

REPORT ON EXAMINATION

OF THE

SYNCORA GUARANTEE INC.

AS OF

DECEMBER 31, 2011

DATE OF REPORT

MAY 21, 2013

EXAMINER

MARIBEL C. NUÑEZ, C.P.C.U

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

May 21, 2012

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
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 30766 dated December 2, 2011, attached hereto, I have made an examination into the condition and affairs of Syncora Guarantee Inc. as of December 31, 2011, and submit the following report thereon.

Wherever the designation “the Company” 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, formerly known as New York State Insurance Department.

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 individual examination of Syncora Guarantee Inc., a multi-state insurer, as of December 31, 2011. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

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 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 Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examiners relied upon audit work performed by the Company’s independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Handbook:

- Significant subsequent events
- Company history
- Corporate records
- Management and control
- Fidelity bonds and other insurance
- Territory and plan of operation
- Loss experience
- Reinsurance
- Accounts and records
- Financial statements
- Summary of recommendations

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, all of the business previously written by the Company, together with all of its liabilities, were ceded to an affiliate pursuant to a reinsurance, assignment and assumption agreement.

On February 22, 2001, all of 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 (the “IPO”). In addition, XL Capital sold common shares of Syncora Holdings directly to the public in a secondary offering concurrent with the IPO. Immediately after the IPO and the secondary offering, XL Capital, through its indirect wholly-owned subsidiary XL Insurance (Bermuda) Ltd (“XLI”), owned approximately a 63% economic interest in Syncora Holdings. In June 2007, XLI completed the sale of additional common shares of Syncora Holdings, after which XLI owned approximately a 46% voting and economic interest in Syncora Holdings.

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

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 material adverse effects on the Company’s business, operating results, and financial condition, which resulted in the Company’s failure to maintain its \$66 million minimum surplus to policyholders, as set forth in

Article 69 of the New York Insurance Law. Ratings downgrades by several major rating agencies, which were fundamental to the Company's ability to conduct business, caused the Company to cease writing substantially all new business in January 2008.

Effective July 28, 2008, the Company, certain financial institutions that are counterparties to credit default swap ("CDS") contracts, Merrill Lynch & Co., Inc. and certain of its affiliates ("Merrill Lynch"), and XL Capital and certain of its affiliates, entered into a Master Commutation, Release and Restructuring Agreement and certain other related agreements (hereinafter collectively referred to as the "2008 MTA"). The 2008 MTA was consummated on August 5, 2008 by Syncora Holdings, the Company, Syncora Guarantee Re and XL Capital. As a result of the 2008 MTA, all of the common shares of Syncora Holdings beneficially owned by XL Capital were transferred to a trust (SCA Shareholder Entity) for the benefit of the Company. As a result of the transfer of shares of Syncora Holdings to SCA Shareholder Entity, XL Capital no longer has the right to vote the shares, nominate directors to Syncora Holdings' board or directors, or exercise any other shareholder rights. On the closing date of the 2008 MTA, four directors of Syncora Holdings and the Company, who were nominated by XL Capital, resigned their positions.

In the 4th quarter of 2008 and the first 2 quarters of 2009, the Company recorded additional material increases in adverse development of reserves for unpaid losses and loss adjustment expenses and 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. In order to eliminate the reported impairment of its capital and minimum required surplus, on July 15, 2009, the Company consummated a Master Transaction Agreement with the counterparties and various related transactions (hereinafter collectively referred to as the "2009 MTA"), which included the following transactions:

1. The restructure, effective defeasance or, in-substance, commutation of substantially all of the Company's exposure to CDS contracts by having the counterparties transfer the contracts to Syncora CDS Corp, a newly formed subsidiary of the Company.
2. Capitalization of Syncora Capital Assurance Inc. ("SCAI"), a newly formed subsidiary of the Company.
3. (i.) 100% reinsurance or novation by SCAI of certain guarantees of public finance and global infrastructure debt obligations written by the Company, and (ii.) assumption, through novation, by SCAI of certain guarantees of non-public finance debt obligations of affiliates under CDS contracts written by the Company.

