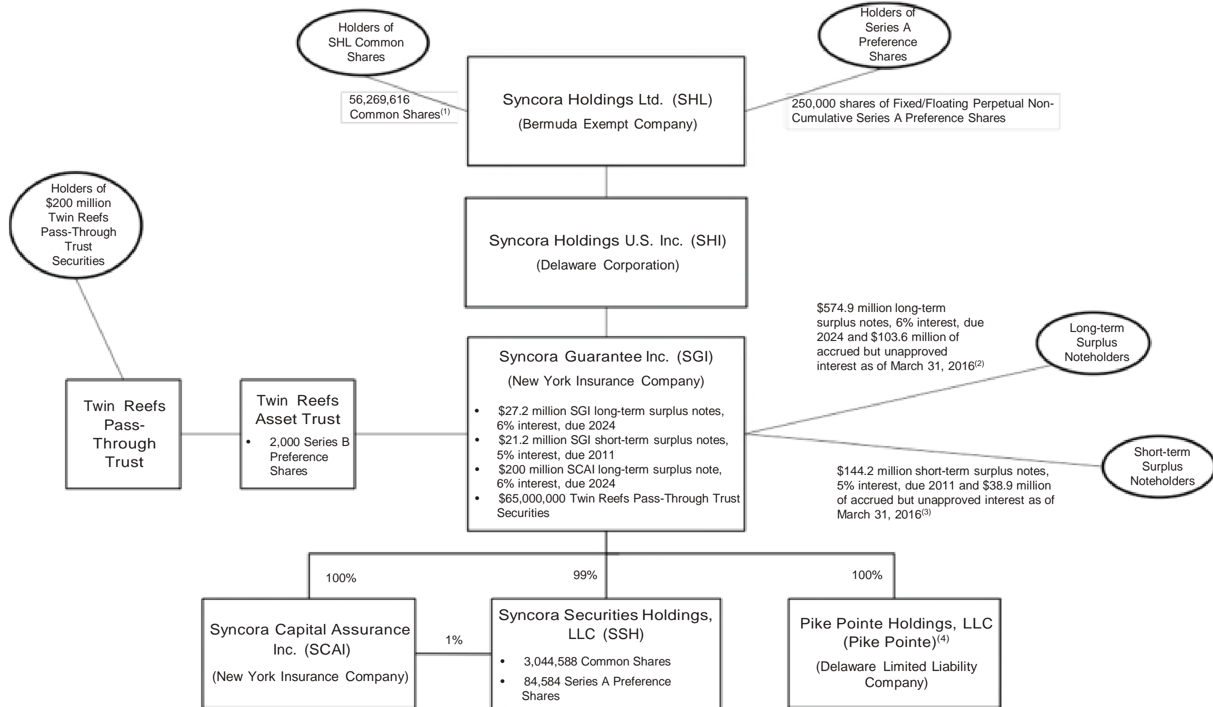
Ownership and Corporate Structure

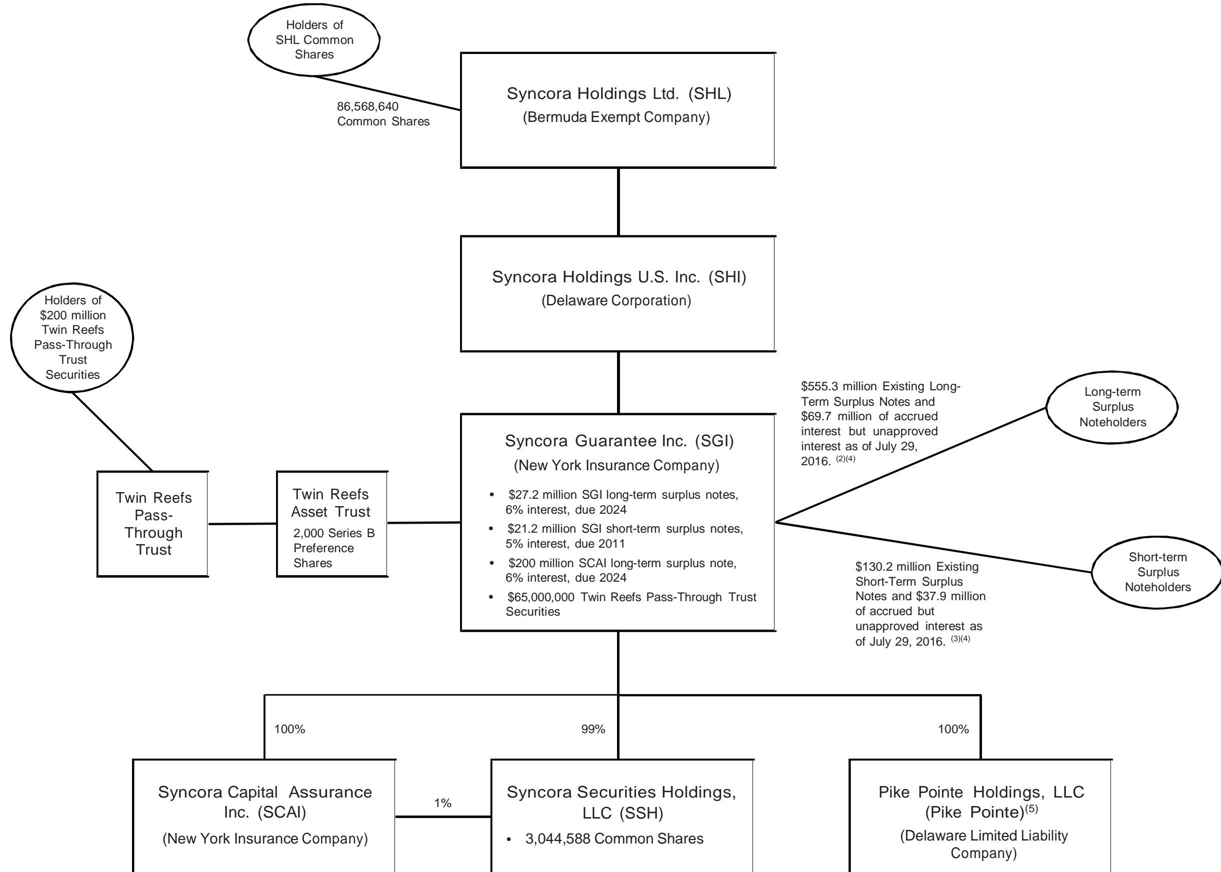
The chart below is a simplified overview of our capitalization and corporate structure immediately prior to and immediately following the Restructuring Transactions described in our press release dated July 1, 2016 (the "Restructuring Transactions").

Simplified Corporate Structure — Prior to the Transactions



(1) As of March 31, 2016. This amount of common shares does not include 3,044,588 common shares currently held by Syncora Securities Holdings LLC, a Delaware trust jointly held by SGI and SCAI.
(2) The $574.9 million principal amount includes interest paid-in-kind as of March 31, 2016 of $121.5 million. However, it does not include $21.4 million, $5.6 million and $4.9 million of principal, paid-in-kind interest and accrued interest, respectively, held by SGI as of March 31, 2016.
(3) The $144.2 million principal amount includes interest paid-in-kind as of March 31, 2016 of $13.4 million. However, it does not include $19.2 million, $2.0 million and $5.7 million of principal, paid-in-kind interest and accrued interest, respectively, held by SGI as of March 31, 2016.
(4) Pike Pointe is a holding company that owns the American Roads business.

Simplified Corporate Structure — After the Transactions[1]



(1) The chart assumes the Restructuring Transactions close on July 29, 2016.

(2) The $555.3 million principal amount includes $117.2 million of paid-in-kind interest.

(3) The $130.2 million principal amount includes $12.1 million of paid-in-kind interest.

(4) These values assume 100% participation of both short-term and long-term surplus noteholders.

(5) Pike Pointe is a holding company that owns the American Roads business.

PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma consolidated GAAP balance sheet of SHL as of March 31, 2016, the unaudited pro forma consolidated GAAP statements of operations and comprehensive income (loss) of SHL for the year ended December 31, 2015 and the three months ended March 31, 2016 are based on the individual historical consolidated GAAP financial statements of SHL.

The following unaudited pro forma statutory basis statements of assets, liabilities, surplus and other funds of SGI as of March 31, 2016 and the unaudited pro forma statutory basis statements of income of SGI for the year ended December 31, 2015 and the three months ended March 31, 2016 are based on the individual historical statutory financial statements of SGI.

The unaudited pro forma consolidated GAAP balance sheet of SHL as of March 31, 2016, the unaudited pro forma consolidated GAAP statements of operations and comprehensive income (loss) of SHL for the year ended December 31, 2015 and the three months ended March 31, 2016, the unaudited pro forma statutory basis statements of assets, liabilities, surplus and other funds of SGI as of March 31, 2016, and the unaudited pro forma statutory basis statements of income of SGI for the year ended December 31, 2015 and the three months ended March 31, 2016 give effect to the Restructuring Transactions as if they had occurred on March 31, 2016 for the unaudited pro forma consolidated GAAP balance sheet of SHL and the unaudited pro forma statutory basis statements of assets, liabilities, surplus and other funds of SGI and on January 1, 2015 for the unaudited pro forma consolidated GAAP statements of operations and comprehensive income (loss) of SHL and the unaudited pro forma statutory basis statements of income of SGI.

The unaudited pro forma consolidated GAAP financial information of SHL, and the unaudited pro forma statutory basis financial information of SGI include unaudited pro forma adjustments that are factually supportable and directly attributable to the Restructuring Transactions. In addition, with respect to the unaudited pro forma consolidated GAAP statements of operations and comprehensive income (loss) of SHL and the unaudited pro forma statutory basis statements of income of SGI, the unaudited pro forma adjustments are expected to have a continuing effect on the combined results. The pro forma adjustments set forth in the unaudited pro forma consolidated GAAP financial information of SHL and the unaudited pro forma statutory basis financial information of SGI reflect the Restructuring Transactions, including:

- the cancellation by SGI of $19.7 million and $4.0 million of principal (including paid-in-kind interest) and accrued and unapproved interest, respectively, of Existing Long-Term Surplus Notes and $4.9 million and $1.4 million of principal (including paid-in-kind interest) and accrued and unapproved interest, respectively, of Existing Short-Term Surplus Notes that it receives pursuant to the Restructuring Transactions;
- the approval from the NYDFS for SGI to make a payment on the Existing SGI Surplus Notes in aggregate amount of $58.9 million ($55 million on Existing SGI Surplus Notes owned by holders other than SGI), which payment will be allocated between the Existing Short-Term Surplus Notes and the Existing Long-Term Surplus Notes *pro rata* based on the amount of outstanding principal (including any paid-in-kind interest thereon) and accrued and unapproved interest through July 29, 2016;
- the approval from NYDFS of permitted accounting practices to allow SGI to increase its unassigned funds (surplus) to the greatest extent possible given its current gross paid-in and contributed surplus by allocating the entire balance of that account to earned surplus; and
- the Tax Sharing Amendment.

Syncora Holdings Ltd.
Consolidated GAAP Balance Sheet

(U.S. Dollars in thousands)	March 31, 2016	Adjustments	Pro Forma March 31, 2016
Assets			
Debt securities, available-for-sale, at fair value	$ 1,439,943	$ —	$ 1,439,943
Other invested assets, at fair value	66,562	—	66,562
Cash and cash equivalents	171,677	(55,000)[3]	116,677
Total cash and invested assets	1,678,182	(55,000)	1,623,182
Restricted cash and cash equivalents	21,616	—	21,616
Accrued investment income	9,143	—	9,143
Deferred acquisition costs, net	51,735	—	51,735
Premiums receivable	131,996	—	131,996
Salvage and subrogation recoverable	91,072	—	91,072
Credit default and other swap contracts, at fair value	15	—	15
Receivables on insurance cash flow certificates, net	297,637	—	297,637
Interest rate derivative instrument, at fair value	96	—	96
Property and equipment, net	50,187	—	50,187
Leasehold rights and other definite-lived intangible assets, net	20,694	—	20,694
Toll rights and other indefinite-lived intangible assets	97,726	—	97,726
Other assets	45,760	—	45,760
Assets of consolidated variable interest entities, at fair value	124,412	—	124,412
Total assets	$ 2,620,271	$ (55,000)	$ 2,565,271
Liabilities and Shareholders' Equity			
Liabilities			
Unpaid losses and loss adjustment expenses	1,037,559	—	1,037,559
Unearned premium revenue	355,578	—	355,578
Credit default and other swap contracts, at fair value	131,043	—	131,043
Notes payable	373,973	6,544[1][2][3]	380,517
Reinsurance premiums payable	14,504	—	14,504
Accounts payable, accrued expenses and other liabilities	36,662	—	36,662
Accrued interest on notes payable	142,417	(53,239)[1][2][3]	89,178
Pension and other postretirement liabilities	11,310	—	11,310
Liabilities of consolidated variable interest entities, at fair value	69,703	—	69,703
Total liabilities	2,172,749	(46,695)	2,126,054
Shareholders' equity			
Non-controlling interest in subsidiary – Series B perpetual non-cumulative preferred shares of Syncora Guarantee Inc.	13,453	—	13,453
Non-controlling interest in consolidated entity	2,957	—	2,957
Series A perpetual non-cumulative preferred shares	163,162	(163,162)[2]	—
Common shares and additional paid-in-capital	2,678,346	37,268[4]	2,715,614
Accumulated deficit	(2,428,881)	117,589[2][4]	(2,311,292)
Accumulated other comprehensive income	18,485	—	18,485
Syncora Holdings Ltd. common shareholders' equity	267,950	154,857	422,807
Syncora Holdings Ltd. shareholders' equity	431,112	(8,305)	422,807
Total shareholders' equity	447,522	(8,305)	439,217
Total liabilities and shareholders' equity	$ 2,620,271	$ (55,000)	$ 2,565,271

(1) The discount received in the Restructuring Transactions (principal, paid-in-kind interest and accrued and unapproved interest) is being accounted for as a debt modification since the creditors before and after the discount remain the same and the change in the terms is not considered substantial. A substantial change is considered to be a change in cash flows of greater than 10% as a result of the modification of terms. As the change in cash flows is less than 10%, modification accounting is appropriate. Under debt modification accounting, no gain or loss is recorded, and a new effective interest rate is established based on the carrying value of the surplus notes and new cash flows. Additionally, any consideration paid to the creditors including non cash consideration is capitalized and amortized as part of the effective yield calculation. The fair value of the common shares issued is accounted for as consideration paid to the creditors in exchange for the reduction in principal, paid-in-kind interest, and accrued and unapproved interest. The pro forma financial statements assume 100% participation in the Restructuring Transactions by holders of Existing SGI Surplus Notes.

(2) As Existing SHL Preferred Shares are considered to be extinguished as part of the Restructuring Transactions, the difference between the consideration paid (15% pro forma SHL Common Shares issued and outstanding after giving effect to the Restructuring Transactions, plus the estimated fair value of $40.0 million of Existing SGI Surplus Notes comprised of principal, paid-in-kind interest and accrued and unapproved interest and the carrying value of the original preferred shares is recognized as a reduction to accumulated deficit as a deemed dividend. The estimated fair value of the $40.0 million of Existing SGI Surplus Notes principal, paid-in-kind interest and accrued and unapproved interest is also reflected as an increase to Notes payable and Accrued interest.

(3) The $55 million payment to holders of Existing SGI Surplus Notes (other than SGI) is recorded as a $9.1 million reduction to principal of the Existing Short-Term Surplus Notes and a $45.9 million reduction to accrued interest. The interest payment on Existing SGI Surplus Notes is contingent on NYDFS approval which is outside of SGI's control and is a condition precedent to the offer.

(4) The SHL Common Share price used is the price as of July 5, 2016 ($1.23). The number of SHL Common Shares estimated to be issued to the holders of Existing SGI Surplus Notes participating in the Restructuring Transactions and holders of Existing SHL Preferred Shares following in the variation of rights is 17,313,728 and 12,985,296, respectively. The pro forma financial statements assume 100% participation in the Restructuring Transactions by holders of Existing SGI Surplus Notes.

Syncora Holdings Ltd.
Consolidated Statement of Operations and Comprehensive Income (Loss)

(U.S. Dollars in thousands)	Three Months Ended March 31, 2016	Adjustments[1][2]	Pro Forma Three Months Ended March 31, 2016
Revenues			
Net premiums earned	$ 16,643	$ —	$ 16,643
Net investment income	10,530	—	10,530
Net realized (losses) gains on investments including other-than-temporary impairment losses	(2,973)	—	(2,973)
Net (loss) earnings on insurance cash flow certificates, net of amortization of deferred gains	(12,970)	—	(12,970)
Toll revenue	5,949	—	5,949
Fees and other income	1,809	—	1,809
Net (loss) earnings on credit default and other swap contracts, net of unrealized gains and realized losses and other settlements	(31,631)	—	(31,631)
Net change in fair value of consolidated variable interest entities	6,807	—	6,807
Total revenues	(5,836)	—	(5,836)
Expenses			
Net losses and loss adjustment expenses	35,088	—	35,088
Amortization of deferred acquisition costs, net	2,508	—	2,508
Realized loss on interest rate derivative instrument	425	—	425
Interest expense	20,561	—	20,561
Operating expenses	20,889	—	20,889
Total expenses	79,471	—	79,471
(Loss) income before income tax expense	(85,307)	—	(85,307)
Income tax expense	409	—	409
Net (loss) income	(85,716)	—	(85,716)
Net (loss) income attributable to non-controlling interest	(51)	—	(51)
Net (loss) income attributable to controlling interest	(85,665)	—	(85,665)
Comprehensive (loss) income:			
Net (loss) income	(85,716)	—	(85,716)
Change in pension and other postretirement benefits	(48)	—	(48)
Net unrealized gains (losses) on investments	18,127	—	18,127
Comprehensive (loss) income	(67,637)	—	(67,637)
Comprehensive (loss) income attributable to non-controlling interest	(51)	—	(51)
Comprehensive (loss) income attributable to controlling interest	(67,586)	—	(67,586)
Basic and diluted earnings (loss) per common share of Syncora Holdings Ltd.	(0.99)	—	(0.99)
Weighted average common shares outstanding	86,568,640	—	86,568,640

(1) The discount received in the Restructuring Transactions (principal, paid-in-kind interest and accrued and unapproved interest) is being accounted for as a debt modification since the creditors before and after the discount remain the same and the change in the terms is not considered substantial. A substantial change is considered to be a change in cash flows of greater than 10% as a result of the modification of

terms. As the change in cash flows is less than 10%, modification accounting is appropriate. Under debt modification accounting, no gain or loss is recorded, and a new effective interest rate is established based on the carrying value of the surplus notes and new cash flows.

(2) The effect of the new effective rate on the pro forma statement of operations and comprehensive income (loss) as a result of the Exchange Offers is not expected to have a material continuing effect upon the consolidated results of SHL for the three months ended March 31, 2016.

