insurance company.

The Company also wholly-owns the following non-insurance holding companies: (i) Pike Pointe Holdings, LLC, which wholly owns a number of subsidiaries that ultimately own and operate certain toll road facilities located in the United States and Canada and (ii) Syncora Investment Holdings LLC. The Company also owns 99% of Syncora Securities Holdings LLC (“SSHL”), a non-insurance company.

A review of the Holding Company Registration Statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abridged chart of the holding company system at December 31, 2016:



Holding Company Agreements

At December 31, 2016, the Company was party to the following agreements with other members of its holding company system:

Insurance and Indemnity Agreement

Effective July 15, 2009, the Company entered into an insurance and indemnity agreement with various New York trusts, formed by Syncora CDS LLC and Syncora Admin LLC, both affiliates of the Company. Under the agreement, the Company guarantees timely payments of each trust's obligations under structured CDS contracts issued by the related trust. This agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

Second Amended and Restated General Service Agreement

Effective July 15, 2009, the Company entered a second amended and restated general services agreement with Syncora Guarantee Services Inc. ("SGSI"). Under the agreement, SGSI provides the Company office space and management services, including, but not limited to, surveys and underwriting expenses, audit of insured's records, salaries and benefits, payroll taxes, employee health & welfare plans, pensions, travel and expenses, insurance, equipment, printing and stationary, postage, telephone, telegraph exchange and express, legal and auditing, surveillance and remediation, and other miscellaneous services. The general services agreement requires that expenses should be allocated in a fair, reasonable and consistent manner according to Department Regulation 30. This agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law. Subsequent to this examination, this agreement was amended on June 1, 2018 to provide for quarterly (rather than monthly) reporting and payment for specified services and such amendment was approved by the Department on June 1, 2018.

Tax Sharing and Payment Agreement

Pursuant to a tax sharing and payment agreement, the Company files consolidated federal income tax returns with its parent, Syncora Holdings US Inc., and its affiliates. This agreement was filed with the Department pursuant to the provisions of Department Circular Letter 33 (1979).

E. Accounts and Records

Settlement of Intercompany Balances

As noted above, the Company is party to a general service agreement with SGSI. Under the terms of the agreement, a monthly report covering all items and incurred charges and/or credits should be furnished and the final payment remitted within fifteen days upon receipt of such report. A review of the intercompany settlement revealed that the Company is not settling its balances according to the filed agreement. It is recommended that the Company comply with the settlement terms of its intercompany agreement.

Subsequent to this examination, this agreement was amended on June 1, 2018 and the amendment was approved by the Department on June 1, 2018. The amendment changes the reporting requirement of specified services and the allocation of specified expense to be done quarterly rather than monthly.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2016 as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 850,187,096	\$ 0	\$ 850,187,096
Common stocks (stocks)	46,673,110	0	46,673,110
Cash, cash equivalents and short-term investments	96,940,587	0	96,940,587
Derivatives	49,999	0	49,999
Other invested assets	248,203,506	0	248,203,506
Investment income due and accrued	5,274,553	0	5,274,553
Uncollected premiums and agents' balances in the course of collection	628,111	0	628,111
Amounts recoverable from reinsurers	96,187	0	96,187
Current federal and foreign income tax recoverable and interest thereon	227,631	227,631	0
Receivables from parent, subsidiaries and affiliates	21,601,454	13,663,732	7,937,722
Bank of NY/Mellon indemnification	3,783,371	0	3,783,371
Account receivable	212,609	212,609	0
Premium tax refund	<u>101,383</u>	<u>0</u>	<u>101,383</u>
Total assets	<u>\$1,273,979,597</u>	<u>\$14,103,972</u>	<u>\$1,259,875,625</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and loss adjustment expenses	\$ (123,046,526)
Other expenses (excluding taxes, licenses and fees)	783,271
Taxes, licenses and fees (excluding federal and foreign income taxes)	352,129
Unearned premiums	97,083,681
Ceded reinsurance premiums payable (net of ceding commissions)	191,774
Payable to parent, subsidiaries and affiliates	7,814,168
Mandatory contingency reserve for adverse losses	<u>88,412,855</u>
 Total liabilities	 \$ 71,591,352

Surplus and Other Funds

Common capital stock	\$ 15,000,000
Preferred capital stock	200,000,000
Surplus notes	556,158,169
Unassigned funds (surplus)	<u>417,126,104</u>
Surplus as regards policyholders	<u>1,188,284,273</u>
 Total liabilities, surplus and other funds	 \$ <u>1,259,875,625</u>

Note: The Internal Revenue Service has completed its audits of the Company's consolidated Federal Income Tax returns through tax year 2008. All material adjustments, if any, made subsequent to the date of examination and arising from said audits, are reflected in the financial statements included in this report. There are no audits currently under examination. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

The net income for the examination period as reported by the Company was \$916,364,917 as detailed below:

Underwriting Income

Premiums earned		\$236,741,343
Deductions:		
Losses and loss adjustment expenses incurred	\$(720,874,798)	
Other underwriting expenses incurred	162,646,509	
(Gain) or loss on commutation	<u>(37,822)</u>	
Total underwriting deductions		<u>(558,266,111)</u>
Net underwriting gain or (loss)		\$795,007,454

Investment Income

Net investment income earned	\$ 144,900,355	
Net realized capital gain	<u>(53,830,111)</u>	
Net investment gain or (loss)		91,070,244