4. The effective defeasance or, in-substance, commutation of certain residential mortgage-backed security exposures to the RMBS Fund.
5. 100% reinsurance of certain insured obligations to FSA that were later novated.

In conjunction with the above transactions, the Department allowed the Company certain permitted practices which allowed them to i.) immediately recognize the effect of commuted transactions rather than over the life of the underlying guarantees, and ii.) take down statutorily mandated contingency reserves on guarantees that were terminated or where such reserves were redundant with case basis reserves carried by the Company.

In connection with the 2009 MTA, the Company issued surplus notes to the counterparties of the CDS contracts in the amount of \$625,000,000, as follows: i.) \$150 million of surplus notes, bearing 5% interest and maturing on December 28, 2011, and ii.) \$475 million of surplus notes, bearing 6% interest and maturing on June 27, 2024.

In July, 2010, the Department determined that the Company had cured its reported impaired capital and surplus and ordered that the Company resume claims payments. The Company has made all such suspended claims payments.

As of December 31, 2011, Capital paid in was \$15,000,000 consisting of 2,000 shares of \$7,500 par value per share common stock. In 2008, the Company issued 2,000 Series B Preferred shares with a par value of \$120 per share and a liquidation preference of \$100,000 per share. Gross paid in and contributed surplus was \$2,006,306,151. Gross paid in and contributed surplus increased by \$1,780,586,821 during the past five years, as follows:

<u>Year</u>	<u>Description</u>	<u>Amount</u>
December 31, 2005	Paid in and contributed surplus	\$ 225,719,330
2006	Surplus contribution	\$ 25,000,000
2007	Surplus contribution	130,000,000
2008	Surplus contribution	1,618,228,555
2009	Surplus contribution	<u>7,358,266</u>
	Total surplus contributions	<u>1,780,586,821</u>
December 31, 2011	Ending paid in and contributed surplus	\$2,006,306,151

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a Board of Directors consisting in not less than thirteen, nor more than nineteen members. As of the examination date, the Board of Directors was comprised of the following ten members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Susan Comparato Glen Ridge, NJ	Chief Executive Officer and President, Syncora Guarantee Inc.
Michael Patrick Esposito, Jr. Longboat Key, FL	Retired
William Martin Fitzgerald, Sr. Kenilworth, IL	Founder, Global Infrastructure LLC.
Edmund Graham Gibbons Hamilton Parish, Bermuda	Member of Parliament – Bermuda Bermuda Government
Duncan Pratt Hennes Rye, NY	Partner, Atrevida Partners, LLC
Robert Martin Lichten Jupiter, FL	Co-Chairman, Inter-Atlantic Securities Corp.
Thomas Stanley Norsworthy Bethel, CT	Chief Executive Officer, Lincoln General Insurance Company
Coleman DeVane Ross Chapel Hill, NC	Retired
Robert Wright Shippee Greenwich, CT	Credit Risk Consultant, Straumur Investment Bank
Robert Joel White Los Angeles, CA	Director, Ascend Media LLC

On June 12, 2012, the Company amended and restated its charter to reduce the minimum number of directors from ten to seven.

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member had an acceptable record of attendance.

As of December 31, 2011, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Susan Comparato	President & Chief Executive Officer
Claude LeBlanc	Chief Financial Officer
John Francis Garrity	Controller

B. Territory and Plan of Operation

As of December 31, 2011, the Company was licensed in 47 states and the District of Columbia; however, its license was suspended, placed on an order of impairment, or the Company voluntarily agreed to cease writing new business in twenty-six of those states.

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)	Fidelity and surety
25	Financial guaranty

Based on the lines of business for which the Company is licensed and 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 \$66,000,000.

Prior to January 2008, the Company provided credit enhancement and protection products to the public finance and structured markets throughout the United States and abroad through the issuance and reinsurance of financial guarantee insurance policies. Financial guarantee insurance provides an unconditional and irrevocable guarantee to the holder of a debt obligation of full and timely payment of the guaranteed principal and interest. In the event of a default under the obligation, the insurer has recourse against the issuer or any related collateral for amounts paid under the terms of the policy. Certain of the obligations the Company had insured are obligations under credit default swap ("CDS") contracts issued primarily by entities affiliated with the Company. CDS contracts are derivative contracts that offer credit protection relating to a particular security or pools of specific securities. Under the terms of a CDS contact, the seller of credit protection makes a

specified payment to the buyer of credit protection upon occurrence of one or more specified credit events with respect to a referenced security.