Syncora Holdings Ltd.
Consolidated Statement of Operations and Comprehensive Income (Loss)

(U.S. Dollars in thousands)	Year Ended December 31, 2015	Adjustments[(1)(2)]	Pro Forma Year Ended December 31, 2015
Revenues			
Net premiums earned	$ 73,147	$ —	$ 73,147
Net investment income	42,799	—	42,799
Net realized (losses) gains on investments including other-than-temporary impairment losses	(3,330)	—	(3,330)
Net (loss) earnings on insurance cash flow certificates, net of amortization of deferred gains	(55,578)	—	(55,578)
Toll revenue	25,298	—	25,298
Fees and other income	12,526	—	12,526
Net (loss) earnings on credit default and other swap contracts, net of unrealized gains and realized losses and other settlements	139,891	—	139,891
Net change in fair value of consolidated variable interest entities	6,107	—	6,107
Total revenues	240,860	—	240,860
Expenses			
Net (recoveries) losses and loss adjustment expenses	(149,278)	—	(149,278)
Amortization of deferred acquisition costs, net	9,962	—	9,962
Realized loss on interest rate derivative instrument	2,660	—	2,660
Interest expense	72,572	—	72,572
Operating expenses	86,137	—	86,137
Total expenses	22,053	—	22,053
(Loss) income before income tax expense	218,807	—	218,807
Income tax expense	1,127	—	1,127
Net (loss) income	217,680	—	217,680
Net (loss) income attributable to non-controlling interest	976	—	976
Net (loss) income attributable to controlling interest	216,704	—	216,704
Comprehensive (loss) income:			
Net (loss) income	217,680	—	217,680
Change in pension and other postretirement benefits	979	—	979
Net unrealized gains (losses) on investments	(23,074)	—	(23,074)
Comprehensive (loss) income	195,585	—	195,585
Comprehensive (loss) income attributable to non-controlling interest	976	—	976
Comprehensive (loss) income attributable to controlling interest	194,609	—	194,609
Basic and diluted (loss) income per share attributable to common shareholders of Syncora Holdings Ltd.:			
Net (loss) income attributable to controlling interest	216,704	—	216,704
Gain on transfer of Series A perpetual non-cumulative preference shares	83,431	—	83,431
(Loss) earnings attributable to common shareholders of Syncora Holdings Ltd.	$ 300,135	$ —	$ 300,135
Basic and diluted earnings (loss) per common share of Syncora Holdings Ltd.	5.33	—[(3)]	3.47
Weighted average common shares outstanding	56,269,616	30,299,024	86,568,640

(1) The discount received in the Restructuring Transactions (principal, paid-in-kind interest and accrued and unapproved interest) is being accounted for as a debt modification since the creditors before and after the discount remain the same and the change in the terms is not considered substantial. A substantial change is considered to be a change in projected cash flows of greater than 10% as a result of the modification of terms. As the change in cash flows is less than 10%, modification accounting is appropriate. Under debt modification accounting, no gain or loss is recorded, and a new effective interest rate is established based on the carrying value of the surplus notes and new cash flows.

(2) The effect of the new effective rate on the pro forma statement of operations and comprehensive income (loss) as a result of the Restructuring Transactions is not expected to have a material continuing effect upon the consolidated results of SHL for the year ended December 31, 2015.

(3) The Earnings per share calculation only reflects earnings from continuing operations and excludes the $117.6 million of gain on extinguishment of the Existing SHL Preferred Shares that would be recorded upon close of the Restructuring Transactions.

Syncora Guarantee Inc.
Statutory Basis — Statement of Assets, Liabilities, Surplus and Other Funds

(U.S. Dollars in thousands)	March 31, 2016	Adjustments	Pro Forma March 31, 2016
Admitted Assets			
Bonds	$ 939,570	$ —	$ 939,570
Cash, cash equivalents and short-term investments	78,640	(55,000)(2)	23,640
Derivatives	96	—	96
Other invested assets	225,048	—	225,048
Total cash and invested assets	1,243,354	(55,000)	1,188,354
Investment income due and accrued	3,151	—	3,151
Uncollected premiums	483	—	483
Amounts recoverable from reinsurers	361	—	361
Receivables from parent, subsidiaries and affiliates	415	—	415
Other assets	3,877	—	3,877
Total admitted assets	$ 1,251,641	$ (55,000)	$1,196,641
Liabilities, Surplus and Other Funds			
Liabilities			
Unearned premium revenue, net	$ 110,342	$ —	$ 110,342
Losses (recoverable) and loss adjustment expenses	(48,441)	—	(48,441)
Mandatory contingency reserves	86,776	—	86,776
Payables to parent, subsidiaries and affiliates	4,561	—	4,561
Other liabilities	9,860	—	9,860
Total liabilities	163,098	—	163,098
Capital and surplus			
Common capital stock	15,000	—	15,000
Preferred capital stock	200,000	—	200,000
Surplus notes	584,334	(28,190)(1)(2)	556,144
Gross paid in and contributed surplus	2,046,972	(2,046,972)(1)(3)	—
Unassigned funds (surplus)	(1,757,763)	2,020,162(1)(2)(3)	262,399
Total capital and surplus	1,088,543	(55,000)	1,033,543
Total liabilities and capital and surplus	$ 1,251,641	$ (55,000)	$1,196,641

(1) The principal component of the $30.0 million discount on Existing SGI Surplus Notes is considered an equity transaction as it is transacted between related parties, and therefore reported through Gross paid in and contributed surplus (prior to application of the permitted practice as described in (3) below). Under Statutory Accounting Principles, surplus notes are treated as equity instruments.

(2) Of the $55.0 million payment on Existing SGI Surplus Notes held by parties other than SGI at closing, a pro rata portion of only unapproved amounts are allocated to principal ($8.2 million), paid-in-kind interest ($0.9 million) and accrued and unapproved interest ($45.9 million). For purposes of the pro forma, the payment on the Existing SGI Surplus Notes is included. However such payment is contingent on the NYDFS approval which is outside of SGI's control and is a condition precedent to the Restructuring Transactions. Under statutory accounting principles, interest is recorded as an expense once approved by the NYDFS.

(3) Reflects the application of a permitted practice to increase SGI's unassigned funds (surplus) by transferring its gross paid in and contributed surplus account to its earned surplus account. This permitted practice is subject to NYDFS approval which is outside of SGI's control and is a condition precedent to the Restructuring Transactions.

Syncora Guarantee Inc.
Statutory Basis — Statement of Income

(U.S. Dollars in thousands)	Three Months Ended March 31, 2016	Adjustments[(1)]	Pro Forma Three Months Ended March 31, 2016
Underwriting			
Net premiums written	$ 2,526	$ —	$ 2,526
Change in unearned premium revenue	720	—	720
Net premiums earned	3,246	—	3,246
Deductions			—
Net losses (benefit) incurred	(2,796)	—	(2,796)
Loss adjustment expenses incurred	2,044	—	2,044
Underwriting expenses	6,234	—	6,234
Total underwriting deductions	5,482	—	5,482
Net underwriting (loss)	(2,236)	—	(2,236)
Investment Income			—
Net investment income	7,032	—	7,032
Net realized capital gains	732	—	732
Net investment gain	7,764	—	7,764
Other Income			—
Fee and other income	11	—	11
Interest expense	—	—	—
Total other income	11	—	11
Income (loss) before federal income taxes incurred	5,539	—	5,539
Federal and foreign income taxes (benefit) incurred	(2,887)	—	(2,887)
Net income (loss)	$ 8,426	$ —	$ 8,426

(1) As no Existing SGI Surplus Note payments were requested from the NYDFS during the three months ended March 31, 2016, there are no pro forma adjustments to the statement of income.

Syncora Guarantee Inc.
Statutory Basis — Statement of Income

(U.S. Dollars in thousands)	Year Ended December 31, 2015	Adjustments	Pro Forma Year Ended December 31, 2015
Underwriting			
Net premiums written	$ 12,771	$ —	$ 12,771
Change in unearned premium revenue	30,575	—	30,575
Net premiums earned	43,346	—	43,346
Deductions			—
Net losses (benefit) incurred	(146,633)	—	(146,633)
Loss adjustment expenses incurred	5,675	—	5,675
Underwriting expenses	36,262	—	36,262
Total underwriting deductions	(104,696)	—	(104,696)
Net underwriting (loss)	148,042	—	148,042
Investment Income			—
Net investment income	39,433	—	39,433
Net realized capital gains	14,382	—	14,382
Net investment gain	53,815	—	53,815
Other Income			—
Fee and other income	668	—	668
Interest expense	—	(46,773)[1]	(46,773)
Total other income	668	(46,773)	(46,105)
Income (loss) before federal income taxes incurred	202,525	(46,773)	155,752
Federal and foreign income taxes (benefit) incurred	(6,444)	—	(6,444)
Net income (loss)	$ 208,969	$(46,773)	$ 162,196

(1) Of the $55.0 million payment on Existing SGI Surplus Notes held by parties other than SGI at closing, a pro rata portion of only unapproved amounts are allocated to principal ($8.2 million), paid-in-kind interest ($0.9 million) and accrued and unapproved interest ($45.9 million). For purposes of the pro forma, the payment on the Existing SGI Surplus Notes is included. However, such payment is contingent on the NYDFS approval which is outside of SGI's control and is a condition precedent to the offer. Under statutory accounting principles, interest is recorded as an expense once approved by the NYDFS.

RISK FACTORS

Risks Related to the Restructuring Transactions

The value of the SHL Common Shares following completion of the Restructuring Transactions will depend on various factors, including the value of SGI's and its subsidiaries common equity following completion of the Restructuring Transactions, in addition to our ability to raise capital at SHL and acquire a new business, which are outside our control.

The value of the SHL Common Shares will depend, in part, upon our ability to complete various future initiatives, including attracting new capital, acquisition of a new business with adequate returns and income and at the insurance company level completing other monetization or liquidity enhancing measures, including remediations and litigation settlements. We are not receiving a capital investment at the time of closing and may not receive one in the foreseeable future or ever. We may also be unable to identify, acquire or close suitable acquisition targets. In addition, we may not be able to complete any or all of our contemplated monetization or liquidity enhancing measures or do so in a manner that maximizes the value of such measures. There can be no assurance that the value of the SHL Common Shares will increase significantly or at all. Holders of the SHL Common Shares may be prohibited from trading their SHL Common Shares for some time because of restrictions on the ability to transfer the SHL Common Shares. For example, any holder that receives or holds more than 5% of the SHL Common Shares following the Restructuring Transactions.

There can be no assurance that we will be successful in obtaining a third-party investment in SHL.

Following the consummation of the Restructuring Transactions, we plan to seek a third-party investment in SHL. We cannot assure you that we will be able to attract one or more third-party investors in the foreseeable future or at all, or that any third-party investor will perceive value in SHL. In the event that we are unable to attract a third-party investor, SHI may not be able to utilize the NOLs that it is permitted to use, and such NOLs may expire unutilized. In connection with any such investment, we may be required to register our securities with the SEC, which would be time-consuming and costly.

A potential third-party investor of new capital may require a significant amount of equity in SHL, which would dilute the value of SHL's common shares substantially.

We anticipate that any investor of new capital will expect to receive a significant amount of equity in SHL in exchange for making an investment as well as governance and other rights. Such equity may take the form of SHL Common Shares, preferred shares, convertible debt, options, warrants or a combination of the foregoing. While we believe that a third-party capital contribution would increase the value of our equity, the voting rights of a holder of SHL Common Shares will be diluted and there can be no assurance that the value of our equity will increase significantly or at all. In addition, tax considerations may limit the amount of common shares or other equity securities that can be issued to any such investor.

Future acquisitions or business opportunities could involve unknown risks that could harm our business and adversely affect our financial condition.

If the Restructuring Transactions are consummated and if we are able to raise additional capital, as part of our ongoing strategic initiatives we may acquire other businesses or make other acquisitions that may involve unknown risks, some of which will be particular to the industry in which the acquisition target operates. Although we intend to conduct business, financial and legal due diligence in connection with the evaluation of any future business or acquisition opportunities, there can be no assurance our due diligence investigations will identify every matter that could have a material adverse effect on us.

Potential acquisitions may expose us to operational challenges and risks, including: integrating financial and operational reporting systems and management teams; funding increased capital needs and overhead expenses; diverting management's attention away from running our business; and inheriting unforeseen or undetected liabilities, particularly where the seller(s) of the entities we acquire are unable or unwilling to meet their indemnification, reinsurance and other obligations to us. Our failure to successfully manage these operational challenges and risks may adversely impact our financial condition or results of operations.

The realization of any risks could prevent or limit us from realizing the projected benefits of the businesses or acquisitions, which could adversely affect our financial condition and liquidity. In addition, our financial condition, results of operations and the ability to service our debt or pay dividends will be subject to the specific risks applicable to any business or company we acquire.

If we are unable to identify, acquire, close or integrate suitable acquisition targets successfully we may not be profitable, which would adversely affect the value of the Company.

If we are successful in raising additional capital, we intend to analyze and evaluate potential acquisitions. We cannot assure you that we will identify or successfully complete transactions with suitable acquisition candidates in the future, nor can we assure you that completed acquisitions will be successful or that we will obtain regulatory approval. In addition, our inability to make acquisitions may impair our ability to be profitable. There may be a substantial period of time before we are able to attract new capital, invest and make suitable acquisitions. Delays we encounter in the selection, acquisition and/or development of targets could adversely affect the value of the Company. We anticipate that the assessment of each specific target business, and the negotiation, drafting and execution of relevant agreements, disclosure documents and other instruments or agreements relevant to the acquisition of any such target business, will require substantial time and attention on the part of our management and the incurrence by the Company of substantial costs for advisors. Completion of an acquisition may be more costly or take longer than expected, may dilute holders of SHL Common Shares or may have a different or more costly financing structure than initially contemplated.

Furthermore, we expect to encounter intense competition from other entities having a business objective similar to ours, including private investors (which may be individuals or investment partnerships) and other entities, domestic and international, competing for the types of businesses we may consider for acquisition. Many of these individuals and entities are well-established and have extensive experience in identifying and effecting, directly or indirectly, acquisitions of companies operating in or providing services to various industries. Many of these competitors may possess greater technical, human and other resources or more local industry knowledge than we do and our financial resources may be relatively limited when contrasted with those of many of these competitors. While we believe there are numerous target businesses we could potentially acquire, our ability to compete with respect to the acquisition of certain target businesses that are sizable may be limited by our available financial resources. This inherent competitive limitation may give others an advantage in pursuing the acquisition of certain target businesses.

Our Board of Directors may change our strategy without shareholder approval, which could alter the nature of your investment.

Our Board of Directors continues to develop and review the strategy for the Company and determine what is in the best interest of our shareholders. This strategy may change over time and the methods of implementing our strategy may vary, as trends emerge and new investment opportunities develop. Our strategy, the methods for its implementation, and our other objectives may be altered by our Board of

Directors without the approval of our shareholders. As a result, the nature of your investment could change without your consent.

The amendment to the Tax Sharing Agreement that will allow SHI to utilize a portion of SGI's NOLs without compensating SGI will prevent SGI from being paid for the use of those NOLs and SGI may in the future have taxable income that is not offset by NOLs or that is offset by NOLs for which it is required to provide reimbursement to other Syncora group members.

In connection with the Restructuring Transactions, we will amend the Tax Sharing Agreement to allow SHI and certain of its subsidiaries to utilize a portion of SGI's NOLs that we expect would otherwise expire unutilized. SHI will not be obligated to compensate SGI for the use of those NOLs. We believe that after the amendment to the Tax Sharing Agreement the amount of NOLs retained by SGI, together with the NOLs it is projected to generate in the future plus a cushion will be sufficient to offset its forecasted future income, but there can be no assurance that SGI will have sufficient NOLs to offset all future income. If SGI has future taxable income that is not offset by NOLs or that is offset by NOLs for which it is required to provide reimbursement to other Syncora group members, it may be required to make payments to SHI in respect of any taxes attributable to SGI's taxable income (determined on a stand-alone basis), which could have an adverse effect on our liquidity and financial condition. Likewise, if SHI has future taxable income that is not offset by NOLs allocated to SHI, it may be required to make payments to SGI in respect of any taxes attributable to SHI's taxable income (determined on a stand-alone basis) that is offset by SGI's remaining NOLs, which could have an adverse effect on our liquidity and financial condition.

The 2009 MTA contains restrictive covenants that may impair our ability to pursue our business strategies.

The 2009 MTA restricts, among other things, asset dispositions, mergers and acquisitions, dividends, stock repurchases and redemptions by SGI and SCAI unless we seek and obtain consent from surplus noteholders and swap counterparties (as applicable). These covenants, among other things, limit our ability to fund our continuing operations or engage in future acquisitions or new business activities. If we are unable to obtain the required consents under the 2009 MTA, we may not be able to execute our planned business strategies, including the Restructuring Transactions.

We may have future capital needs and may not be able to obtain third-party financing or raise additional third-party capital on acceptable terms, or at all.

An inability to obtain third-party debt financing or raise additional third-party capital, when required by us or when business conditions warrant, could have a material adverse effect on our business, financial condition and results of operations. In addition, as of March 31, 2016, we had little to no ability to borrow at SHL, SGI or SCAI, other than pursuant to an intercompany capital support agreement in favor of SCAI. The economic conditions affecting our industry, as well as other factors, may constrain our financing abilities. Our ability to secure third-party financing, if available, and to satisfy our financial obligations under indebtedness outstanding from time to time will depend upon regulatory conditions, our future operating performance, the availability of credit generally, economic conditions and financial, business and other factors, many of which are beyond our control. The market conditions and the macroeconomic conditions that affect our industry could have a material adverse effect on our ability to secure third-party financing on favorable terms, if at all.

We may be unable to secure third-party financing or third-party financing on favorable terms or our operating cash flow may be insufficient to satisfy our financial obligations under the indebtedness outstanding from time to time. Furthermore, if third-party financing is not available when needed, or is available on unfavorable terms, we may be unable to take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on our business, financial condition and results of operations.

If additional funds are raised through the issuance of additional equity securities, our stockholders may experience significant dilution.

We will have ongoing obligations related to the remaining Existing SGI Surplus Notes and SGI's Twin Reefs Pass-Through Trust Securities.

SGI's Twin Reefs Pass-Through Trust Securities will remain outstanding until redeemed, repaid or repurchased. Subject to the NYDFS approval, we are also required to make interest and principal (to the extent due) payments in cash on the Existing SGI Surplus Notes on a semi-annual basis. We will be required to continue to make such payments, as and when approved by the NYDFS, until all of the Existing SGI Surplus Notes that are not cancelled mature, are repaid in full or are otherwise repurchased or retired. We will be required to repay holders of the Existing SGI Surplus Notes and the Reallocated Surplus Notes (as defined below) before making payments on the Twin Reefs Pass-Through Trust Securities and will be required to make payments on the Twin Reefs Pass Through Trust Securities prior to making payments on the SHL Common Shares. We may not have the ability to borrow, raise or otherwise have access to the funds necessary to repay such amounts when due.

We have not made payments on our Existing SGI Surplus Notes and may be unable to repay Existing SGI Surplus Notes in full at maturity or ever.

No payments on our Existing SGI Surplus Note have been made to date and we may not receive approval from the NYDFS to make payments as and when scheduled. While a single payment on the Existing SGI Surplus Notes is a condition precedent to the Restructuring Transactions, there can be no assurance that any additional payments will be made in the future. As a result, holders of the Existing SGI Surplus Notes may not be paid in full at maturity or ever. If the NYDFS does not begin to approve regular payments on the Existing SGI Surplus Notes within the next several years, the accretion of Existing SGI Surplus Notes may exceed our ability to ever repay in full the Existing SGI Surplus Notes. If we or SGI become subject to a bankruptcy or similar proceeding, such as rehabilitation or liquidation under the NYIL, prior to the repayment of such Existing SGI Surplus Notes, you may not receive any recoveries on your investment on the Existing SGI Surplus Notes.