Other Income

Settlement payment, settlement fee, work fees and consent fees	\$ <u>30,161,076</u>	
Total other income		<u>30,161,076</u>
Net income before federal and foreign income taxes		\$916,238,774
Federal and foreign income taxes incurred		<u>(126,143)</u>
Net income		<u>\$916,364,917</u>

C. Capital and Surplus

Surplus as regards policyholders increased \$1,002,213,258 during the five-year examination period January 1, 2012 through December 31, 2016 as reported by the Company, detailed as follows:

Surplus as regards policyholders per report on examination as of December 31, 2011			\$ 186,071,015
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$ 916,364,917		
Net unrealized capital gains or losses	75,064,286		
Change in net unrealized foreign exchange capital gain/loss		\$ 15,932,578	
Change in non-admitted assets	13,796,605		
Change in provision for reinsurance	282,000		
Change in surplus notes		8,224,632	
Mandatory contingency reserves for adverse losses	16,292,780		
Unrealized gain/loss derivative asset	14,445,481		
Expense allocation true-up		3,940,225	
Intercompany receivable adjustment	<u>0</u>	<u>5,935,376</u>	
Total gains and losses	\$1,036,246,069	\$ 34,032,811	
Net increase (decrease) in surplus			<u>1,002,213,258</u>
Surplus as regards policyholders per report on examination as of December 31, 2016			<u>\$1,188,284,273</u>

No adjustments were made to surplus as a result of this examination.

At December 31, 2016 capital paid in was \$215,000,000 consisting of 2,000 shares of \$7,500 par value per share common stock and 2,000 shares of \$120 par value per share preferred stock with a liquidation preference of \$100,000 per share.

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$(123,046,526) is the same as reported by the Company as of December 31, 2016. The liability is negative because expected recoveries from previously paid claims exceed expected case base losses. The examination analysis of the Loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles and statutory accounting principles, including the NAIC Accounting Practices & Procedures Manual, Statement of Statutory Accounting Principle No. 60 (“SSAP No. 60”). The Department found the case reserves to be adequate.

The Department utilized the assistance of an independent financial advisory firm that specializes in complex assets to review the adequacy of the Company’s modeling, assumptions, and surveillance policies and procedures as of December 31, 2016. The firm reviewed all obligors insured by SGI with emphasis on those structured finance obligors and public finance obligors for which the Company had case reserves or deemed the obligor required further scrutiny. SGI’s underwriting, surveillance, modeling and modelling assumptions are adequate.

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 those as a result of more adverse macroeconomic conditions, the bankruptcies of issuers of bonds insured or swap counterparties, and 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 that assumed in the Company’s reserve estimates (that may or may not result in an increase in such loss reserves). In addition, the value of its investment portfolio could change and have material adverse effect.

5. MANDATORY CONTINGENCY RESERVE

Pursuant to Section 6903(a) of the New York Insurance Law, the Company is required to establish and maintain contingency reserves for the protection of policyholders and claimants against the effect of excessive losses occurring during adverse economic cycles. As of the December 31, 2016, the Company reported a contingency reserve of \$88,412,855.

6. UNEARNED PREMIUM RESERVE

The Company maintains an unearned premium reserve in accordance with Section 6903(c) of the New York Insurance Law. Unearned premiums represent the portion of premiums which are applicable to the unexpired risk on policies in force. As of December 31, 2016, the Company reported an unearned premium reserve of \$97,083,681.

7. SUBSEQUENT EVENTS

On July 12, 2017, the Company requested, and subsequently received, permission from the Department to merge with SCAI, citing changing economic conditions and the run-off status of both companies. On December 31, 2017, the Company completed its merger with SCAI, with the Company being the surviving entity.

8. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained three recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>	<u>PAGE NO.</u>
<u>Accounts and Records</u>	
A. It was recommended that the Company comply with its filed agreement, and furnish monthly reports and settle final payment within fifteen days upon receipt of such monthly report.	13
The Company has not complied with this recommendation. A similar recommendation is made in this report.	
B. It was recommended that the Company comply with Department Regulation 110 with regards to its Directors and Officers insurance policy.	13
The Company has complied with this recommendation.	
<u>Assets and Liabilities</u>	
C. It was recommended that the Company non-admit assets that are not readily available to fulfill its policyholders' obligations pursuant to SSAP 4.	17
The Company has complied with this recommendation.	

9. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Corporate Governance</u> Although the Company provided the prior Report on Examination to its board of directors, it is recommended that the Company retain signed statements from each of its board of directors confirming that each member has received and read the Report on Examination in accordance with Section 312(b) of the New York Insurance Law.	4
B.	<u>Accounts and Records</u>	
i.	It is recommended that the Company comply with the settlement terms of its intercompany service agreement.	12

Respectfully submitted,

Kevin McNamee
Associate Insurance Examiner

STATE OF NEW YORK)
)ss:
COUNTY OF NEW YORK)

Kevin McNamee, being duly sworn, deposes and says that the foregoing report, subscribed by him,
is true to the best of his knowledge and belief.

Kevin McNamee

Subscribed and sworn to before me
this _____ day of _____, 2018.

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, Maria T. Vullo, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

Kevin McNamee

as a proper person to examine the affairs of the

Syncora Guarantee Inc.

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

COMPANY

with such other information as he shall deem requisite.

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

this 19th day of July, 2017

MARIA T. VULLO
Superintendent of Financial Services



By:

Joan P. Riddell

Joan Riddell
Deputy Bureau Chief