The Company ceased writing new business in January 2008. However, due to the nature of the financial guaranty business, premiums are still being received from in-force business.

The following schedule shows the direct premiums written by the Company both in total and in New York during the past 5 years:

<u>Calendar Year</u>	<u>New York State</u>	<u>Total United States</u>	<u>Premiums Written in New York State as a percentage of United States Premium</u>
2007	\$156,431,377	\$256,010,050	61.10%
2008	\$105,085,282	\$130,089,163	80.78%
2009	\$ 42,258,493	\$ 53,843,327	78.48%
2010	\$ 26,724,483	\$ 37,154,440	71.93%
2011	\$ 24,262,039	\$ 33,027,444	73.46%

C. Reinsurance

Assumed reinsurance accounted for 45.85% of the Company's gross premium written at December 31, 2011. The Company's assumed reinsurance business has decreased since the last examination.

The majority of the Company's assumed business derives from a facultative quota share and an excess of loss reinsurance agreements each effective June 30, 2002 with its affiliate, Syncora Guaranty U.K. ("SGUK"). Under the facultative quota share agreement, the Company assumes 97% of the net liabilities in respect of each policy accepted pursuant to the terms of the facultative quota share reinsurance agreement. Under the excess of loss agreement, the Company is responsible for 100% of net incurred losses arising under the term of the agreement in excess of 10% of SGUK's capital and surplus. The Company's maximum liability under the excess of loss agreement is \$50 million. The Company has incurred no losses since inception of the agreement.

The Company utilizes reinsurance accounting as defined in Statement of Statutory Accounting Principle ("SSAP") No. 62 for all of its assumed reinsurance business.

CededFacultative Reinsurance Agreements

The Company ceded reinsurance program consists of four master facultative reinsurance agreements with Assured Guaranty Corp., CIFG Assurance, Radian Asset Assurance Inc. and American Overseas Reinsurance Company Ltd. (formerly Ram Reinsurance Ltd.), whereby the Company cedes to the reinsurer the share of a risk(s) insured by the Company as specified and agreed to by the parties in a reinsurance memorandum.

Effective July 15, 2009, the Company entered into a 100% quota share reinsurance agreement with its affiliate SCAI. Under this agreement, the Company cedes 100% of certain of its public finance business and certain of its global infrastructure business. This agreement was non-disapproved by the Department on July 15, 2009.

Effective July 15, 2009, the Company entered into an Assumption Reinsurance and Novation Agreement with SCAI. Under this agreement, the Company cedes through novation certain of the Company's non-public finance and non-commuted policies on CDS contracts. This agreement was non-disapproved by the Department on July 15, 2009.

Reinsurance agreements with affiliates were reviewed for compliance with Article 15 of the New York Insurance Law. It was noted that all affiliated reinsurance agreements were filed with the Department pursuant to the provisions of Section 1505(d)(2) of the New York Insurance Law.

It is the Company's policy to obtain the appropriate collateral for its cessions to unauthorized reinsurers. Trust accounts obtained by the Company to take credit for cessions to unauthorized reinsurers were reviewed for compliance with Department Regulation 114. No exceptions were noted.

All ceded reinsurance agreements in effect as of the examination date were 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 was found to accurately reflect 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. 62. Representations were 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. 62.