Risks Related to Our Company

The Company faces a potential liquidity mismatch between expected future claim payments and recoveries relating to these claims. This potential liquidity mismatch could have a materially adverse effect on our ability to satisfy our future obligations, including interest and principal payments on our Existing SGI Surplus Notes and other obligations.

The Company faces a potential liquidity mismatch between expected future medium to long-term claims payments and recoveries relating to these claims. As of March 31, 2016, the Company anticipates that it will be requested to make gross claim payments in the period 2017 to 2029 of at least approximately $186 million, excluding remediated RMBS claims, followed in later years (in some cases significantly later years) by recoveries of these claims payments. The Company also remains exposed to transactions with refinancing risk through to 2019, including one credit with a heightened risk of material claims payments with an aggregate par outstanding of $850.5 million and a number of other credits with exposure to refinancing risk and the risk of material principal repayments with an aggregate par outstanding of $2.5 billion, in each case as of March 31, 2016. The amount and timing of the recoveries related to future claims payments are subject to greater uncertainty than the amount and timing of such future claims payments themselves. Pursuant to the Company's accounting policy and guidance under GAAP, the net present value of estimated claims and recoveries (including salvage and subrogation) are reflected in the Company's loss reserves (see the Company's accounting policy on reserves in Note 4 to SHL's audited consolidated financial statements).

If realized, this liquidity mismatch may have a material adverse effect on the Company and its ability to satisfy its future obligations. Because of the inherent uncertainty in estimating future claim payments and recoveries (including, whether, when and to what extent investment grade and non-investment grade credits may be able to refinance), no assurance can be given that the amount or timing of claims payments, related recoveries, or ultimate losses match the Company's estimates, and such differences could materially and adversely affect the Company's results of operations, financial condition and liquidity. The Company may also experience significant adverse development on its insured obligations that may place further demands on the Company's liquidity and financial position. The Company cannot provide any assurance that, were it to experience further adverse loss and claims development, the NYDFS would not take regulatory action, which may include commencement of rehabilitation or liquidation proceedings.

Even if we consummate the Restructuring Transactions, we may in the future report a policyholders' deficit or become insolvent.

Our expected financial condition after the consummation of the Restructuring Transactions, is based on various assumptions concerning these transactions, including accounting and tax treatment. There can be no assurance that the assumptions will not differ materially from the ultimate results of such transactions and any differences may be material. In addition, while the transactions contemplated herein were designed to improve our financial condition, we will continue to be subject to risks and uncertainties that could materially affect our financial position. Therefore, even if the Restructuring Transactions are consummated, circumstances may occur that would cause us to report a policyholders' deficit or not comply in the future with the statutory minimum policyholders' surplus or undergo additional restructuring. In addition, we may become insolvent in the future. If we are unable to utilize the permitted or prescribed practices, we may not comply with the statutory minimum policyholders' surplus.

We have substantial indebtedness, which could adversely affect our financial health and our ability to obtain financing in the future, react to changes in our business and make payments or pay dividends on the SHL Common Shares.

After the Restructuring Transactions, we will have a substantial amount of indebtedness. As of July 29, 2016, on a pro forma basis after giving effect to the Restructuring Transactions, we would have had outstanding total Existing SGI Surplus Notes of approximately $793,059,885 (including principal, paid-in-kind interest and accrued and unapproved interest, but excluding Existing SGI Surplus Notes held by SGI). Furthermore, all of our debt is structurally subordinated to $27.2 billion of policyholder exposure of our insurance subsidiaries.

Our substantial level of indebtedness and other financial obligations as well as the performance of our insured portfolio, which is driven by events outside our control, increase the possibility that we may be unable to generate cash sufficient to pay, when due, the principal of, interest on, or other amounts due, in respect of our indebtedness. Our substantial debt and events outside our control could also have other significant consequences. For example, it could:

- increase our vulnerability to general adverse economic, competitive and industry conditions;
- limit our ability to obtain additional financing in the future for working capital, capital expenditures, payment of policyholder claims, debt service requirements, acquisitions, general corporate purposes or other purposes on satisfactory terms or at all;
- require us to dedicate a substantial portion of our cash flow from operations to the payment of our indebtedness, thereby reducing the funds available to us for operations and any new business opportunities and make payments on junior securities;
- limit or restrict us from making strategic acquisitions or cause us to make non-strategic divestitures;
- limit our planning flexibility for, or ability to react to, changes in our business and the industries in which we operate;
- limit our ability to adjust to changing market conditions, react to competitive pressures and adverse changes in government regulation;
- limit our ability or increase the costs to refinance indebtedness or ever repay such indebtedness due to ongoing interest accretion;
- limit our ability to attract and retain key employees; and
- limit our ability to enter into hedging transactions by reducing the number of counterparties with whom we can enter into such transactions, as well as the volume of those transactions.

Despite current indebtedness levels, we and our subsidiaries may incur additional debt. This could further exacerbate the risks associated with our substantial leverage.

While the 2009 MTA currently provides limits on the amount of additional indebtedness SGI and SCAI may incur, we may obtain a waiver of those restrictions and incur additional indebtedness in the

future. Likewise, the NYIL provides limits on the amount of indebtedness our insurance subsidiaries may incur. If we incur any additional indebtedness that ranks equally or senior in right of payment with any Existing SGI Surplus Notes that remain outstanding after the Restructuring Transactions, subject to collateral arrangements, the holders of that debt will be entitled to share ratably with, or have priority in right of payment to, the holders of any Existing SGI Surplus Notes that remain outstanding after the Restructuring Transactions in any proceeds distributed in connection with any insolvency, liquidation, reorganization, dissolution or other winding up of our company. This may have the effect of reducing the amount of proceeds paid to you.

We have suspended writing substantially all new insurance business as of January 2008 and we do not expect to recommence writing new insurance business.

Each of Fitch, S&P and Moody's have downgraded our ratings, which caused us to suspend writing substantially all new insurance business in January 2008. The downgrades to our Insurer Financial Strength ("IFS") ratings have had a material adverse effect on our business and, consequently, our results of operations and financial condition.

In connection with the 2009 MTA, SGI agreed, except in certain limited circumstances, not to recommence writing any new business. As of March 31, 2016, in 28 states or jurisdictions SGI's license to conduct insurance business in such states or jurisdictions was suspended, revoked, had an order of impairment placed against it, expired, was voluntarily surrendered by SGI, or SGI agreed to cease writing business in such states or jurisdictions, or SGI opted not to renew its license in such states or jurisdictions. Although management anticipates that SGI will be able to continue to collect premiums on existing business in such states or jurisdictions, additional states or jurisdictions may suspend SGI's license, place an order of impairment against it, or in lieu of a suspension or order, SGI may let its licenses expire or opt not to renew its licenses in additional states or jurisdictions. The suspension in writing new insurance business has resulted in a significant loss of current and future income and has had and will continue to have material adverse effects on our business. SGI does not intend to seek licenses so that it could write new business.

SGI and SCAI continue to be materially exposed (directly and indirectly) to risks associated with the residential mortgage market through its guarantees of RMBS, public finance and other bond sectors to which SGI and SCAI have material exposure.

We continue to be materially exposed (directly and indirectly) to risks associated with deterioration in the residential mortgage market through guarantees of RMBS, as well as other bond sectors to which SGI has material exposure, including the structured single risk, public finance (including Puerto Rico), commercial mortgage, and corporate loan bond sectors. The extent and duration of the deterioration of the credit markets is unknown, as is the effect, if any, on: (i) potential claim payments and the ultimate amount of losses SGI may incur on obligations it has guaranteed and (ii) potential losses SGI may incur on its invested assets. In addition, we have exercised rights available to us in connection with certain RMBS we insure and have issued put-back notices to sponsors of such securities to require the repurchase of mortgage loans which back the securities and have recorded a reduction in our reserves for losses at March 31, 2016, which reflects our estimate of our ultimate recovery from such repurchases. Sponsors have disputed our right to require them to repurchase the aforementioned mortgages and we are involved in litigation to enforce these rights. If we are unsuccessful in enforcing our rights and do not realize the benefit we recorded through the aforementioned reduction in our reserves as and when expected, it may have a material effect on our anticipated liquidity position and policyholders' surplus.

As of March 31, 2016, the Company has $460.7 million of net exposure to Puerto Rico (excluding interest outstanding of $106.8 million), which includes reinsurance of bond policies and direct investments by the Company as a result of remediation transactions, consisting predominantly of bonds issued by PREPA of $207.1 million (excluding interest outstanding of $50.1 million), general obligation bonds of the Commonwealth of Puerto Rico (the "Commonwealth") of $217.3 million (excluding interest outstanding of $44.4 million) and other obligations of Puerto Rico's instrumentalities of $36.3 million (excluding interest outstanding of $12.3 million). On June 29, 2016, SGI entered into the RSA, which provides, among other things, for the Company to purchase approximately $38.5 million of new PREPA power revenue bonds to fund, in part, PREPA's July 1, 2016 payment of principal and interest due to its bondholders. The RSA also contemplates the exchange at 85% of the original principal value of certain existing SGI-owned PREPA power revenue bonds for new securitization bonds, as well as the purchase of additional PREPA power revenue bonds to fund certain future obligations to bondholders.

SGI also continues to have significant exposure to a number of large structured single risk transactions (9 transactions with an aggregate insured principal outstanding of $2.1 billion) with material risk of adverse development, including exposure to event driven risks, such as political, operational, bankruptcy, legal and regulatory actions. Such adverse events could have a material adverse effect on SGI's liquity and financial position.

Loss reserve estimates are subject to uncertainties and our loss reserves for certain periods may not be adequate to cover the ultimate amount of losses. If we establish additional loss reserves, it may have a material adverse effect on our financial condition and results of operations.

SGI's estimate of reserves for losses on its exposures is based on certain assumptions. Changes in such assumptions could materially adversely affect such reserve estimates, including the amount and timing of any claims. Under certain conditions, many of which are event-driven and outside the control of SGI, these exposures may result in significant increases in claims against SGI in the near to medium term beyond the assumptions in SGI's reserve estimate (which may result in an increase in such loss reserves).

Establishment of case basis reserves for unpaid losses and loss adjustment expenses on SGI's in-force business requires the use and exercise of significant judgment by management, including estimates regarding the likelihood, timing and amount of loss on a guaranteed obligation. A material portion of SGI's case basis reserves reflect certain assumptions with respect to recoveries on rights available to SGI in connection with certain RMBS it insures that require the sponsors of such securities to repurchase mortgage loans that breached certain representations and warranties. For example, SGI has exercised rights available to it in connection with certain RMBS it insures and has issued put-back notices to sponsors of such securities to require the repurchase of mortgage loans which back the securities and has recorded a reduction in its reserves for losses at March 31, 2016, which reflects its estimate of its ultimate recovery from such repurchases. Sponsors and originators have disputed SGI's right to require them to repurchase the aforementioned mortgages and SGI is involved in litigation to enforce these rights. If SGI is unsuccessful in enforcing its rights and does not realize the benefit it recorded through the aforementioned reduction in its reserves as and when expected, it may have a material effect on SGI's anticipated liquidity position and material adverse effect on SGI's financial position. SGI periodically engages in discussions aimed at attempting to resolve these claims. While a negotiated resolution could result in an amount below that recorded in the aforementioned reserve reductions, it could also result in an amount greater than such reductions.

Similarly, a material portion of SGI's case basis reserves reflect certain assumptions that affect reimbursements in the remainder of its insured and reinsured portfolio. Actual experience may, and likely will, differ from those estimates and such difference may be material due to the fact that the ultimate dispositions of claims are subject to the outcome of events that have not yet occurred and, in certain cases, will occur over many years in the future. Examples of these events include changes in the level of interest rates, credit deterioration of guaranteed obligations, recoveries in bankruptcy proceedings, changes in the value of specific assets supporting guaranteed obligations, changes in the level of investment yield and changes in the timing, level of success and collectability of the aforementioned mortgage loan repurchases.

Both qualitative and quantitative factors are used in making such estimates. From time to time SGI reevaluates all such estimates. Changes in these estimates may be material and may result in material changes in SGI's financial position. Any estimate of future costs is subject to the inherent limitation on management's ability to predict the aggregate course of future events. It should, therefore, be expected that the actual emergence of losses and claims will vary, perhaps materially, from any estimate. The risk of loss under SGI's guarantees extends to the full amount of unpaid principal and interest on all debt obligations it has guaranteed.

The fair value of liabilities with respect to our CDS contract guarantees may increase as a result of collateral deterioration underlying these contracts. The fair value of our CDS liabilities may increase as a result of improvement in our Non-Performance Risk. Each of the aforementioned factors may have a material adverse effect on our financial condition and results of operations.

In accordance with GAAP, derivatives must be accounted for as either assets or liabilities on the balance sheet and measured at fair value. Any event causing credit spreads on an underlying security

referenced in our CDS contracts to either widen or tighten will affect the fair value of CDS contracts and may increase the volatility of our earnings. In addition, in accordance with GAAP, fair value must reflect the risk that the issuer of the derivative will not be financially able to honor its obligations as they become due ("Non-Performance Risk") which, for our CDS contracts, we estimate based on the cost of buying credit protection on SGI and SCAI. For example, when the market price of buying credit protection on us increases, reflecting our deteriorating financial position, the Non-Performance Risk component of the fair value of our CDS contracts reduces our derivative liabilities and increases shareholders' equity, whereas when the market price of buying credit protection on us decreases, reflecting our improving financial position, the Non-Performance Risk component of the fair value of our CDS contracts increases our derivative liabilities and decreases shareholders' equity. Although there is no cash flow effect from reporting our CDS contracts at fair value, net changes in the fair value of our CDS contracts are reported in our statement of operations and therefore have affected and will continue to affect our reported earnings. If net changes in the fair value of our CDS contracts cause us to report a loss, our shareholders' equity would potentially decrease to a negative amount. In addition, our Non-Performance Risk may improve as a result of the Restructuring Transactions, which could improve the fair value of our CDS contracts and therefore increase our losses.

Common events that may cause credit spreads on an underlying municipal bond or pool of corporate securities referenced in a CDS contract to fluctuate include changes in the state of national or regional economic conditions, industry cyclicality, changes to a company's competitive position within an industry, management changes, changes in the ratings of the underlying security, movements in interest rates, default or failure to pay interest or other factors leading investors to revise expectations about the issuer's ability to pay principal and interest on its debt obligations. Similarly, common events that may cause credit spreads on an underlying structured security referenced in a CDS contract to fluctuate may include the occurrence and severity of collateral defaults, rating changes, changes in interest rates or underlying cash flows or other factors leading investors to revise expectations about the sufficiency of the applicable collateral or the ability of the servicer to collect payments on the underlying assets sufficient to pay principal and interest when due.

While not required under GAAP, we also estimate the ultimate losses we expect to incur in connection with our CDS contracts assuming we hold them to maturity. We refer to such estimated ultimate losses as anticipated claims, which represent the equivalent of reserves for losses and loss adjustment expenses on our insurance guarantees. Further adverse loss development on securities referenced in our CDS contracts will adversely affect our financial condition. Net (loss) earnings on credit default and other swap contracts for the three months ended March 31, 2016 and 2015 were $(31.6) million and $79.7 million, respectively. For the years ended December 31, 2015 and 2014, net earnings on credit default and other swap contracts were $139.9 million and $123.9 million, respectively. In addition, at March 31, 2016 and December 31, 2015, our net derivative liability relating to our CDS and other swap contracts was $434.6 million and $404.0 million, respectively, before Non-Performance Risk.

Our insurance subsidiaries are highly regulated and a regulator could rehabilitate or liquidate such subsidiaries or take certain other actions.

Our insurance subsidiaries are highly regulated and our business activities are subject to the review of regulators with broad power and authority. Under certain circumstances, a regulator could rehabilitate or liquidate our insurance subsidiaries, suspend our insurance subsidiaries' licenses, restrict our insurance subsidiaries' license authority or limit our dividend paying ability and controls our ability to make payments on our surplus notes. If not for the utilization of permitted and prescribed practices, as of December 31, 2015, SGI would not have complied with its regulatory minimum policyholders' surplus requirement. Under these circumstances, the New York Superintendent could seek court appointment as rehabilitator or liquidator of SGI or SCAI, which would have a material adverse effect on our business, results of operations and financial condition. In addition, as of March 31, 2016, in 28 states or jurisdictions SGI's license to conduct insurance business in such states or jurisdictions was suspended, revoked, had an order of impairment placed against it, expired, was voluntarily surrendered by SGI, or SGI agreed to cease writing business in such states or jurisdictions, or SGI opted not to renew its license in such states or jurisdictions (including New York).

In addition, under the NYIL, the New York Superintendent may apply for an order from the New York Supreme Court in the county in which the insurance company is domiciled, directing the New York Superintendent to rehabilitate or liquidate a domestic insurance company under certain other circumstances, including upon the insolvency of the company, if the company has willfully violated its charter or New York State law or if the company is found, after examination, to be in such condition that further transaction of business would be hazardous to its policyholders, creditors or the public. The New York Superintendent may also suspend an insurer's license, restrict its license authority or limit its dividend paying ability if, after a hearing, the New York Superintendent determines that the insurer's surplus to policyholders is not adequate in relation to its outstanding liabilities or financial needs. If the New York Superintendent were to rehabilitate or liquidate us, it would have a material adverse impact on our business, results of operations and financial condition.

Any reduction in the carrying value of the Company's investment in its subsidiaries or cessation or material limitation of payments from its subsidiaries would have a material adverse effect on the Company's financial and liquidity position.

The Company's subsidiary, SGI, holds 100% of the common shares issued by SCAI. SCAI's ability to pay dividends on such common shares is subject to risks and uncertainties, including prior regulatory approval by the NYDFS and compliance with certain contractual restrictions. Payment of dividends requires a positive earned surplus level, which will require approval by the NYDFS of a permitted practice for SGI, and which is not currently achievable at SCAI (even if the NYDFS approves the proposed permitted practice). No assurance can be given as to whether or when SGI or SCAI may be able to pay any dividends on their preferred and/or common shares or pay principal or interest on their respective surplus notes. SGI's ability to pay dividends is subject to regulatory constraints. Accordingly, any investment in SGI's securities should be considered speculative. SCAI has significant exposure to public finance transactions (including Puerto Rico), structured single risk and collateralized debt obligations. These exposures continue to pose a risk of material adverse development. Reductions in the carrying value of the Company's investment in SCAI could, directly or indirectly, have a material adverse effect on the Company's liquidity and financial position.

Any payment of principal or interest on any future surplus notes that may be issued by SCAI to the Company (pursuant to an intercompany capital support agreement in favor of SCAI or otherwise) ("Future SCAI Surplus Notes"), is subject to the satisfaction of conditions precedent, including prior regulatory approval by the NYDFS and compliance with contractual restrictions in the 2009 MTA. No assurance can be given as to whether and when the NYDFS would approve future payments of interest or principal on any Future SCAI Surplus Notes. The failure of SGI to (i) receive all future principal and interest payments on any Future SCAI Surplus Notes or (ii) monetize or realize value from any Future SCAI Surplus Notes could have a material adverse effect on SGI's anticipated liquidity position.