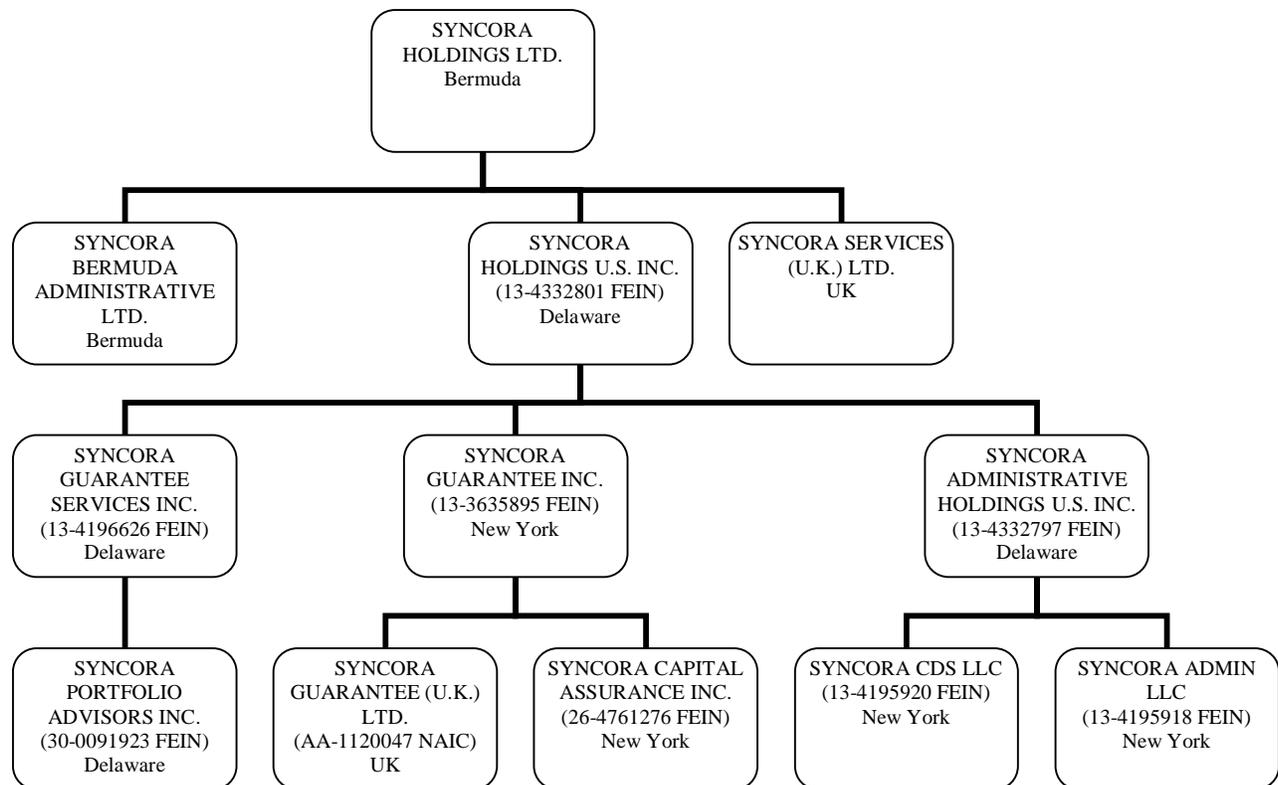
Since 2008, the Company has commuted most of its business, which resulted in gains and losses to the Company's surplus position.

D. Holding Company System

The Company is 100% owned by Syncora Holdings U.S. Inc., a Delaware domiciled company, which is ultimately controlled by Syncora Holdings Ltd., a Bermuda holding 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 a chart of the holding company system at December 31, 2011:



At December 31, 2011, the Company was party to the following agreements with other members of its holding company system:

Master Transaction Agreement – 2008 MTA

Effective July 28, 2008, the Company, certain financial institutions that are counterparties to CDS contracts with the Company (“the Counterparties”), Merrill Lynch & Co., Inc. (“Merrill Lynch”) and certain of its affiliates, and XL Capital and certain of its affiliates, entered into a Master Commutation, Release and Restructuring Agreement, and certain other related agreements (collectively referred to as “the 2008 MTA”). The 2008 MTA closed on August 5, 2008, with the exception for the transaction comprising the FSA Master Agreement which closed on August 4, 2008. This agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

Master Transaction Agreement – 2009 MTA

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., a newly formed, wholly-owned insurance subsidiary of the Company, and (3) certain other transactions to remediate loss exposure. The 2009 MTA was consummated effective July 15, 2009 and was approved by the Department pursuant to Section 1505 of the New York Insurance Law.

Along with the Department’s approval to apply certain accounting practices in connection with the preparation of the Company’s statutory financial statements for certain transactions comprising of the 2009 MTA, the Company returned to compliance with its regulatory minimum surplus to policyholders.

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 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 provided 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 and 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.

Surplus Maintenance Agreement

Effective June 30, 2002, the Company entered a surplus maintenance agreement with Syncora Guarantee U.K. (“SGUK”). Under the agreement, the Company agrees to financially support SGUK as permitted under Sections 1408(a) and 1409(a) of the New York Insurance Law to enable SGUK to maintain capital and surplus of the greater of (i) \$12.5 million or (ii) 200% of the UK Financial Services Authority (“FSA”) Required Minimum Margin of Solvency (“RMMS”). This agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

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.

Back-Up Guarantees

Effective July 15, 2009, the Company issued back-up guarantees on the Novated CDS Policies to SCAI, which would cover claims on such policies to the extent not satisfied by SCAI, subject to certain limitations and the right of the Company to defer any payment until July 15, 2014. No premium is required to be paid to the Company with respect to its back-up guarantees of the

Novated CDS policies. This agreement was filed with the Department pursuant to Section 1505 of the New York Insurance Law.

E. Accounts and Records

I. Settlement of Intercompany Balances

The Company is a party to a General Service Agreement with its ultimate parent company, Syncora Holdings Ltd ("SHL"). 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 its filed agreement, furnish monthly reports and settle final payment within fifteen days upon receipt of such monthly report.

II. Directors and Officers Insurance Policy

A reviewed of the Company's Directors and Officers insurance policy revealed that it does not contain the retention and coinsurance requirements as set forth in Parts 72.2 and 72.3 of Department Regulation 110.

It is recommended that the Company comply with Department Regulation 110 with regards to its Directors and Officers insurance policy.

III. Surplus Notes

The Company issued a \$475,000,000 long-term surplus notes and a \$150,000,000 short-term surplus notes for with an annual interest rate of 6% and 5%, respectively. These surplus notes were approved in accordance with Section 1307 of the New York Insurance Law on July 15, 2009.

Due to the deterioration of the financial condition of the Company, the Department denied the repayment of the entire unpaid principal amount outstanding and all accrued interest on the \$150,000,000 short-term surplus note maturing on December 28, 2011.

IV. Permitted Practices

The Department approved certain permitted practices to allow the Company among other things to reflect certain assets as admitted assets without given effect to the limitations set forth in Articles 14 and 69 of the NYIL, to de-recognized contingency reserves on terminated policies and policies on which the Company has established case reserves, to de-recognized reserves for unpaid losses, unearned premium reserve, contingency reserves related to and expense payments made to effect certain transactions which effectively defeased or, in-substance, commuted, in whole or in part, the policies thereto, and to value the surplus notes issued by the Company in settlement of certain policy obligations in connection with 2009 MTA at face value. The effect of the permitted practices was an increase of \$67.9 million in net income and \$3 billion in surplus to policyholders.

The permitted practices were approved by the Department.

V. Legal Matters

The Company is involved in a number of legal proceedings, both as plaintiff and defendant. The Company can provide no assurance that the ultimate outcome of these legal proceedings will not cause a loss nor have material adverse effect on the Company's policyholders' surplus and liquidity position.

VI. Going Concern Issue

The Company faces a projected liquidity mismatch between expected future medium to long-term claim payments and recoveries relating to such claims, which if not mitigated 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.