SGI's non-insurance subsidiary, Pike Pointe, is exposed to certain risks and uncertainties related to its toll road facilities, operations and toll collections. These uncertainties include decreased traffic; inability to raise tolls due to political pressures, or otherwise; the availability of free, competing roads and bridges; and extensive and expensive capital projects to maintain the assets. The carrying value of Pike Pointe's assets includes long-lived tangible and intangible assets whose recovery is predicated on toll collections. Any impairment of such assets could have a material adverse effect on SGI's financial position.

Any payment of principal or interest on the Existing SGI Surplus Notes and payments of any dividends to SHL is subject to the satisfaction of conditions precedent, including, prior regulatory approval by the NYDFS.

Had the NYDFS granted its approval, SGI would have been obligated by the terms of its Existing Short-Term Surplus Notes, which matured on December 28, 2011, to pay the outstanding principal balance of $150 million, together with paid-in-kind interest and accrued, unapproved and unpaid interest, totaling approximately $169.6 million. However, the NYDFS did not approve the payment, and accordingly, the payment was not made. Each year thereafter, SGI sought approval for payment of interest on the Existing Long-Term Surplus Notes and of principal and interest on the Existing Short-Term Surplus Notes. The NYDFS has not approved any such payments since the issuance of the Existing SGI Surplus Notes in 2009. In addition, SGI has not paid dividends in more than seven years on its Existing SHL Preferred Shares and has never paid a dividend on its SHL Common Shares, and does not expect to pay dividends of either class for the foreseeable future. Any future dividend payments would be subject to various conditions, including the approval of the NYDFS. Notwithstanding the Company's ongoing remediation transactions, SGI

remains exposed to significant risks and uncertainties that may materially and adversely affect its financial condition, liquidity position and ability to make payments on its surplus notes or pay dividends. Consequently, there is significant uncertainty and there can be no assurance as to whether and when the NYDFS would approve any future payments on the short-term or long-term surplus notes other than the payment contemplated in the Conditions Precedent (should the NYDFS approve such payment), or allow SGI to pay any dividends. Investment in the Existing SGI Surplus Notes (including the Reallocated Notes) and SHL Common Shares should be considered speculative. Under the terms of the Existing SGI Surplus Notes, SGI will be required to pay all accrued but previously unapproved and unpaid payments (including payment of principal and interest related to the Existing Short-Term Surplus Notes) before it can make any payment on its Existing SGI Surplus Notes. In addition, the interest and principal payments under the Existing SGI Surplus Notes, if approved, are large and, as a result, any payment by SGI of principal or interest on its short-term or long-term surplus notes or payment of any dividend could have a potential material adverse effect on SGI's prospective financial and liquidity position. If the NYDFS does not begin to approve regular payments on the Existing SGI Surplus Notes within the next several years, the accretion on the Existing SGI Surplus Notes will exceed our ability to repay in full the Existing SGI Surplus Notes and therefore any securities junior to the Existing SGI Surplus Notes.

Portfolio modeling contains significant uncertainty, which makes it difficult to estimate our potential paid claims and loss reserves.

The securities we insure include highly complex structured transactions, the performance of which depends on a wide variety of factors outside of our control, and in such transactions we rely on sophisticated financial models, generated internally and supplemented by models generated by third parties, to estimate future credit performance of the underlying assets and to evaluate structures, rights and our potential obligations over time. Therefore, in some cases we put greater reliance on the models and analysis of third-party market participants and are not able to fully, independently and precisely verify each data point. In addition, many of these financial models include, and rely on, a number of assumptions, many of which are difficult to determine and are subject to change, and even small alterations in the underlying assumptions of the model can have a significant impact on its results. Moreover, the performance of the securities we insure depends on a wide variety of factors that are outside our control, including the liquidity and performance of the collateral underlying such securities, the correlation of assets within collateral pools, the performance or non-performance of other transaction participants (including third-party servicers) and the exercise of control or other rights held by other transaction participants.

We continually monitor portfolio and transaction data and adjust these credit risk models to reflect changes in expected and stressed outcomes over time. We use internal models for ongoing portfolio monitoring and to estimate case basis loss reserves and may review third-party models or use third-party experts to consult with our internal modeling specialists. However, modeling results from both internal and external models, whether for calculating estimates of case reserves on insurance contracts or anticipated claims on CDS contracts, can be sensitive to changes in inputs and general assumptions, including economic and credit market stability and financial health of key transaction parties. Such inputs, or specific performance metrics, have recently been volatile, making forecasting difficult and significantly altering model results. In addition, both internal and external models are subject to potential errors of estimation and to model risk and there can be no assurance that these estimates and models are accurate or comprehensive in estimating our potential future paid claims and related loss reserves.

SGI is exposed to significant refinancing risks in its insured and reinsured portfolio.

SGI had assumed at origination that certain of the debt issuances it insures could be refinanced in the market, but there is no assurance that such refinancing will be available under favorable terms or at all. SGI is exposed to this risk and, accordingly, may be required to make claims payments and then seek to recover its payments from revenues produced by the transaction contemplated hereby. SGI believes it has reserved appropriately to reflect this risk but a more difficult refinancing market at the time of refinancing could lead to SGI facing additional, material claims and losses. Any such additional claims or losses may put further stress on a potential liquidity mismatch resulting from the timing of anticipated future adverse loss and claims development on our insured obligations.

We may not be able to successfully monetize assets or restructure, commute or exchange outstanding

indebtedness and insurance obligations for value greater than or equal to the assets or indebtedness we currently hold.

From time to time, we and our subsidiaries consider transactions that would enable us or them to monetize certain assets and restructure, commute or exchange our outstanding indebtedness and insurance obligations. These potential transactions may not ultimately be feasible or economically viable. Moreover, we may not be able to secure the approval of the NYDFS (if required) to consummate any such transaction, and even if any such transaction is consummated, it may produce less value than we expect at the time we enter into such transaction or be unsuccessful in creating any value. Any failure to obtain sufficient value for our assets or indebtedness may have an adverse effect on our financial condition and liquidity.

Our insurance and reinsurance portfolio and financial guarantee products expose us to concentrations of risks, and a material adverse event or series of events with respect to one or more of these risks could result in significant losses to our business.

The breadth of our business exposes us to potential losses in a variety of our products, which may be correlated as to credit risk, market risk and sector risk. For example, we are significantly exposed to the risk of increases in default rates across a wide range of credit instruments, including but not limited to corporate debt securities within our CDO portfolio and residential mortgages underlying both our direct RMBS and ABS CDO transactions. While we track our aggregate exposure to credit problems at a single issuer or servicer, which we refer to as single name exposure, events with respect to single names have caused a significant loss across a number of transactions that we have guaranteed and may cause additional significant losses. In addition, we have a number of individual large exposures to single obligors in our public finance portfolio, concentrations of risk in infrastructure sectors, such as water and sewer utilities and transportation, and concentrations of risk in certain geographic areas. While the risk of a complete loss on such public finance obligations, where we are required to pay the entire principal amount of an issue of bonds and interest thereon with no recovery, is generally lower than for single corporate credits as most municipal bonds are backed by taxes or other revenue sources, there can be no assurance that a single default by a municipality or public authority would not have a material adverse effect on our results of operations or financial condition. In addition, many of our assets are concentrated in our subsidiary, Pike Pointe, which exposes us to operational issues and other risks.

SGI and SCAI have sought, are currently seeking and may in the future seek, the NYDFS's approval of permitted or prescribed accounting practices and other regulatory relief which have, and if granted may have, a material effect on SGI's and SCAI's statutory policyholders' surplus.

Pursuant to the NYIL and the approval of the NYDFS, SGI and SCAI are able to use permitted or prescribed practices to prepare their statutory-basis financial statements using certain accounting treatments and practices that differ from NAIC SAP. In addition, SGI and SCAI are seeking an additional permitted practice in connection with the Restructuring Transactions. Once granted, these permitted accounting practices have been subject to an annual approval or confirmation. Without the use of such permitted accounting practices, as of March 31, 2016, SGI's and SCAI's statutory policyholders' surplus (deficit) would have been $265.5 million and $(333.0) million, respectively, which would not meet the minimum policyholders' surplus requirements of the NYIL. Without the use of such permitted accounting practices, as of December 31, 2015, SGI and SCAI would have had a policyholders' surplus (deficit) of $237.5 million and $(316.0) million, respectively. No assurance can be given that the NYDFS will continue to grant approval of SGI's and SCAI's past or any future permitted accounting practices or requested regulatory relief. Failure to obtain continuing approval of the past or future permitted accounting practices or requested regulatory relief could have a material adverse effect on SGI's and SCAI's statutory policyholders' surplus, which could lead to, among other things, the NYDFS placing SGI or SCAI into rehabilitation or preventing SGI or SCAI from paying dividends on the Existing SGI Surplus Notes.

Our valuation of our CDS contracts may include methodologies, estimations and assumptions which are subject to differing judgment and could result in changes to investment valuations that may materially adversely affect our results of operations or financial condition.

Our CDS contracts are required under GAAP to be measured and reported at fair value on the

consolidated balance sheet, with changes in fair value during each period included in earnings. The applicable GAAP guidance establishes a three-level hierarchy based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical instruments (Level 1) and the lowest priority to unobservable inputs (Level 3). An instrument's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. Quoted market prices are available only on a limited portion of our in-force portfolio of CDS contracts. Most of our CDS contracts are highly customized structured credit derivative transactions that are not traded and do not have observable market prices. If quoted market prices are not available, fair value is estimated based on the use of valuation techniques involving management's judgment. Due to the significance of unobservable inputs required to value such CDS contracts, they are considered to be Level 3 under the fair value hierarchy.

Key variables used in the valuation of substantially all of our CDS contracts include the balance of unpaid notional, expected term, fair values of the underlying reference obligations, reference obligation credit ratings, assumptions about current financial guarantee CDS fee levels relative to reference obligation spreads, our credit spread and other factors. Fair values of the underlying reference obligations are obtained from broker quotes when available, or are derived from other market indications such as new issuance and secondary spreads and quoted values for similar transactions and indices, such as ABX or CDX. Implicit in the fair values obtained by us on the underlying reference obligations are the market's assumptions about default probabilities, default timing, correlation, recovery rates and collateral values. In addition, we consider our Non-Performance Risk as implied by the market price of buying credit protection on SGI by incorporating an assumed spread on CDS contracts using a market proxy into the discount rate used. Therefore, the fair value of our CDS contracts uses valuation methodologies which require a significant amount of subjectivity and management judgment. Such valuations include inputs and assumptions that are less observable or require greater estimation as well as valuation methods which are more sophisticated or require greater estimation, thereby resulting in values which may be less than the value at which our CDS may be ultimately sold. Decreases in value may have a material adverse effect on our results of operations or financial condition.

We are dependent on key executives and the loss of any of these executives, or our inability to retain other key personnel, could adversely affect our strategic plan or business operations.

Our success substantially depends upon our ability to retain qualified employees and upon the ability of our senior management and other key employees to implement our strategic plan. We rely substantially upon the services of the current executive team and other key employees. The Restructuring Transactions and the run-off of our insured portfolio may lead us to fail to retain these key employees. The loss of the services of any of these individuals or other key members of our management team or the inability to hire talented personnel could adversely affect the implementation of our strategic plan or the operation of our business.

General economic factors, including those as a result of the current financial environment, may adversely affect our loss experience and our investment portfolio.

Our loss experience could be materially adversely affected by extended national or regional economic recessions, business failures, rising unemployment rates, terrorist attacks, natural or other catastrophic events such as hurricanes and earthquakes, acts of war, or combinations of such factors. The Company and its financial position will continue to be subject to risk of global financial and economic conditions that could materially and adversely affect the amount of losses (including the timing and amount of claims and subsequent recoveries) incurred on transactions it guarantees, the value of its investment portfolio, and otherwise materially and adversely affect the Company. A prolonged period of low interest rates, along with declining investment balances, may adversely affect the Company's ability to generate sufficient investment income to fund its future obligations and operating expense requirements from its investment portfolio.

The Company has direct insurance and reinsurance exposure to certain credits within European countries. Global economic conditions have been negatively affected with concerns about the continued sovereign debt crisis within the European region and the possibility that certain European Union member states will default on their debt obligations or leave the European Union. The continued uncertainty over the outcome of the European Union governments' efforts to provide financial support for sovereigns and sub-sovereigns and the possibility of further deteriorating conditions in Europe could have a material adverse effect on the Company's financial and liquidity position. As of March 31, 2016, the Company's

in-force guaranteed principal exposure to the European Union was approximately $6.3 billion of which $231.2 million was specifically related to certain credits in higher risk countries, such as Portugal and Italy.

In addition to exposure to general economic factors, including stress in the energy sector, the Company is exposed to the specific risks faced by the particular businesses, municipalities or pools of assets covered by its financial guarantee products.

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

We are materially exposed to foreign exchange risk since some of our insured debt obligations are denominated in foreign currencies.

The Company is materially exposed to foreign exchange risk as the Company's insured debt obligations are denominated in a number of foreign currencies and the U.S. dollar. The principal currencies creating foreign exchange risk are the British pound sterling, Australian dollar and the European Union euro. As of March 31, 2016, approximately $7.6 billion of the Company's in-force guaranteed net par outstanding exposure of $27.2 billion was denominated in such currencies. The Company translates foreign currencies into U.S. dollars at the current market exchange rates. Changes in the exchange rates between foreign currencies and U.S. dollars may have an adverse effect on the settlement of potential claims or the value of salvage/recoveries and therefore could have a material adverse effect on the Company's liquidity and financial position. In addition, the Company is materially exposed to risks associated with its financial guarantees covering foreign denominated inflation indexed-linked bonds in connection with the bonds issued by UK and European utility and project finance issuers.

We continue to be materially exposed, directly and indirectly, to risks associated with the financial condition of other financial guarantors, including the placement of a financial guarantor into rehabilitation or liquidation.

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

We face significant litigation risks.

SGI is involved (directly or indirectly) in a number of legal proceedings, both as plaintiff and defendant, including litigation filed by U.S. Bank National Association against GreenPoint Mortgage Funding, Inc. ("GreenPoint") alleging that GreenPoint breached representations and warranties in connection with a securitization of primarily home-equity mortgage loans originated by GreenPoint and against Lehman Brothers Holdings Inc. in connection with the same securitization. The law with respect to many of our cases is still developing and, as a result, management cannot predict the outcomes of these legal proceedings and other contingencies with certainty. The outcome of some of these legal proceedings and other contingencies could require SGI to take or refrain from taking actions which could adversely affect its business or could require SGI to pay (or fail to receive) substantial amounts of money. Similarly, a favorable outcome of the suits where SGI is the plaintiff could entitle SGI to receive (directly or indirectly) substantial recoveries. A favorable or unfavorable outcome could have a material effect on SGI's financial and liquidity position. Prosecuting and defending against these lawsuits and proceedings involves significant expense and diversion of management's attention and resources from other matters. In addition, we could face litigation as a result of the Restructuring Transactions, which could further strain our resources, distract management and involve significant expense.

Legislative and regulatory changes and interpretations could materially affect our results of operations, financial condition and liquidity in ways that we cannot predict.

Changes in laws and regulations or the adoption of new laws such as the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act (the "Moratorium Act") or the Puerto Rico Oversight, Management, and Economic Stability Act ("PROMESA"), or laws and regulations affecting insurance companies, the municipal and structured securities markets, the frequency with which municipalities file for protection under Chapter 9 of the bankruptcy code or similar insolvency laws and the loss severities associated therewith, the financial guarantee insurance and reinsurance markets and the credit derivatives markets, as well as other governmental regulations or acts may subject the Company, its affiliates and subsidiaries to additional legal liability and regulatory requirements, affect the credit performance of the securities that the Company insures and otherwise affect the Company's financial condition. The financial guarantee industry is subject to extensive laws and regulations that are administered and enforced by a number of different governmental authorities and non-governmental self-regulatory agencies, including foreign regulators, state insurance regulators, state securities administrators, the SEC, the Financial Industry Regulatory Authority, the NAIC, the U.S. Department of Justice and state attorneys general. Changes in laws and regulations affecting insurance companies, the municipal and structured securities markets, the financial guarantee insurance and reinsurance markets and the credit derivatives markets, as well as other governmental regulations, may subject us to additional legal liability, impact the credit performance of the securities that we insure and otherwise impact our financial condition.

Some of these authorities are considering or may in the future consider enhanced or new regulatory requirements intended to prevent future crises or otherwise assure the stability of institutions under their supervision. In addition, there have been various legislative initiatives proposed in response to the recent dislocation in the credit markets and the adverse changes in the residential mortgage loan sector. These authorities may also seek to exercise their supervisory or enforcement authority in new or more robust ways. We cannot assure you that these changes or any other future legislative or regulatory action will not materially adversely affect our business or financial condition or our ability to successfully implement our strategic plan. We cannot predict whether this or other proposals will be adopted, or what impact, if any, such proposals or, if enacted, such laws, could have on our business, financial condition or results of operations.

State insurance regulators, such as the NYDFS, and the NAIC regularly re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or in interpretations thereof, are often made for the benefit of the consumer at the expense of the insurer and, thus, could have a material adverse effect on our financial condition and results of operations.

We cannot predict whether or when regulatory actions may be taken that could adversely affect our operations. In addition, the interpretations of regulations by regulators may change and statutes may be enacted with retroactive impact, particularly in areas such as accounting or statutory reserve requirements.

Because our financial guarantee insurance and reinsurance policies are unconditional and irrevocable, we may incur losses from fraudulent conduct relating to the securities that we insure or reinsure.

Issuers of obligations that we insure or reinsure may default on those obligations because of fraudulent or other intentional misconduct on the part of such issuers, their officers, directors, employees, agents or outside advisers or, in the case of public finance obligations, public officials. Financial guarantee insurance provided by SGI and SCAI is unconditional and does not provide for any defense to payment based on fraud or other misconduct, although such conduct may entitle us to terminate obligations under certain credit derivative agreements that we insure or to pursue actions for damages after making payment under our financial guarantee policies. Despite any risk analysis conducted by us or by the financial guarantors whose policies we reinsure, it is impossible to predict which, if any, of the obligations financially guaranteed by us will result in claims against us because of fraudulent or other intentional misconduct involving the issuer or whether or to what extent we will have any remedy available to us against any party in connection with such conduct. Any such claims against us could have a material adverse effect on our financial condition and results of operations.

Servicer risk could adversely impact performance of our structured finance transactions.

Structured finance obligations contain certain risks including servicer risk, which relates to problems

with the transaction servicer (the entity which is responsible for collecting the cash flow from the asset pool) that could affect the servicing of the underlying assets. Servicer risks primarily involve bankruptcy risks, such as whether the servicer of the assets may be required to delay the remittance of any cash collections held by it or received by it after the time it becomes subject to bankruptcy or insolvency proceedings. Structured finance transactions are usually structured to reduce the risk to the investors from the bankruptcy or insolvency of the servicer. The ability of the servicer to properly service and collect on the underlying assets is a factor in determining future asset performance. We address these issues through our servicer due diligence and underwriting guidelines, our formal credit review and approval process and our post-closing servicing review and monitoring, however, no assurance can be given that the servicer will properly effect its duties.

Our business could be negatively affected by actions of activist investors.

We could be negatively affected as a result of actions by activist shareholders or creditors and responding to any such actions could be costly and time-consuming, disrupt operations and divert the attention of management and employees. Such activities could interfere with our ability to execute on our strategic plans.

Revenues and liquidity would be adversely affected by a decline in realization of installment premiums.

Due to the installment nature of a significant percentage of its premium income, the Company has an embedded future revenue stream. The amount of installment premiums actually realized by the Company could be materially reduced in the future due to factors such as early termination of insurance contracts, accelerated prepayments of underlying obligations, commutation of existing financial guarantee insurance policies or non-payment. Such reductions could result in materially lower revenues and reduced liquidity.

A breach of security measures for our information systems could disrupt operations and could adversely affect our businesses and results of operations.

Network and information systems and other technologies are important to our business activities. Despite our security measures, network and information systems-related events, such as computer hackings, cyber threats, security breaches, viruses, or other destructive or disruptive software, process breakdowns or malicious or other activities, and natural or other disasters could result in a disruption of our services and operations or improper disclosure of personal data or confidential information, which could damage our reputation and require us to expend resources to remedy any such breaches. The occurrence of any of these events could have a material adverse effect on our business and results of operations.

The vote by the United Kingdom to leave the European Union could adversely affect us.

The United Kingdom held a referendum on June 23, 2016, in which a majority of voters voted to exit the European Union (“Brexit”). Negotiations are expected to commence to determine the future terms of the United Kingdom’s relationship with the European Union. Brexit has caused currency exchange rate fluctuations that resulted in the weakening of the British Pound (“GBP”), in which a portion of our insured portfolio is denominated. In total, Syncora has $6.3 billion of exposure to credits located within the European Union as of March 31, 2016. $3.5 billion is at SGI and $2.8 billion is at SCAI. $3.2 billion of the SGI exposure is denominated in GBP and $2.3 billion of the SCAI exposure is also denominated in the GBP. In addition, we have indirect exposure to European banks for which Brexit will have unknown consequences. Until there is greater certainty on the terms and conditions of the United Kingdom’s relationship with the European Union, we cannot provide any assurance of its impact on our business, results of operations, liquidity and surplus, which could be material and adverse.

Risks Related to Pike Pointe and American Roads

Pike Pointe was formed to hold the American Roads operating subsidiaries. American Roads is an owner/operator of tolling assets, including the Detroit Windsor Tunnel and four bridges in Alabama (collectively, the “Toll Facilities”).

There are little or no contractual or regulatory restrictions on competition from other toll roads.

The Toll Facilities may in the future face competition from other toll roads. The licenses for the four Alabama bridges are not exclusive. Accordingly, the counties in which each bridge is located or Alabama Department of Transportation (“ALDOT”) may grant to another party licenses similar to the licenses

pursuant to which the American Roads subsidiaries have been granted rights to its bridges. If competing toll facilities are built, they may have an adverse effect on American Roads' revenues, profitability or ability to raise capital.

ALDOT publicly announced a proposed three stage project in Baldwin County, Alabama to construct a new route running north to south from the Foley Beach Expressway to the coastal shore road in Orange Beach/Gulf Shores. If completed as proposed, the project would compete with American Roads' existing Foley Beach Expressway toll bridge ("FBX Bridge") and may have an adverse effect on toll revenues at the FBX Bridge.

The value the Company realizes from Pike Pointe and its subsidiaries is subject to various factors, many of which are outside of the control of the Company.

The value of the Toll Facilities is subject to various factors including general economic conditions, the price of gas, competing bridges (tolled or free), improvements to alternate routes, weather, local market conditions, political elements, required capital expenditures, which may be significant, due to the age or condition of the Toll Facilities, labor stoppages where there are union workers. Many of these factors are outside of the control of American Roads and the Company. These factors could have an adverse effect on American Roads' revenues, profitability or ability to raise capital.

Our Pike Pointe business may be adversely impacted by work stoppages and other labor relations matters.

Our Pike Pointe business is subject to risk of work stoppages and other labor relations matters because a significant number of our employees at our American Roads subsidiaries are represented by unions. Any prolonged work stoppage or strike at any of our Toll Facilities could have a negative impact on the Pike Pointe business, results of operations and financial condition. In addition, upon the expiration of existing collective bargaining agreements, we may not reach new agreements without union action and any such new agreements may not be on terms satisfactory to us.

We hold purchase options on several properties, and if we choose to exercise any or all of our options we may incur significant costs, including environmental-related investigation and remediation costs.

Pike Pointe currently holds options, which if exercised give it the right to purchase, at no cost, several properties, including many in Detroit, Michigan. While Pike Pointe is under no obligation to exercise these options, Pike Pointe may incur significant costs, including environmental-related investigation and remediation costs, if Pike Pointe chooses to exercise any or all of these options. Any such costs could have an adverse effect on Pike Pointe's liquidity, financial condition or results of operations.

Risks Related to Taxation

Our net operating loss carryforwards could be substantially limited if we experience an ownership change.

As of March 31, 2016, our cumulative net operating losses for U.S. federal income tax purposes, which may be carried forward to offset future taxable income, were $2.6 billion. Our ability to utilize these NOLs will expire from 2027 through 2031. Currently, approximately $161.3 million of these NOLs are subject to limitation under Section 382. Our NOLs and certain built-in losses could be substantially further limited if we experience an "ownership change," as defined in Section 382.

Section 382 limits the ability of a corporation that experiences an "ownership change" to utilize its NOLs and certain built-in losses after the ownership change. An ownership change is generally a change in ownership of more than 50 percentage points of a corporation's stock over a rolling 3-year period. These rules generally operate by focusing on ownership changes among shareholders owning directly or indirectly 5% or more of the stock of a corporation (including for this purpose certain groups of shareholders each of whom owns less than the 5% threshold) or certain changes in ownership arising from a new issuance or a redemption of stock by the corporation. Generally, under Section 382, in the event of an ownership change, the amount of taxable income that a corporation can offset with its "pre-change losses" (which includes its NOLs generated before the ownership change) is restricted to an annual amount equal to the equity value of the corporation immediately prior to the ownership change multiplied by the long-term tax-exempt rate.

We have generated significant NOLs and, depending upon our operating performance in future periods, we may continue to generate additional NOLs. If we undergo an ownership change for purposes of

Section 382 as a result of future transactions involving our common shares, including purchases or sales of shares by 5% shareholders, our ability to utilize our NOLs and recognize certain built-in losses would be subject to limitation under Section 382. Depending on the resulting limitation, the utilization of a significant portion of our NOLs could be deferred or the NOLs could expire before we would be able to use them to offset positive taxable income in current or future tax periods. Our inability to utilize our NOLs could have a negative impact on our financial position and results of our operations.

To protect against an unanticipated ownership change, SHL's Bye-laws generally prohibit transactions that result in the creation of a new "Five Percent Shareholder" or increases in the ownership interest of an existing Five Percent Shareholder. A "Five Percent Shareholder" for this purpose is defined in SHL's Bye-laws by reference to Section 382, and includes "public groups". A prohibited transaction under SHL's Bye-laws is void at inception in the absence of Board approval, provided that this will not preclude the settlement of any transaction in SHL securities entered into through the facilities of any applicable stock exchange on which SHL's securities may be listed (if any) or any applicable OTC (as such term is defined in our Bye-laws) on which the SHL securities may be listed. The SHL board of directors may decline to approve or register any transfer, purchase or sale of shares if it appears to the SHL board of directors, after taking into account, among other things, any reduction in voting power required pursuant to the Bye-laws, that any non-de minimis adverse tax, regulatory or legal consequences to SHL, any subsidiary of SHL, or any other direct or indirect holder of SHL's shares or its affiliates would result from such transfer owning "Controlled Shares" (including if such consequence arises as a result of any person owning "Controlled Shares" of more than 9.5% of the value of SHL or the voting shares of SHL).

One of the conditions precedent is that the Restructuring Transactions will not result, as determined by us in good faith, in a cumulative aggregate owner shift greater than 38.5 percentage points for Section 382 purposes. In the event we are unable to satisfy this condition, we may seek to revise the terms of the offer in accordance with applicable law.

We may incur tax liability as a result of the consummation of the Restructuring Transactions.

In general, a debtor will realize cancellation of indebtedness income ("CODI") upon satisfaction of its outstanding indebtedness for total consideration less than the amount of such indebtedness. The amount of such CODI, in general, is the excess of (a) the adjusted issue price of the indebtedness satisfied over (b) the sum of (x) the amount of cash paid and (y) the fair market value at the time of the exchange of any other consideration given in satisfaction of such indebtedness.

We expect that SGI will realize a significant amount of CODI as a result of the Restructuring Transactions. The amount of such CODI will depend in part on the fair market value as determined for U.S. federal income tax purposes, of the SHL Common Shares given in exchange for such Existing SGI Surplus Notes, which cannot be known with certainty until after the Settlement Date. We expect that SGI will be able to utilize its NOLs to offset all of such CODI. Any such CODI that cannot be offset with NOLs may cause SGI to incur tax liability.

While the Company currently has assurances that the imposition of any Bermuda tax would not apply until March 31, 2035, there can be no assurance that such date will be extended or that we will not become subject to tax subsequent to such date.

At the present time, there is no Bermuda income or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by the Company or by the Company's shareholders. The Bermuda Minister of Finance (the "Bermuda Minister"), under the Exempted Undertakings Tax Protection Act 1966, as amended, of Bermuda has granted the Company an assurance that if any legislation is enacted in Bermuda that would impose tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax will not be applicable to the Company or any of its operations, shares, debentures or other obligations until March 31, 2035. Given the limited duration of the Bermuda Minister's assurance, it cannot be certain that the Company will not be subject to any Bermuda tax after March 31, 2035. In the event that the Company becomes subject to any Bermuda tax after such date, this could have a material adverse effect on the group's financial condition and results of operations.

Risks Related to Ownership of Our Common Shares

Because we are a holding company and substantially all of our operations are conducted by our subsidiaries, our ability to meet any ongoing cash requirements, including any debt service payments or other expenses, and to pay dividends on our SGI preferred or SHL Common Shares in the future will depend on our ability to obtain cash dividends or other cash payments or obtain loans from our primary subsidiaries or raise capital, which are regulated insurance companies and whose ability to pay dividends or make loans to us is limited by regulatory and contractual constraints.

We conduct substantially all of our operations through our subsidiaries and our subsidiaries generate substantially all of our operating income and cash flow. The operations of our subsidiaries primarily consist of the run-off of our Financial Guarantee insurance business and SGI's operation of its wholly owned subsidiary, American Roads and, following the consummation of the Restructuring Transactions, any new business we may pursue. Our ability to meet our ongoing cash requirements, including any debt service payments or other expenses, and pay dividends on our common shares in the future will depend on our ability to raise new capital at SHL, generate new capital from new acquired businesses and to obtain cash dividends or other cash payments or obtain loans from our subsidiaries, which will also depend on the financial condition of our subsidiaries and the contractual and regulatory restrictions to which we are then subject. Our subsidiaries are separate and distinct legal entities that have no obligation to pay any dividends or to lend or advance us funds and may be restricted from doing so by contract, including other financing arrangements, charter provisions or applicable legal or regulatory requirements.

Under the NYIL, SGI may pay a shareholder dividend only if it files notice of its intention to declare such dividend and the amount thereof with the New York Superintendent and the New York Superintendent does not disapprove such dividend. NYIL contains a test governing the amount of dividends that SGI can pay in any year and, as a result of the application of such test, SGI cannot currently pay dividends. As part of the Restructuring Transactions, SGI is seeking a permitted practice from the NYDFS to reclassify certain elements of this test by resetting its unassigned funds (surplus) by transferring its gross paid-in and contributed surplus account to its earned surplus account. There can be no assurance that the NYDFS will allow the requested permitted practice or that any dividends or advances will be approved and if required dividends or advances are not approved, SHL has no other available sources of funding.

As of March 31, 2016, SHL had approximately $4.6 million of unrestricted cash and invested assets, which, under current projections, is likely to be depleted within approximately three years. If we are unable to obtain NYDFS approval for SGI to pay dividends, if we fail to receive a third party equity investment, or new businesses we may pursue do not generate cash, SHL may become insolvent.

There are provisions in our Bye-laws that, subject to certain exceptions, reduce the voting rights of common shares and preference shares (to the limited extent such preference shares have a right to vote) that are held by a person or group to the extent that such person or group holds more than 9.5% of the aggregate voting power of all common shares and preference shares entitled to vote on a matter.

In general, and except as provided below, shareholders have one vote for each common share held by them and are entitled to vote at all meetings of shareholders. However, if, and for so long as (and whenever), the shares of a shareholder would otherwise represent more than 9.5% of the aggregate voting power of all shares entitled to vote on a matter, including an election of directors, the votes conferred by such shares will be reduced by whatever amount is necessary such that, after giving effect to any such reduction (and any other reductions in voting power required by our Bye-laws), the votes conferred by such shares represent 9.5% of the aggregate voting power of all common shares entitled to vote on such matters. The same limitation would apply to holders of the Existing SHL Preferred Shares to the limited extent that such holders are entitled to vote on a matter under the Bye-laws, the Companies Act or otherwise.

Notwithstanding the above, after having applied the above as best as they consider reasonably practicable, the SHL board of directors may make such final adjustments to the aggregate number of votes conferred, directly or indirectly or by attribution, by the "Controlled Shares" of any "Person" that they consider fair and reasonable in the circumstances to ensure that such votes represent 9.5%. The SHL Board of Directors may take all other appropriate steps, and require such documentation, subject to reasonable confidentiality provisions, to effectuate the foregoing.

There are provisions in our Bye-laws which may limit a shareholder's voting rights if our Board of Directors

determines to do so to avoid certain material adverse legal, tax or regulatory consequences.

Our Board of Directors may limit a shareholder's voting rights where it deems it appropriate to do so to avoid certain material adverse tax, legal or regulatory consequences to us or any of our subsidiaries or any shareholder or its affiliates. These consequences may include subjecting us or our subsidiaries to insurance regulatory requirements in jurisdictions in which we would not otherwise be subject or subjecting us, or our subsidiaries or shareholders to adverse tax consequences due to a particular person's ownership of our shares. We also have the authority under our Bye-laws to request information from any shareholder for the purpose of determining ownership of controlled shares by such shareholder. It is expected that our Board of Directors would provide, to the extent they deem appropriate and without subjecting us or our shareholders to such material adverse consequences, appropriate notification to the applicable shareholder and an opportunity to make an appropriate presentation to our management or Board prior to so limiting any shareholders' voting rights.

There are provisions in our Bye-laws that may restrict shareholders' ability to transfer, sell or purchase common shares and, therefore, may affect the liquidity of common shares.

Our Board of Directors may decline to approve or register a transfer, sell or purchase of any common shares (1) if it appears to the Board of Directors, after taking into account the limitations on voting rights contained in our Bye-laws, that any adverse tax, regulatory or legal consequences to us, any of our subsidiaries or any of our shareholders or their respective affiliates would result from such transfer (other than such as our Board of Directors considers to be *de minimis*), (2) unless otherwise required by any applicable requirements of an applicable stock exchange or applicable over-the-counter market, if the Board of Directors does not receive a written opinion from counsel supporting the legality of the transaction under U.S. securities laws, (3) if the transferee has not been approved by applicable governmental authorities (if such approval is required) or if the transfer is not in compliance with applicable consent, authorization or permission of any governmental body or agency in Bermuda or (4) if after such transfer, the transferee would become a Five Percent Shareholder of us or the percentage share ownership of an existing Five Percent Shareholder would be increased. As a result, any shareholder who currently owns, or following the Restructuring Transactions will own, a number of Company common shares equal to or greater than 5% (as determined for Section 382 purposes) may not acquire, sell, transfer or otherwise dispose of any shares without prior Board approval, and any shareholder who currently owns, or following the Restructuring Transactions will own, fewer Company shares than 5% (as determined for Section 382 purposes) may not, without prior Board approval, acquire additional shares such that it accumulates ownership (as determined for Section 382 purposes) of an aggregate number of shares equal to or exceeding 5%. Any purported transfer of shares in violation of the foregoing is void *ab initio* under the Company's Bye-laws. These restrictions in our Bye-laws could adversely affect the liquidity of the common shares that you own.

In addition, the BMA will require us to obtain specific permission for transfers whereby persons are proposing to own 5% or more of our shares. There is a risk the BMA will not grant such specific permission.

Bermuda law and our Bye-laws provide broad indemnity and exculpation protections for the benefit of our officers, directors and employees.

Under Bermuda law and our Bye-laws, we will indemnify our officers, directors and employees to the full extent permitted by Bermuda law and none of our officers, directors or employees would be personally liable to us or our shareholders, unless in any such case such officer, director or employee is found, by a court of competent jurisdiction in a final judgment or decree not subject to appeal, guilty of any fraud or dishonesty in relation to us.

Provisions in our Bye-laws could impede an attempt to replace or remove our directors or change our direction or policies, which could diminish the value of our common shares.

Our Bye-laws contain provisions that may make it more difficult for shareholders to replace directors, or effect a change in corporate policy or direction, even if the shareholders consider it beneficial to do so. In addition, these provisions could delay or prevent a change of control that a shareholder might consider favorable. For example, these provisions may prevent a shareholder from receiving the benefit from any premium over the market price of our common shares offered by a bidder in a potential takeover. Even in the absence of an attempt to effect a change in management or a takeover attempt, these provisions may

adversely affect the prevailing market price of our common shares if they are viewed as discouraging takeover attempts in the future.

For example, our Bye-laws contain the following provisions that could have such an effect:

- election of our directors is staggered, meaning that the members of only one of three classes of our directors are elected each year;

- shareholders may not remove directors except for cause (as defined in our Bye-laws) and only by the affirmative vote of at least 66 2/3% of the votes cast at a general meeting; provided that the notice of any such meeting convened for the purpose of removing a director shall contain a statement of the intention to do so and be served on the director not more than 14 days before the meeting and at such meeting such director shall be entitled to be heard on the motion for such director's removal;

- if the controlled shares (as defined in our Bye-laws) of any person confer votes representing more than 9.5% of the aggregate voting power of all shares entitled to vote on a matter, including an election of directors, the number of such votes shall be reduced by whatever amount is necessary such that, after giving effect to any such reduction (and any other reductions in voting power required by our Bye-laws), votes conferred by such shares represent 9.5% of the aggregate voting power of all common shares entitled to vote on such matter;

- our Board of Directors may decline to approve or register the transfer of any common shares on our share register if it appears to the Board of Directors, after taking into account the limitations on voting rights contained in our Bye-laws, that any adverse tax, regulatory or legal consequences to us, any of our subsidiaries or any of our shareholders or their respective affiliates would result from such transfer (other than such as our Board of Directors considers to be *de minimis*) or, if the Board of Directors does not receive: (i) a written opinion from counsel supporting the legality of the transaction under U.S. securities laws, provided that no such opinion will be required if it is inconsistent with the applicable requirements of any applicable stock exchange and (ii) approval from appropriate governmental authorities if any such approval is required or if the transfer is not in compliance with applicable consent, authorization or permission of any governmental body or agency in Bermuda; and

- shareholders may not pass a resolution in writing with respect to any matter and shall only pass a resolution at a duly called meeting of shareholders.