In addition, the Company continues to be exposed to certain significant risks and uncertainties that may affect its financial and liquidity position. These relate to, among other things, (i) the potential for future adverse loss development on its insured obligations, (ii) the inability to realize recoveries on put-back notices requiring repurchases, as, when and in the amounts anticipated, and (iii) the failure to receive payments on its Insurance Cash Flow Certificates, (iv) the resolution of various litigation matters and (v) the failure to receive interest payments from SCAI on its long-term surplus note.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2011 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Examination</u>		<u>Company</u>	<u>Surplus Increase (Decrease)</u>	
	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>		
Bonds	\$309,097,873	\$ 0	\$309,097,873	\$309,097,873	\$ 0
Common stocks (stocks)	49,128,060	0	49,128,060	49,128,060	0
Cash, cash equivalents and short-term investments	118,215,633	0	118,215,633	118,215,633	0
Derivatives	191,518	0	191,518	191,518	0
Other invested assets	132,321,626	0	132,321,626	132,321,626	0
Investment income due and accrued	3,836,776	0	3,836,776	3,836,776	0
Uncollected premiums and agents' balances in the course of collection	6,758,055	2,050,044	4,708,011	4,708,011	0
Amounts recoverable from reinsurers	839,453	0	839,453	839,453	0
Receivables from parent, subsidiaries and affiliates	60,513,802	44,721,076	15,792,726	34,697,747	(18,905,021)
Securities and other acquired in satisfaction of claims	168,239,208	0	168,239,208	168,239,208	0
Collateral deposit	6,700,000	0	6,700,000	6,700,000	0
Bank of NY/Mellon-indemnification	3,781,514	3,781,514	3,781,514	3,781,514	0
Other asset	1,500,000	1,500,000	0	1,500,000	(1,500,000)
Premium tax	425,475	0	425,475	425,475	0
Accounts receivable	<u>34,478</u>	<u>34,478</u>	<u>0</u>	<u>0</u>	<u>0</u>
Totals assets	<u>\$861,583,471</u>	<u>\$52,087,112</u>	<u>\$809,496,359</u>	<u>\$833,682,894</u>	<u>\$(20,405,021)</u>

Liabilities, surplus and other funds

	<u>Examination</u>	<u>Company</u>	Surplus Increase (Decrease)
Losses	\$ 178,601,186	\$ 178,601,186	\$ 0
Reinsurance payable on paid losses and loss adjustment expenses	(190,148)	(190,148)	0
Loss adjustment expenses	67,265,547	67,265,547	0
Other expenses (excluding taxes, licenses and fees)	20,454,126	20,454,126	0
Taxes, licenses and fees (excluding federal and foreign income taxes)	45,660	45,660	0
Unearned premiums	242,494,111	242,494,111	0
Ceded reinsurance premiums payable (net of ceding commissions)	264,107	264,107	0
Provision for reinsurance	282,000	282,000	0
Payable to parent, subsidiaries and affiliates	27,360,222	27,360,222	0
Payable for securities	1,450,552	1,450,552	0
Mandatory contingency reserve for adverse losses	104,705,635	104,705,635	0
Deferred gain	<u>4,878,881</u>	<u>4,878,881</u>	<u>0</u>
Total liabilities	<u>\$ 647,611,879</u>	<u>\$ 647,611,879</u>	<u>\$ 0</u>
Common capital stock	\$ 15,000,000	\$ 15,000,000	\$ 0
Preferred capital stock	200,000,000	200,000,000	0
Surplus notes	625,000,000	625,000,000	0
Gross paid in and contributed surplus	2,006,306,151	2,006,306,151	0
Unassigned funds (surplus)	<u>(2,680,640,157)</u>	<u>(2,660,235,136)</u>	<u>(20,405,021)</u>
Surplus as regards policyholders	<u>\$ 165,665,994</u>	<u>\$ 186,071,015</u>	<u>\$(20,405,021)</u>
Total liabilities, surplus and other funds	<u>\$ 813,277,873</u>	<u>\$ 833,682,894</u>	<u>\$(20,405,021)</u>

Note: The Internal Revenue Service has completed its audits of the Company's ultimate parent consolidated Federal Income Tax returns through tax year 2008. No adjustments arose from said audits. The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2009 and 2010. 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.

4. RECEIVABLE FROM PARENT, SUBSIDIARIES AND AFFILIATES

The examination admitted asset for the captioned item of \$15,792,727 is \$18,905,021 less than the \$34,697,747 reported by the Company as of December 31, 2011. A review of this item indicated that the receivable relates to the utilization of the Company's net operating losses to offset future taxable income to be reported by Syncora Capital Assurance Inc. in its federal income tax for taxable year 2011 and future years. The receivable has been funded into an escrow account and is included in Syncora Holdings US Inc.'s books.