There are regulatory limitations on the ownership and transfer of our common shares.

Specific permission is required from the BMA, pursuant to the provisions of the Exchange Control Act for all issuances and transfers of securities of Bermuda companies, other than in cases where the BMA has granted a general permission. The BMA, in its policy dated June 1, 2005, provides that where a Bermuda company does not have any "Equity Securities" listed on an "Appointed Stock Exchange," general permission is given for the issue and subsequent transfer of any securities of such company other than an "Equity Security". In addition, we had received a specific permission to this effect from the BMA. However, upon the suspension from trading of the SHL's common shares on the New York Stock Exchange ("NYSE"), which is an "Appointed Stock Exchange" under the Exchange Control Act, the specific permission granted to us and the general permission of the BMA under the Exchange Control Act allowing issues and transfers of our shares involving persons who are non-residents of Bermuda, so long as our common shares were listed on the NYSE, ceased to apply. We submitted a request to the BMA for (1) a specific consent with respect to any issues or transfers which occurred since the suspension of trading of our common shares and received the BMA's retroactive approval for such issues or transfers and (2) an umbrella consent permitting trading on the OTC Bulletin Board and the Pink Sheets without BMA consent on an individual basis but requiring that we submit certain information regarding a new shareholder acquiring 5% or more of our shares. In response to our request for an umbrella consent, the BMA gave its consent to all SHL share issues and transfers to any new or existing shareholders on an ongoing basis of shares issued and transferred, provided that such issues and transfers do not result in any such person holding 5% or more of our shares. However, the BMA will require us to obtain permission for transfers whereby persons are proposing to own 5% or more of our shares in addition a list of such persons (i.e., those shareholders holding in excess of 5% of our shares) as of December 31 is required to be provided to

the BMA in each year. Once such permission has been obtained for any person to hold 5% or more of the equity securities, the BMA's general permission for that person to obtain up to 50% of the equity securities of the company without the prior approval of the BMA, conditional upon subsequent notification to the BMA will apply.

No holder or group of holders acting in concert may acquire "control" of the Company without complying with significant requirements imposed by the NYIL. The NYIL broadly defines "control" to include the power to cause the direction of the management and policies of a person, and presumes that "control" exists where a person or group holds 10% or more of the SHL Common Shares. Generally, such requirements include first obtaining the approval of the NYDFS to acquire such control or an order confirming that control does not in fact exist, as well as certain ongoing disclosure requirements. There can be no assurance that the NYDFS would approve any such application or grant any such order in the event that an eligible holder were to hold 10% or more of the SHL Common Shares, whether as a result of the Restructuring Transactions or otherwise.

Our shareholders may have greater difficulties in protecting their interests than as a shareholder of a U.S. corporation.

We are organized under the law of Bermuda. As a result, the Companies Act applies to us as a Bermuda company, which differs in material respects from laws generally applicable to U.S. corporations and their shareholders, including the provisions relating to interested directors, amalgamations, mergers and acquisitions, takeovers, shareholder lawsuits and indemnification of directors. Taken together with the provisions of our Bye-laws, some of these differences may result in your having greater difficulties in protecting your interests as one of our shareholders than you would have as a shareholder of a U.S. corporation. This affects, among other things, the circumstances under which transactions involving an interested director are voidable, whether an interested director can be held accountable for any benefit realized in a transaction with us, what approvals are required for business combinations by us with a large shareholder or a wholly-owned subsidiary, what rights you may have as a shareholder to enforce specified provisions of the Companies Act or our Bye-laws, and the circumstances under which we may indemnify our directors and officers.

We are a Bermuda company and it may be difficult for our shareholders to enforce judgments against us or against our directors who may reside outside the United States.

We are incorporated under the laws of Bermuda. In addition, some of our directors and officers may reside outside the United States, and all or a substantial portion of their assets and our assets are or may be located in jurisdictions outside of the United States. Therefore, it may be difficult for investors to effect service of process within the United States upon our non-U.S. based directors and officers or to recover against us or such directors and officers or obtain judgments from U.S. courts against us or them, including judgments predicated upon the civil liability of the U.S. federal securities laws.

We have been advised by our Bermuda counsel, that there is no treaty in force between the United States and Bermuda providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. As a result, whether a U.S judgment would be enforceable in Bermuda against us or our directors and officers depends on whether the U.S. court that entered the judgment is recognized by the Bermuda court as having jurisdiction over us or our directors and officers, as determined by reference to Bermuda conflict of law rules. A judgment debt from a U.S. court that is final and for a sum certain based on U.S. federal securities laws will not be enforceable in Bermuda unless the judgment debtor had submitted to the jurisdiction of the U.S. court, and the issue of submission and jurisdiction is a matter of Bermuda (not U.S.) law.

In addition, and irrespective of jurisdictional issues, the Bermuda courts will not enforce a U.S. federal securities law that is either penal or contrary to Bermuda public policy. It is the advice of Appleby (Bermuda) Limited that an action brought pursuant to a public or penal law, the purpose of which is the enforcement of a sanction, power or right at the instance of the state in its sovereign capacity, will not be entertained by a Bermuda court. Certain remedies available under the laws of U.S. jurisdictions, including certain remedies under U.S. federal securities laws, would not be available under Bermuda law or enforceable in a Bermuda court, as they would be contrary to Bermuda public policy. Further, no claim may be brought in Bermuda against us or our directors and officers in the first instance for violation of U.S.

federal securities laws because these laws have no extraterritorial jurisdiction under Bermuda law and do not have force of law in Bermuda. A Bermuda court may, however, impose civil liability on us or our directors and officers if the facts alleged in a complaint constitute or give rise to a cause of action under Bermuda law.

CAPITALIZATION OF SHL

The following table sets forth our unaudited cash and cash equivalents and our unaudited capitalization as of March 31, 2016 on an actual basis and on a pro forma basis giving effect to the Restructuring Transactions. This table should be read in conjunction with "Management's Discussion and Analysis of GAAP Financial Condition and Results of Operations of SHL" and our historical consolidated financial statements and the related notes thereto.

	March 31, 2016	
	Actual	Pro Forma[1]
	(unaudited) (dollars in thousands)	
Cash and cash equivalents[2]	$ 171,677	$ 116,677
Debt (including current portion)[3]		
Existing Long-Term Surplus Notes	$ 229,776	$ 245,402
Existing Short-Term Surplus Notes	144,197	135,115
Total debt	$ 373,973	$ 380,517
Shareholders' Equity		
Series B Preferred Shares	13,453	13,453
Existing SHL Preferred Shares	163,162	—
Non-controlling interest in consolidated entity	2,957	2,957
SHL Common Shares (par value $0.01 per share, (i) Actual: 500,000,000 shares authorized; 59,314,204 shares issued; 56,269,616 shares outstanding; (ii) As Adjusted: 500,000,000 shares authorized; 89,613,228 shares issued and 86,568,640 shares outstanding) and additional paid-in capital	2,678,346	2,715,614
Accumulated deficit	(2,428,881)	(2,311,292)
Accumulated other comprehensive income	18,485	18,485
Total shareholders' equity	447,522	439,217
Total capitalization[4]	$ (73,549)	$ (58,700)

(1) Assumes that all Existing SHL Preferred Shares are converted into the SHL Consideration and utilizes assumptions noted in "Pro Forma Financial Information".

(2) Reflects the $55 million cash debt service payment on the Existing SGI Surplus Notes owned by holders of Existing SGI Surplus Notes other than SGI.

(3) Actual debt as of March 31, 2016 represents the carrying value of such debt.

(4) Total capitalization equals total debt less total shareholders' equity.

CAPITALIZATION OF SGI

The following table sets forth SGI's unaudited cash and cash equivalents and its unaudited capitalization (on a statutory basis) as of March 31, 2016 on an actual basis and on a pro forma basis giving effect to the Restructuring Transactions. This table should be read in conjunction with "Management's Discussion and Analysis of Statutory Financial Condition and Results of Operations of SGI" and our historical consolidated financial statements and the related notes thereto.

	March 31, 2016	
	Actual	**Pro Forma**
	(unaudited) (dollars in thousands)	
Cash, cash equivalents and short term investments[1]	$ 78,640	$ 23,640
Statutory capital and surplus		
Common capital stock	15,000	15,000
Preferred capital stock	200,000	200,000
Surplus notes	584,334	556,144
Gross paid in and contributed surplus[1]	2,046,972	—
Unassigned funds[1]	(1,757,763)	262,399
Total Statutory capital and surplus	$ 1,088,543	$1,033,543

(1) Pro forma reflects the application of a permitted practice to increase SGI's unassigned funds (surplus) by transferring its gross paid in and contributed surplus account to its earned surplus account which is subject to NYDFS approval and also utilizes other assumptions noted in "Pro Forma Financial Information."

MANAGEMENT'S DISCUSSION AND ANALYSIS OF GAAP FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF SHL

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our GAAP financial statements. The following discussion contains forward-looking statements based upon current expectations and related to future events and our future financial performance that involve risks and uncertainties. Our actual results and timing of events could differ materially. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below and in our "Risk Factors."

References to the "Company," "we," "us" and "our" mean SHL and, unless otherwise indicated, its subsidiaries.

Executive Summary

SHL is a Bermuda exempted company incorporated with limited liability, which was formed on March 17, 2006. SHL has two reportable business segments: Financial Guarantee and Other (or non-insurance businesses).

SHL's Financial Guarantee segment is conducted through its primary operating subsidiaries, SGI and SCAI. We do not currently write new business, having ceased writing substantially all new business in January 2008 as a result of material credit impairments stemming from the global financial crisis. SHL's Financial Guarantee business is and continues to be in active run-off which is being effectuated by transaction terminations and commutations, asset recovery initiatives, scheduled amortization of contracts and asset management activities. Our in-force net par outstanding has declined from $133.7 billion in 2008 to $27.2 billion as of March 31, 2016. During the same period, SHL's Total shareholders' equity increased from a low of $(1,366.2) million to $447.5 million as of March 31, 2016.

SHL's other, or non-insurance, segment is primarily conducted through Pike Pointe which owns and operates a portfolio of toll road assets located in Alabama and Michigan and holds options to purchase certain real estate assets and a parking concession located in Detroit, Michigan. The Company has and continues to take various operating and strategic steps to preserve and improve the value of the assets and its business.

The Company's strategy has the primary goals of stabilizing and reducing risk to the insurance platforms and maximizing value for all stakeholders. The Restructuring Transactions described herein are a key step of the Company's strategic plan, designed to:

1. Simplify the Company's capital structure;
2. De-lever and improve the Company's financial condition by capturing discount on the exchanged securities;
3. Enhance and protect key assets; and
4. Position SHL to raise new capital in order to pursue future business opportunities.

Following completion of the Restructuring Transactions, SHL's primary goal is to continue

to maximize value through the following strategic activities:

- Increasing the value of its investment in SGI and SCAI by actively managing their assets and liabilities. In particular, we will continue to actively seek to (i) remediate insured exposures (through our purchase on the open market or otherwise, commutation, defeasance or other restructuring) to minimize potential claim payments, maximize recoveries and mitigate potential losses, (ii) increase the Company's capital, financial position, liquidity, claims paying resources and reduce our liabilities (including through additional third-party capital), (iii) realize maximum value, monetize and/or finance our assets (including litigation recoveries and realizing value from our non-core subsidiaries), (iv) enhance returns from our investments to match our long-term

liabilities, and (v) take other actions to enhance our current and future financial, liquidity, capital and surplus position.

- Identify new growth and value creating opportunities for SHL through the development and acquisition (either through a merger, purchase, business combination or other form of acquisition) of businesses in such areas as insurance, credit, asset management and advisory, amongst others.

SHL will also seek to raise capital in order to pursue new businesses. SHL may raise such funds by issuing debt, preferred equity or common equity either to a third-party investor, to existing investors through a rights offering or as consideration for a transaction. SHL may enter into an agreement to issue and may issue such debt or equity before identifying a specific business expansion opportunity. As of the date hereof, SHL has not agreed to the issuance of any debt or equity other than as described herein. In addition, there can be no guarantee that SHL will pursue or consummate any expansion of its business. Finally, tax considerations may limit SHL's ability to raise new capital from a third-party investor or the amount of capital such investor may invest.

Overview of Our Business

General

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

SHL's principal insurance business operating subsidiaries consist of SGI and SGI's wholly-owned subsidiary SCAI.

SGI is an insurance company domiciled in the State of New York, regulated by the NYDFS, which at one time was licensed to conduct financial guarantee insurance business throughout all 50 of the United States and other jurisdictions. SGI collects and expects to continue to collect premiums on existing business; however, because of the events discussed herein, SGI ceased writing all new business in January 2008 and is no longer licensed to do so in certain states and other jurisdictions. SGI does not intend to seek licenses to write new business.

SCAI is a New York domiciled financial guarantee insurance company also regulated by the NYDFS, which was formed on April 1, 2009 and commenced operations on July 15, 2009, in connection with the restructuring of SGI as discussed in Note 3 to the Company's audited consolidated financial statements included elsewhere herein. SCAI collects and expects to continue to collect premiums on existing business but is prohibited from writing new business and, therefore, does not intend to seek to obtain licenses to transact new insurance business in any other state or jurisdiction.

Prior to January 2008, the Company was primarily engaged in the business of providing (i) credit enhancement on fixed and variable rate debt obligations through the issuance of financial guarantee insurance policies and (ii) credit protection on specific referenced credits or on pools of specific referenced credits through the issuance of financial guarantee insurance policies covering the obligations under CDS contracts issued by trusts established to comply with the NYIL. These trusts are consolidated by the Company.

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

Since 2009, the Company has engaged in various restructuring, commutation, remediation and other transactions to reduce its net par outstanding, improve surplus and increase its liquidity. However, we continue to face significant surplus and liquidity issues.

Pike Pointe

Pike Pointe is a wholly owned subsidiary of SGI which was formed as a Delaware limited liability company to hold 100% of the equity ownership of its subsidiaries that own and operate American Roads and other assets. The financial statements of Pike Pointe for years ended December 31, 2014 and December 31, 2015 have been included in the Company's audited consolidated financial statements.

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

2015 MTA Amendment

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

On August 24, 2015, the Company entered into an amendment to the 2009 MTA (the "2015 MTA Amendment") and entered into a new intercompany capital support agreement (the "SCAI Capital Support Agreement"). The 2015 MTA Amendment, among other things, eliminates or modifies certain contractual constraints such as prohibitions on certain financings and other means of generating liquidity, reduces the requisite consenting percentages for future amendments from 75% to 50% and bifurcates voting between certain SGI-only matters and SCAI-only matters. The SCAI Capital Support Agreement provides that SGI, under certain circumstances, would be obligated to purchase up to $100 million of additional SCAI surplus notes to bolster SCAI's statutory surplus if SCAI's surplus falls below $100 million.

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

In connection with the 2009 MTA, the Company invested in a fund (the "RMBS Fund") that executed certain transactions designed to effectively defease or, in-substance, commute the Company's exposure on certain of its financial guarantee insurance policies written on RMBS. The RMBS Fund purchased certain of such RMBS in return for a trust certificate of an owner trust representing the uninsured cash flows of such RMBS ("Uninsured Cash Flow Certificate") plus a cash payment. In general, the RMBS Fund contributed any such purchased RMBS (and certain of the Company's reimbursement rights) to separate owner trusts in return for certificates representing the cash flows consisting of insurance payments made on the policies insuring such RMBS ("Insurance Cash Flow Certificates"). In return for such investments, the Insurance Cash Flow Certificates were distributed to the Company. The Company will, should the cash flows from the underlying RMBS transaction be sufficient, receive certain reimbursement payments in respect of insurance payments previously made by the Company on such RMBS. The Company also entered into several alternative transactions effectively replicating the economics of the RMBS Offer.

In addition to the RMBS Offer, as part of its on-going strategic plan, the Company directly purchased certain RMBS and other securities that it had insured. Certain of these directly purchased securities were exchanged by the Company for Insurance Cash Flow Certificates and Uninsured Cash Flow Certificates using the mechanics described above. The Uninsured Cash Flow Certificate may either be held or resold by the Company. The Company continues to purchase certain of its insured RMBS and other securities.

During the years ended December 31, 2015 and 2014, the Company purchased additional RMBS and other securities with an aggregate principal exposure of approximately $42.9 million and $256.5 million, respectively, for consideration of approximately $39.1 million and $180.6 million, respectively (excluding VIE activity).

The following table illustrates the components of net receivable on insurance cash flow certificates on the accompanying consolidated balance sheets at December 31, 2015 and 2014.

(U.S. dollars in thousands)	2015	2014
Receivables on insurance cash flow certificates	$399,282	$462,858
Deferred gain	(84,870)	(86,560)
Receivables on insurance cash flow certificates, net	314,412	$376,298

Regulatory

As of March 31, 2016, in 28 states or jurisdictions SGI's license to conduct insurance business in such states or jurisdictions was suspended, revoked, had an order of impairment placed against it, expired, was voluntarily surrendered by SGI, or SGI agreed to cease writing business in such states or jurisdictions, or SGI opted not to renew its license in such states or jurisdictions. Although management anticipates that SGI will be able to continue to collect premiums on existing business in such states or jurisdictions, additional states or jurisdictions may suspend SGI's license, place an order of impairment against it, or in lieu of a suspension or order, SGI may voluntarily agree to cease writing business and let such licenses expire or opt not to renew its licenses in additional states or jurisdictions.

Insured Portfolio

Set forth below is certain historical information regarding our in-force reinsurance of financial guarantee insurance policies and CDS contracts issued by other financial guarantee companies.

The following table sets forth the Company's in-force guaranteed principal and interest exposure by bond sector as of March 31, 2016, December 31, 2015 and 2014, respectively:

Bond Exposure
(U.S. dollars in millions)

	GPO [1]			NPO [1]		
	March 31, 2016	December 31, 2015	December 31, 2014	March 31, 2016	December 31, 2015	December 31, 2014
Public Finance						
Special Revenue	$ 5,873	$ 6,068	$ 7,933	$ 5,730	$ 5,924	$ 7,788
General Obligation	4,017	4,379	7,700	4,017	4,379	7,700
Utility	2,558	2,659	3,944	2,558	2,659	3,944
Non Ad Valorem	1,604	1,721	2,587	1,604	1,721	2,587
Appropriation	816	861	1,333	816	861	1,333
Other	4	4	5	4	4	5
Total Public Finance	$14,872	$15,692	$23,502	$14,729	$15,548	$23,357
Asset-Backed Securities						
RMBS	$ 534	$ 559	$ 971	$ 526	$ 552	$ 963
Commercial ABS	54	72	178	54	72	178
Total Asset-Backed Securities	$ 588	$ 631	$ 1,149	$ 580	$ 624	$ 1,141
Collateralized Debt Obligations						
Cash flow CDO	$ 724	$ 897	$ 2,216	$ 724	$ 897	$ 2,216
Synthetic CDO	659	771	1,043	659	771	1,043
Total Collateralized Debt Obligations	$ 1,383	$ 1,668	$ 3,260	$ 1,383	$ 1,668	$ 3,260
Structured Single Risk						
Power & Utilities	$ 5,701	$ 5,780	$ 6,700	$ 5,702	$ 5,780	$ 6,700
Global Infrastructure	4,913	4,896	6,296	4,320	4,275	6,244
Specialized Risk	462	474	842	462	474	842
Total Structured Single Risk	$11,076	$11,150	$13,838	$10,484	$10,529	$13,786
Total Outstanding	$27,919	$29,141	$41,749	$27,176	$28,369	$41,544

(1) GPO and NPO represent Gross Principal Outstanding and Net Principal Outstanding, respectively.

The following table sets forth the number of years to maturity of the Company's in-force guaranteed principal and interest exposure at March 31, 2016:

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

	Scheduled Net Debt Service	NPIO[1]
2016 Q1	$ —	$43,001
2016 Q2	1,112	41,889
2016 Q3	927	40,962
2016 Q4	747	40,215
Total 2016	$ 2,786	
2017	$ 2,596	$37,619
2018	2,071	35,548
2019	1,816	33,732
2020	1,975	31,757
Total 2017 – 2020	$ 8,458	
2021 – 2025	$ 8,817	$22,940
2026 – 2030	6,417	16,523
2031 – 2035	5,151	11,372
2036 and thereafter	11,372	—
Total 2021 – thereafter	$31,757	
Total	$43,001	

(1) NPIO represents Net Principal and Interest Outstanding.

The following table sets forth the Company's in-force guaranteed principal exposure by geographic concentration at March 31, 2016, December 31, 2015 and 2014, respectively:

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

	GPO			NPO			% NPO		
	March 31, 2016	December 31, 2015	December 31, 2014	March 31, 2016	December 31, 2015	December 31, 2014	March 31, 2016	December 31, 2015	December 31, 2014
United States									
California	$ 3,339	$ 3,527	$ 4,567	$ 3,295	$ 3,483	$ 4,522	12.2%	12.2%	10.9%
New York	1,900	1,916	2,510	1,900	1,916	2,510	7.0	6.8	6.0
Texas	988	1,074	1,439	988	1,074	1,439	3.6	3.8	3.5
Florida	806	816	1,647	706	716	1,547	2.6	2.5	3.7
Virginia	642	643	657	642	643	657	2.4	2.3	1.6
Colorado	554	556	842	554	556	842	2.0	2.0	2.0
Alabama	551	570	958	551	570	958	2.0	2.0	2.3
Washington	509	510	594	509	510	594	1.9	1.8	1.4
Georgia	475	484	685	475	484	685	1.7	1.7	1.6
District of Columbia	462	465	477	462	465	477	1.7	1.6	1.1
Illinois	444	551	1,784	444	551	1,784	1.6	1.9	4.3
Pennsylvania	434	582	1,033	434	582	1,033	1.6	2.1	2.5
Ohio	431	452	605	431	452	605	1.6	1.6	1.5
Tennessee	407	421	594	407	421	594	1.5	1.5	1.4
Puerto Rico[5]	389	396	470	389	396	470	1.4	1.4	1.1
New Jersey	355	419	610	355	419	610	1.3	1.5	1.5
Massachusetts	293	296	436	293	296	436	1.1	1.0	1.0
South Carolina	289	289	496	289	289	496	1.1	1.0	1.2
Other[1]	3,182	3,305	5,383	3,182	3,305	5,382	11.7	11.7	13.1
Non-PF Multi[2][3]	1,638	1,973	4,000	1,631	1,966	3,993	6.0	6.9	9.6
Total United States	$18,088	$19,245	$29,787	$17,937	$19,094	$29,634	66.0%	67.3%	71.3%
International									
United Kingdom	$ 6,238	$ 6,399	$ 7,125	$ 5,646	$ 5,778	$ 7,073	20.9%	20.4%	17.2%
Australia	1,371	1,305	1,638	1,371	1,305	1,638	5.0	4.6	3.9
Chile	526	509	654	526	509	654	1.9	1.8	1.6
New Zealand	491	485	593	491	485	593	1.8	1.7	1.4
Netherlands	306	298	513	306	298	513	1.1	1.1	1.2
Other[1]	806	807	1,173	806	807	1,173	3.0	2.8	2.8
Non-PF Multi[2][4]	93	93	266	93	93	266	0.3	0.3	0.6
Total International	$ 9,831	$ 9,896	$11,962	$ 9,239	$ 9,275	$11,910	34.0%	32.7%	28.7%
Total Par Outstanding	$27,919	$29,141	$41,749	$27,176	$28,369	$41,544	$100.0%	$100.0%	$100.0%

(1) Single state/country with NPO 1% of the total exposure plus any multi-state/country Public Finance exposures.

(2) Non-Public Finance deals with underlying securities in multiple states/countries.

(3) Consists of $1,077 million, $1,370 million and $2,746 million as of March 31, 2016, December 31, 2015 and December 31, 2014, respectively, in CDO net par, $554 million, $596 million and $1,103 million as of March 31, 2016, December 31, 2015 and December 31, 2014, respectively, in ABS net par.

(4) Consists of $93 million, $93 million and $266 million as of March 31, 2016, December 31, 2015 and December 31, 2014, respectively, in SSR net par.

(5) Historically, there was no legal framework to restructure the debts of the Commonwealth and its municipalities and public corporations such as PREPA. On June 30, 2016, PROMESA was enacted by the President, which provides Puerto Rico and its instrumentalities with both an in-court and out-of-court process to restructure debts and bind holdouts. In addition, on April 6, 2016, the Commonwealth enacted the Moratorium Act, which empowers the governor to declare a moratorium on Puerto Rico's debt payments on an entity-by-entity basis and to stay creditor remedies. The Moratorium Act followed the Puerto Rico Public Corporation Debt Enforcement and Recovery Act, enacted in June 2014 by the Commonwealth to provide a restructuring framework for its public corporations and ruled unconstitutional by the U.S. Supreme Court on June 13, 2016.

Against this legislative backdrop, in August 2014, SGI, PREPA's other financial guarantors, an ad hoc group of bondholders and PREPA's bank lenders entered into a forbearance agreement with PREPA, which was extended multiple times. On November 5, 2015, PREPA entered into the RSA with the ad hoc bondholder group and the bank lenders, which, among other things, contemplates a recovery plan involving an exchange at 85% of the original principal value of existing PREPA power revenue bonds for new securitization bonds. The RSA was amended and restated on December 23, 2015 to add the terms of a restructuring of bonds insured by National Public Finance Guarantee Corp. and Assured Guaranty Municipal Corp, and has been amended multiple times since to extend milestone deadlines and implement other modifications. Pursuant to the first supplement to the RSA, dated as of June 29, 2016, PREPA and SGI reached an agreement with respect to the treatment of PREPA power revenue bonds insured or owned by SGI, which contemplates, among other things, SGI's purchase of PREPA power revenue bonds to fund certain upcoming obligations to bondholders. The recovery plan contemplated by the RSA is subject to certain conditions precedent, including approval by the Puerto Rico Energy Committee and the assignment of an investment grade to the new securitization bonds.

On July 31, 2015, SGI and PREPA's other financial guarantors purchased $128 million of new PREPA power revenue bonds to fund in part PREPA's July 1, 2015 payment of principal and interest due to its bondholders, of which SCAI purchased approximately $10 million pursuant to an assignment (under the Public Finance Reinsurance Agreement) by SGI of its right to acquire the bonds. The bonds, which accrued interest, payable monthly, at a 7.25% annual rate and had a yield-to-maturity of 12%, matured on January 1, 2016 and were paid in full. On January 27, 2016, certain bondholders and PREPA's other financial guarantors entered into an agreement to purchase $111 million of new PREPA power revenue bonds to fund PREPA's January 1, 2015 payment of interest due to its bondholders, which closed on June 8, 2016. On June 29, 2016, certain bondholders, SGI and PREPA's other financial guarantors purchased $263.8 million of new PREPA power revenue bonds to fund in part PREPA's July 1, 2016 payment of principal and interest due to its bondholders, of which SCAI purchased approximately $38.5 million pursuant to an assignment by SGI of its right to acquire the bonds. The bonds held by SCAI accrue interest, payable monthly, at a 7.5% annual rate, have a yield-to-maturity of 7.5% and mature on January 1, 2020 and July 1, 2020.

Exposure to Residential Mortgage Market

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

As of March 31, 2016, the Company's total net direct exposure to RMBS aggregated approximately $0.5 billion (the amount excludes exposure related to guarantees which were effectively defeased or, in-substance, commuted pursuant to ICFs — see Note 3 to the Company's audited consolidated financial statements), representing approximately 1.9% of its total in-force guaranteed net principal outstanding at such date. The RMBS exposure consisted of various collateral types as set forth in the table below. The tables below also set forth the Company's internal ratings, as well as the ratings of certain rating agencies, of the insured transactions at March 31, 2016 (excluding exposure related to guarantees which were effectively defeased or, in-substance, commuted pursuant to ICFs as discussed above).

Exposure to RMBS

The following table presents the net principal outstanding for the Company's insured RMBS portfolio by type of collateral[1] as of March 31, 2016, December 31, 2015 and 2014, respectively:

RMBS Exposure (U.S. dollars in millions)

	NPO			% NPO		
	March 31, 2016	**December 31, 2015**	**December 31, 2014**	**March 31, 2016**	**December 31, 2015**	**December 31, 2014**
Prime (1st lien)	$ 29	$ 31	$ 37	5.5%	5.6%	3.9%
Prime (2nd lien)	18	20	28	3.4	3.6	2.9
Prime (HELOC)	131	139	179	24.9	25.2	18.6
Alt-A (1st lien)	29	30	353	5.4	5.4	36.5
Alt-A (2nd lien)	5	5	6	0.9	0.9	0.6
Subprime (1st lien)	267	276	292	50.9	50.0	30.4
Subprime (2nd lien)	21	23	35	4.0	4.2	3.6
Subprime (1st lien) – International . . .	26	28	33	5.0	5.1	3.5
Total RMBS Outstanding	$526	$552	$963	100.0%	100.0%	100.0%

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

The following table presents the net principal outstanding and net reserves for unpaid losses for the Company's insured RMBS portfolio by year of origination (year the guarantee was underwritten and issued) as of March 31, 2016. Net principal outstanding in the table below excludes principal effectively defeased or, in-substance, commuted by the Company in connection with its acquisition of ICFs, whereas net reserves for unpaid losses in the table below are reported on the same basis as reflected in the Company's balance sheet (not adjusted to reflect reserves effectively defeased or, in-substance, commuted pursuant to the Company's acquisition of ICFs).

RMBS Exposure
(U.S. dollars in millions)

	2004	2005	2006	2007	Total
Prime/Alt-A	$ 96	$ 43	$ 65	$ 8	$212
Subprime	34[1]	93	—	187	314
Total RMBS Outstanding	$130	$136	$ 65	$195	$526
(U.S. dollars in millions)					
Net cash reserves for unpaid losses[2]	54	143	246	195	638

(1) Includes $0.5 million relating to business underwritten and issued in 1999.

(2) As described further in Note 21 to the Company's audited consolidated financial statements, net cash reserves for unpaid losses reflect the effect of the JPMorgan settlement.

The following tables show the Company's current internal and rating agency ratings on all of the Company's direct RMBS exposure by deal, grouped by collateral type as of March 31, 2016. The Company's internal ratings are based on its internal credit assessment of each transaction taking into account the overall credit strengths and weaknesses, transaction structure and the trends in the asset sector. The Company bases its analysis on information received from the trustees or from the issuer, as well as on-site visits to issuers, servicers, collateral managers and project sites. Modeling results are also considered. The Company also takes into consideration the rating agencies' rationale for their ratings; however, variations may exist between the Company's ratings and the ratings of the rating agencies. Rating agencies may change their ratings on obligations on a frequent basis and in some cases ratings issued by ratings agencies may be withdrawn by such ratings agencies. Accordingly, the following tables may not reflect the ratings agencies most current published ratings.

RMBS Ratings
(U.S. dollars in millions)

	Vintage	Internal Rating	S&P	Moody's Rating[1]	NPO
Prime (1st lien)					
1.	2004	bbb+	NR	Ba2	$ 17
2.	2004	aa	AA+	NR	8
3.	2004	aa	AA+	Bal	4
Total					$ 29
Prime (2nd lien)					
1.	2006	d	NR	C	$ 18
Total					$ 18
Prime (HELOC)					
1.	2004	d	CCC	Ca	$ 39
2.	2004	d	CCC	Ca	28
3.	2005	d	NR	Ca	14
4.	2006	d	NR	C	31
5.	2006	d	NR	Ca	14
6.	2006	d	NR	Ca	2
7.	2006	d	NR	Ca	—
8.	2007	d	NR	Ca	3
Total					$131

	Vintage	Internal Rating	S&P	Moody's Rating[1]	NPO
Alt-A (1st lien)					
1.	2005	b	AA+	Baa3	$ 22
2.	2005	d	NR	Caa2	7
3.	2007	d	NR	C	—
Total					$ 29
Alt-A (2nd lien)					
1.	2007	d	NR	Caa1	$ 5
2.	2007	d	D	B1	—
Total					$ 5
Subprime (1st lien)					
1.	1999	b	NR	Caa1	$ —
2.	2004	b-	A	Ba2	15
3.	2004	a+	AAA	Aa2	12
4.	2004	aa	AA+	A1	7
5.	2005	d	CCC	—	93
6.	2005	aa	AA-	Aa3	—
7.	2007	c	CCC	C	140
Total					$267
Subprime (2nd lien)					
1	2007	bb	CCC	Ba2	$ 15
2.	2007	c	CC	C	3
3.	2007	c	CC	Ca	3
Total					$ 21
Subprime (1st lien) – International					
1.	2007	bbb	BBB	Baa2	$ 26
Total					$ 26
Total RMBS Outstanding					$526

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

Exposure to CDOs

The following table presents the net notional exposure of the Company's guaranteed CDOs by type[(1)] of referenced asset as of March 31, 2016, December 31, 2015 and 2014, respectively. A CDO is a security that is collateralized by, or synthetically references, a pool of debt obligations such as corporate loans, bonds and ABS:

CDO Exposure
(U.S. dollars in millions)

	NPO			% NPO			# of Credits		
	March 31, 2016	December 31, 2015	December 31, 2014	March 31, 2016	December 31, 2015	December 31, 2014	March 31, 2016	December 31, 2015	December 31, 2014
S nthetic CDO									
CMBS CDO	$ 574	$ 747	$ 893	41.6%	44.8%	27.4%	1	1	1
Corporate Synthetic CDO	150	150	150	10.8	9.0	4.6	1	1	1
Total Synthetic CDO	$ 724	$ 897	$1,043	52.4%	53.8%	32.0%	2	2	2
Cashflow CDO									
Euro CLO	$ 307	$ 298	$ 513	22.0%	17.8%	15.8%	1	1	1
US CLO	273	389	1,588	19.8	23.4	48.6	7	8	11
TRUPS CDO	77	82	114	5.6	4.9	3.5	4	4	5
ABS CDO	2	2	2	0.2	0.1	0.1	1	1	1
Total Cashflow CDO	$ 659	$ 771	$2,217	47.6%	46.2%	68.0%	13	14	18
Total Collateralized Debt Obligations Outstanding	$1,383	$1,668	$3,260	100.0%	100.0%	100.0%	15	16	20

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

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

The following table presents the net notional exposure of the Company's guaranteed CDOs by rating as of March 31, 2016 and December 31, 2015:

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

	NPO March 31, 2016	NPO December 31, 2015	% NPO March 31, 2016	% NPO December 31, 2015
AAA	$ 747	$ 858	54.0%	51.5%
AA	60	61	4.3	3.6
BBB	574	747	41.5	44.8
Below Investment Grade	2	2	0.2	0.1
Total Collateralized Debt Obligations Outstanding	$1,383	$1,668	100.0%	100.0%

(1) Based on S&P rating as reflected in the Company's records, if available, and internal rating if no S&P rating is available.

Segments

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

The following tables contain financial information for each reportable business segment for the three months ended March 31, 2016 and 2015:

(US. dollars in thousands)	Financial Guarantee Insurance 2016	Financial Guarantee Insurance 2015	Other 2016	Other 2015	Eliminations 2016	Eliminations 2015	Consolidated 2016	Consolidated 2015
Revenues								
Net premiums earned	$ 16,643	$ 13,797	$ —	$ —	$ —	$ —	$ 16,643	$ 13,797
Net investment income	10,083	10,056	447	120	—	—	10,530	10,176
Net realized (losses) gains on investments	(3,993)	2,144	1,020	(3)	—	—	(2,973)	2,141
Net (loss) earnings on insurance cash flow certificates	(12,970)	4,190	—	—	—	—	(12,970)	4,190
Toll revenue	—	—	5,949	5,232	—	—	5,949	5,232
Fees and other income	18	440	1,791	1,657	—	—	1,809	2,097
Net (loss) earnings on credit default and other swap contracts	(31,631)	79,694	—	—	—	—	(31,631)	79,694
Net change in fair value of consolidated VIEs	6,807	11,309	—	—	—	—	6,807	11,309
Total Revenues	(15,044)	121,630	9,208	7,006	—	—	(5,836)	128,636
Expenses								
Net losses and loss adjustment expenses	35,088	26,855	—	—	—	—	35,088	26,855
Amortization of deferred acquisition costs, net	2,508	2,107	—	—	—	—	2,508	2,107
Realized loss on interest rate derivative instrument	425	1,475	—	—	—	—	425	1,475
Interest expense	20,561	17,583	—	—	—	—	20,561	17,583
Operating expenses	15,074	18,313	5,815	4,412	—	—	20,889	22,725
Total Expenses	73,656	66,333	5,815	4,412	—	—	79,471	70,745
(Loss) Income before income taxes	(88,700)	55,297	3,393	2,594	—	—	(85,307)	57,891
Income tax (benefit) expense	(427)	(197)	1,134	889	(298)	—	409	692
Net (loss) income	$ (88,273)	$ 55,494	$ 2,258	$ 1,705	$ 298	$ —	$ (85,716)	$ 57,199
Total assets	$2,328,183	$2,337,113	$292,089	$288,612	$ —	$ —	$2,620,271	$2,625,725

The following tables contain financial information for each reportable business segment for the year ended December 31, 2015 and 2014:

(U.S. dollars in thousands)	Financial Guarantee Insurance 2015	Financial Guarantee Insurance 2014	Other 2015	Other 2014	Eliminations 2015	Eliminations 2014	Consolidated 2015	Consolidated 2014
Revenues								
Net premiums earned	$ 73,147	$ 69,775	$ —	$ —	$ —	$ —	$ 73,147	$ 69,775
Net investment income	41,809	39,687	990	503	—	—	42,799	40,190
Net realized (losses) gains on investments	(2,663)	321	(667)	(16)	—	—	(3,330)	305
Net (loss) earnings on insurance cash flow certificates	(55,578)	(165,362)	—	—	—	—	(55,578)	(165,362)
Toll revenue	—	—	25,298	23,295	—	—	25,298	23,295
Fees and other income	1,163	10,126	11,363	4,410	—	—	12,526	14,536
Net earnings on credit default and other swap contracts	139,891	123,889	—	—	—	—	139,891	123,889
Net change in fair value of consolidated VIEs	6,107	(58,504)	—	—	—	—	6,107	(58,504)
Total Revenues	203,876	19,932	36,984	28,192	—	—	240,860	48,124
Expenses								
Net (recoveries) losses and loss adjustment expenses	(149,278)	(18,183)	—	—	—	—	(149,278)	(18,183)
Amortization of deferred acquisition costs, net	9,962	11,979	—	—	—	—	9,962	11,979
Realized loss on interest rate derivative instrument	2,660	3,852	—	—	—	—	2,660	3,852
Interest expense	72,572	64,350	—	—	—	—	72,572	64,350
Operating expenses	61,695	57,037	24,442	29,469	—	—	86,137	86,506
Total Expenses	(2,389)	119,035	24,442	29,469	—	—	22,053	148,504
Income (loss) before income taxes	206,265	(99,103)	12,542	(1,277)	—	—	218,807	(100,380)
Income tax (benefit) expense	(2,410)	1,741	3,677	21	(140)	719	1,127	2,481
Net income (loss)	$ 208,675	$ (100,844)	$ 8,865	$ (1,298)	$ 140	$ (719)	$ 217,680	$ (102,861)
Total assets	$2,337,113	$2,664,238	$288,612	$231,513	$ —	$ —	$2,625,725	$2,895,751

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based on consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Actual results could differ from those estimates, and those differences may be material.