The Company is expected to receive \$15,792,727 out of the \$34,697,748 SCAI has in its escrow account ninety days after it has filed its 2011 federal income tax return on September 15, 2012. The remainder in the amount of \$18,905,021 is not expected to be received until three years later. This is contrary to the provisions of SSAP 4, which states in part:

“...As stated in the Statement of Concepts, “The ability to meet policyholder obligations is predicated on the existence of readily marketable assets available when both current and future obligations are due. Assets having economic value other than those which can be used to fulfill policyholder obligations, or those assets which are unavailable due to encumbrances or other third party interests should not be recognized on the balance sheet,” and are, therefore, considered nonadmitted....”

It is recommended that the Company non-admit assets that are not readily available to fulfill its policyholders' obligations pursuant to SSAP 4.

5. OTHER ASSET

The Company reported an admitted asset under this caption in the amount of \$1,500,000 as of the examination date. Pursuant to this examination, the captioned admitted asset has been eliminated. This account represents the security deposit held for a lease for the Company's previous office space at 250 Park Avenue. This amount will not be released until the Company's lease expires on August 5, 2014.

It is recommended that the Company non-admit assets that are not readily available to fulfill its policyholders' obligations pursuant to the provisions of SSAP 4.

6. LOSSES AND CONTINGENCY RESERVES

The examination liabilities for losses and contingency reserves are \$178,601,186 and \$104,705,635, respectively, as of December 31, 2011. These are the same as the amounts reported by the Company in its 2011 filed annual statement.

Losses are attributable mainly to public finance obligations and a small amount to CDOs and RMBS. In addition to case reserves, the Company is required to establish and maintain contingency reserves for the protection of insureds and claimants against the effect of excessive losses occurring during adverse economic cycles. The amount required for these reserves depends on the type of bonds being insured and are established pursuant to the provisions of Section 6903(a) of the New York Insurance Law.

A review of the Company's case reserve losses methodology, surveillance and modeling was conducted by the Markets Division. This review included all structured products and selected public finance obligations with losses or high risk of losses.

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) against the Company. In addition, the value of its investment portfolio could change and have material adverse affect.

7. SUBSEQUENT EVENTS

I. Countrywide Settlement

On July 17, 2012, the Company settled its RMBS-related claims and other claims with Countrywide, BAC and affiliates. In return for releases of all claims the Company had against Countrywide and BAC arising from its provision of insurance in relation to five second-lien transactions that were the subject of litigation and all of the Company's claims in relation to nine other first and second-lien transactions, the Company received a cash payment of \$375 million.

In addition, in an effort to terminate other relationships between the parties, the Company transferred to subsidiaries of BAC certain RMBS Uninsured Cash Flow Certificates. The Company is expected to record a gain of approximately \$10 million on such sale in the third quarter of 2012. Moreover, subsidiaries of BAC transferred to the Company, surplus notes of the Company with an original principal amount of \$40.2 million and preferred stock with a par value of \$65.5 million, issued by the Company, which were held by BAC's subsidiaries. With respect to the surplus notes, the Company recorded a decrease of surplus notes and a corresponding increase in gross paid in and contributed surplus. The Company recorded receipt of the preferred stock as treasury stock. The surplus notes, preferred stock and other securities transferred were recorded subsequent to June 30, 2012 and the transactions did not have a material effect on the Company's surplus.

II. Structured Single Risk

During the second quarter of 2012, the Company completed several remediation transactions relating to its guarantees of structured single risk credits in order to mitigate future material expected claims. The net effect of these transactions during the second quarter of 2012 was a decrease to reserve for unpaid losses of approximately \$116 million and an increase to paid losses in the amount of \$72 million, resulting in an increase to policyholders' surplus of \$44 million during the 2nd quarter of 2012.

8. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained three recommendations, which are no longer applicable due to restructuring the Company has experienced since 2007.

9. SUMMARY OF COMMENTS AND RECOMMENDATIONS

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

APPOINTMENT NO. 30766

NEW YORK STATE
DEPARTMENT OF FINANCIAL SERVICES

I, BENJAMIN M. LAWSKY, 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:

Maribel Nunez

as a proper person to examine the affairs of the

SYNCORA GURANTEE, INC.

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

CORPORATION

with such other information as she shall deem requisite.

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

this 2nd day of December, 2011

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:



Jean Marie Cho
Deputy Superintendent