Critical accounting policies and estimates are defined as those that require management to make significant judgments, as well as those where results therefrom may be materially different under different assumptions and conditions. We have identified the accounting for losses and loss adjustment expenses, the valuation of CDS contracts and investments, premium revenue recognition, deferred acquisition costs, and deferred income taxes, as critical accounting policies.

An understanding of our accounting policies for these items is of critical importance to understanding our consolidated financial statements. The following discussion provides more information regarding the estimates and assumptions used for these items and should be read in conjunction with the notes to our consolidated financial statements.

Unearned Premium Revenue and Receivable for Future Premiums

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

Premium Revenue Recognition

Financial guarantee insurance and reinsurance enterprises recognize the premium from a financial guarantee insurance contract as revenue over the period of the contract in proportion to the amount of insurance protection provided. As premium revenue is recognized, a corresponding decrease in the unearned premium revenue occurs. The amount of insurance protection provided is a function of the insured exposure outstanding. Therefore, the proportionate share of premium revenue to be recognized in a given reporting period is a constant rate calculated based on the relationship between the insured exposure outstanding in a given reporting period compared with the sum of each of the insured exposure amounts outstanding for all periods.

The Company's accounting policies for the recognition of ceded premiums, ceding commissions and ceded losses and loss adjustment expenses under its ceded reinsurance contracts mirror the policies described herein for premium revenue recognition, deferred ceding commissions, and reserves for losses and loss adjustment expenses.

An issuer of an insured financial obligation may retire the obligation prior to its scheduled maturity through an outright extinguishment, which terminates the Company's obligation under its insurance policy. Accordingly, any retirement which results in the extinguishment of the Company's obligation under the financial guarantee contract will cause the Company to recognize any remaining unearned premium revenue on the insured obligation as premium revenue in the period the contract is extinguished to the extent the unearned premium revenue has been collected (such retirements are hereafter referred to as "Refundings").

Unpaid Loss and Loss Adjustment Expenses

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

Establishment of reserves for unpaid losses and loss adjustment expenses requires the use and exercise of significant judgment by management, including estimates regarding the occurrence and amount of a loss on an insured obligation. Actual experience may differ from estimates and such difference may be material, due to the fact that the ultimate dispositions of claims are subject to the outcome of events that have not yet occurred. Examples of these events include changes in the level of interest rates, credit deterioration of

insured obligations, and changes in the value of specific assets supporting insured obligations. Both qualitative and quantitative factors are used in establishing such reserves. In determining the reserves, management considers all factors in the aggregate, and does not attribute the reserve provisions or any portion thereof to any specific factor. Any estimate of future costs is subject to the inherent limitation on the Company's ability to predict the aggregate course of future events. It should, therefore, be expected that the actual emergence of losses and loss adjustment expenses will vary, perhaps materially, from any estimate.

The present value of net cash outflows is determined based on a risk free rate of interest commensurate with the expected duration of the related contract. For this purpose, the Company uses the rate on U.S. Treasury obligations with a duration consistent with the duration of the underlying insured obligation for U.S. dollar denominated insured obligations or the comparable risk free rate on foreign government obligations relating to insured obligations denominated in foreign currencies. The weighted average risk free rate at March 31, 2016 and December 31, 2015 and 2014 was 1.4%, 1.8% and 1.7%, respectively. A claim liability is subsequently remeasured each reporting period for increases or decreases due to changes in the magnitude and likelihood of default and potential recoveries, as well as changes in the risk free rate of interest. Subsequent changes to the measurement of claim liability are recognized as loss expense in the period of change. Measurement and recognition of loss liability is reported gross of any reinsurance. The Company estimates the likelihood of possible claims payments and possible recoveries using probability-weighted expected cash flows based on available information, including market information. Accretion of the discount on a claim liability, as well as any changes in the risk free rate of interest, are included in loss expense.

Loss reserves represent the Company's: (i) probability-weighted average estimate of the net present value of claims to be paid subsequent to the balance sheet date, less (ii) its probability-weighted average estimate of the net present value of recoveries subsequent to the balance sheet date and (iii) any unearned premium revenue relating to such guarantees at the end of the reporting period.

Loss reserves are generally determined using cash flow models to estimate the net present value of the anticipated shortfall between (i) scheduled payments on the insured obligation plus anticipated loss adjustment expenses and (ii) anticipated cash flow from the collateral supporting the obligation and other anticipated recoveries. A number of quantitative and qualitative factors are considered when determining or assessing the need for a case basis reserve. These factors may include the creditworthiness of the underlying issuer of the insured obligation, whether the obligation is secured or unsecured, the projected cash flow or market value of any assets that collateralize or secure the insured obligation, and the historical and projected loss rates on such assets. Other factors that may affect the actual ultimate loss include the state of the economy, changes in interest rates, rates of inflation and the salvage values of specific collateral. Such factors and the Company's assessment thereof will be subject to the specific facts and circumstances associated with the specific insured transaction being considered for loss reserve establishment.

Loss reserves on financial guarantee reinsurance assumed are generally established by the Company upon quarterly current notifications from ceding companies. There historically has been no time lag between the time the Company records an assumed case basis reserve and the time the Company's ceding companies record such reserves. For each notification of a ceded loss reserve from ceding companies, the Company conducts an examination of the basis of the ceding company's reserve estimate to ensure that the Company concurs with the ceding company's evaluation and conclusions. In certain instances, the Company may develop its own estimates of losses on assumed business due to refinements in the assumptions used in the Company's cash flow models based on research and information review. In other cases, when the Company has assumed loss reserves, it has concurred with the ceding companies' evaluation and conclusions with respect to such reserves and, accordingly, there has been no difference between the amount of loss reserves reported to the Company by its ceding companies and the amount it has recorded in its financial statements.

In assessing reserves for unpaid losses, the Company considers all available qualitative and quantitative evidence. Qualitative evidence may take various forms and the nature of such evidence will depend upon the type of insured obligation and the nature and sources of cash flows to fund the insured obligation's debt service. For example, such evidence with respect to an insured special revenue obligation such as an

obligation supported by cash flows from a toll road would consider traffic statistics such as highway volume and related demographic information, whereas an insured mortgage-backed securitization would consider the quality of the mortgage loans supporting the insured obligation including delinquency, default and foreclosure rates, loan to value statistics, market valuation of the mortgaged properties and other pertinent information. In addition, the Company will make qualitative judgments with respect to the amount by which certain other structural protections built into the transaction are expected to limit the Company's loss exposure. Examples of such structural protections may include: (i) rate covenants, which generally stipulate that issuers (i.e., public finance issuers) set rates for services at certain predetermined levels (i.e., water and sewer rates which support debt obligations supported by such revenues), (ii) springing liens, which generally require the issuer to provide additional collateral upon the breach of a covenant or trigger incorporated into the terms of the transaction, (iii) consultant call-in rights, which provide, under certain circumstances, for a consultant to be engaged to make certain binding recommendations, such as raising rates or reducing expenses, (iv) the ability to transfer servicing of collateral assets to another party, and (v) other legal rights and remedies pursuant to representations and warranties made by the issuer and written into the terms of such transactions. Quantitative information may take the form of cash flow projections of the assets supporting the insured debt obligation (which may include, in addition to collateral assets supporting the obligation, structural protections subordinate to the attachment point of the Company's risk, such as cash reserve accounts and letters of credit), as well as (to the extent applicable) other metrics indicative of the performance of such assets and the trends therein. The Company's ability to make a reasonable estimate of its expected loss depends upon its evaluation of the totality of both the available quantitative and qualitative evidence, and no one quantitative or qualitative factor is dispositive.

The following table sets forth certain information in regard to our net par outstanding as of March 31, 2016, December 31, 2015 and December 31, 2014 for SGI and SCAI:

Insured Portfolio — Net Par Outstanding
(U.S. dollars in millions)

SGI

	As of March 31, 2016		As of December 31, 2015		As of December 31, 2014	
	NPO	% NPO	NPO	% NPO	NPO	% NPO
Public Finance						
General Obligation	$ 157		$ 161		$ 209	
Special Revenue	78		108		127	
Utility	61		61		62	
Appropriation	11		12		17	
Other	4		4		5	
Non Ad Valorem	—		—		—	
Total Public Finance	$ 311	4.7%	$ 346	5.2%	$ 420	4.1%
Asset-Backed Securities						
RMBS	$ 526		$ 552		$ 963	
Commercial ABS	—		—		4	
Total Asset-Backed Securities	$ 526	8.0%	$ 552	8.3%	$ 967	9.4%
Collateralized Debt Obligations						
Cashflow CDO	$ 41		$ 42		$ 447	
Total Collateralized Debt Obligations	$ 41	0.6%	$ 42	0.6%	$ 447	4.3%
Structured Single Risk						
Global Infrastructure	$2,783		$2,710		$ 4,541	
Power & Utilities	2,504		2,560		3,125	
Specialized Risk	412		424		792	
Total Structured Single Risk	$5,699	86.7%	$5,694	85.8%	$ 8,458	82.2%
Total Outstanding	$6,577	100.0%	$6,634	100.0%	$10,292	100.0%

Notes:

Categories include domestic and international credits.

SCAI

	As of March 31, 2016		As of December 31, 2015		As of December 31, 2014	
	NPO	% NPO	NPO	% NPO	NPO	% NPO
Public Finance						
Special Revenue	$ 5,654		$ 5,816		$ 7,661	
General Obligation	3,859		4,218		7,490	
Utility	2,497		2,598		3,882	
Non Ad Valorem	1,604		1,721		2,587	
Appropriation	805		849		1,317	
Total Public Finance	$14,419	70.0%	$15,202	69.6%	$22,937	73.4%
Asset-Backed Securities						
Commercial ABS	$ 54		$ 72		$ 174	
Total Asset-Backed Securities	$ 54	0.3%	$ 72	0.3%	$ 174	0.6%
Collateralized Debt Obligations						
Cashflow CDO	$ 724		$ 897		$ 1,770	
Synthetic CDO	617		729		1,043	
Total Collateralized Debt Obligations	$ 1,341	6.5%	$ 1,626	7.5%	$ 2,813	9.0%
Structured Single Risk						
Power & Utilities	$ 3,198		$ 3,220		$ 3,574	
Global Infrastructure	1,537		1,565		1,704	
Specialized Risk	50		50		50	
Total Structured Single Risk	$ 4,785	23.2%	$ 4,835	22.2%	$ 5,328	17.0%
Total Outstanding	$20,599	100.0%	$21,735	100.0%	$31,252	100.0%

Notes:

Categories include domestic and international credits.

The following table sets forth certain information in regard to our closely monitored credits as of March 31, 2016, December 31, 2015 and December 31, 2014 for SGI and SCAI. Closely monitored credits are divided into four categories: (i) Loss List — credits where a loss is probable and reasonably estimable; (ii) Red Flag List — credits where a loss is possible but not probable or reasonably estimable, including credits where claims may have been paid or may be paid but full recovery is in doubt; (iii) Yellow Flag List — credits that the Company determines to be non-investment grade but a loss is unlikely, including credits where claims may have been paid or may be paid but reimbursement is likely; and (iv) Special Monitoring List — low investment grade credits where a material covenant or trigger may be breached and closer monitoring is warranted. Credits that are not closely monitored credits are considered to be fundamentally sound, normal risk.

Insured Portfolio — Watch List
As of March 31, 2016
(U.S. dollars in millions)

SGI

	As of March 31, 2016				
	Special Monitoring List	Yellow Flag List	Red Flag List	Loss List	Total
Number of credits	3	3	6	24	36
Remaining weighted-average contract period (in years)	13.7	6.1	6.3	10.5	7.9
Insured contractual payments outstanding:					
Principal	$255.5	$628.2	$1,003.7	$528.8	$2,416.2
Interest	132.1	32.9	246.0	164.2	575.1
Total	$387.6	$661.1	$1,249.7	$692.9	$2,991.3
Gross loss reserves	$ —	$ —	$ —	$ (26.1)	$ (26.1)
Net loss reserves	$ —	$ —	$ —	$ (65.6)	$ (65.6)

SGI

	As of December 31, 2015				
	Special Monitoring List	Yellow Flag List	Red Flag List	Loss List	Total
Number of credits	4	2	6	24	36
Remaining weighted-average contract period (in years)	7.2	19.2	5.1	10.5	7.7
Insured contractual payments outstanding:					
Principal	$752.1	$109.5	$ 963.8	$548.9	$2,374.3
Interest	141.9	25.9	228.7	171.5	567.9
Total	$894.0	$135.4	$1,192.5	$720.4	$2,942.3
Gross loss reserves	$ —	$ —	$ —	$ (36.7)	$ (36.7)
Net loss reserves	$ —	$ —	$ —	$ (63.4)	$ (63.4)

SGI

	As of December 31, 2014				
	Special Monitoring List	Yellow Flag List	Red Flag List	Loss List	Total
Number of credits	3	5	8	24	40
Remaining weighted-average contract period (in years)	18.2	4.5	6.0	10.8	8.5
Insured contractual payments outstanding:					
Principal	$319.4	$615.9	$1,294.8	$1,183.9	$3,414.0
Interest	242.8	178.3	350.1	319.8	1,091.1
Total	$562.2	$794.3	$1,644.9	$1,503.7	$4,505.1
Gross loss reserves	$ —	$ —	$ —	$ 107.0	$ 107.0
Net loss reserves	$ —	$ —	$ —	$ 93.8	$ 93.8

SCAI

	As of March 31, 2016				
	Special Monitoring List	Yellow Flag List	Red Flag List	Loss List	Total
Number of credits	16	12	1	4	33
Remaining weighted-average contract period (in years)	4.3	17.1	5.2	4.8	10.4
Insured contractual payments outstanding:					
Principal	$ 899.2	$1,056.1	$ 2.9	$278.9	$2,237.2
Interest	185.3	854.2	0.7	76.5	1,116.7
Total	$1,084.5	$1,910.3	$ 3.6	$355.4	$3,353.9
Gross loss reserves	$ —	$ —	$ —	$ 39.5	$ 39.5
Net loss reserves	$ —	$ —	$ —	$ 39.5	$ 39.5

SCAI

	As of December 31, 2015				
	Special Monitoring List	Yellow Flag List	Red Flag List	Loss List	Total
Number of credits	16	13	1	4	34
Remaining weighted-average contract period (in years)	2.8	16.9	5.1	5.1	9.9
Insured contractual payments outstanding:					
Principal	$ 993.6	$1,207.8	$ 3.2	$282.3	$2,486.9
Interest	124.0	965.6	0.7	84.5	1,174.9
Total	$1,117.6	$2,173.5	$ 3.9	$366.8	$3,661.8
Gross loss reserves	$ —	$ —	$ —	$ 26.7	$ 26.7
Net loss reserves	$ —	$ —	$ —	$ 26.7	$ 26.7

SCAI

	As of December 31, 2014				
	Special Monitoring List	Yellow Flag List	Red Flag List	Loss List	Total
Number of credits	22	16	3	2	43
Remaining weighted-average contract period (in years)	7.3	17.6	4.2	6.8	11.5
Insured contractual payments outstanding:					
Principal	$1,612.3	$1,447.4	$142.7	$212.7	$3,415.2
Interest	546.7	1,227.7	38.8	73.2	1,886.5
Total	$2,159.1	$2,675.1	$181.6	$286.0	$5,301.8
Gross loss reserves	$ —	$ —	$ —	$ 13.3	$ 13.3
Net loss reserves	$ —	$ —	$ —	$ 13.3	$ 13.3

The following table sets forth our guaranteed in-force net par outstanding as of March 31, 2016, December 31, 2015 and December 31, 2014.

Insured Portfolio — Distribution by Rating
(U.S. dollars in millions)

SGI

	As of March 31, 2016		As of December 31, 2015		As of December 31, 2014	
	NPO	% NPO	NPO	% NPO	NPO	% NPO
AAA	$ 93	1.4%	$ 95	1.4%	$ 398	3.9%
AA	357	5.4	395	6.0	708	6.9
A	1,250	19.0	1,275	19.2	1,682	16.3
BBB	3,175	48.3	3,188	48.1	4,556	44.3
Below Investment Grade	1,701	25.9	1,680	25.3	2,948	28.6
Total Net Par Outstanding	$6,577	100.0%	$6,634	100.0%	$10,292	100.0%

Notes:

Rating based on S&P bond rating as reflected in Syncora Guarantee's records, if available, and internal Syncora Guarantee's rating if no S&P bond rating is available.

Historical NPO has been adjusted to reflect updated ratings from rating changes during prior quarters.

SCAI

	As of March 31, 2016		As of December 31, 2015		As of December 31, 2014	
	NPO	% NPO	NPO	% NPO	NPO	% NPO
AAA	$ 1,485	7.2%	$ 1,613	7.4%	$ 2,317	7.4%
AA	6,460	31.4	6,664	30.7	8,754	28.0
A	7,076	34.3	7,465	34.3	12,400	39.7
BBB	4,190	20.3	4,473	20.6	6,206	19.9
Below Investment Grade	1,389	6.7	1,520	7.0	1,576	5.0
Total Net Par Outstanding	$20,599	100.0%	$21,735	100.0%	$31,252	100.0%

Notes:

Rating based on S&P bond rating as reflected in Syncora Capital Assurance's records, if available, and internal Syncora Capital Assurance's rating if no S&P bond rating is available.

Historical NPO has been adjusted to reflect updated ratings from rating changes during prior quarters.

Valuation of Credit Default Swaps

Prior to suspending writing substantially all new business, the Company issued CDS contracts and entered into arrangements with other issuers of CDS contracts to assume all or a portion of the risks in the CDS contracts they issued ("back-to-back arrangements") and, in certain cases, the Company purchased back-to-back credit protection on all or a portion of the risk from the CDS contracts it issued or assumed. Such back-to-back arrangements were generally structured on a proportional basis.

CDS contracts are derivative contracts which offer credit protection relating to a particular security or pools of securities, which are specifically referenced in the CDS contract. Under the terms of a CDS contract, the seller of credit protection (the issuer of the CDS contract) makes a specified payment to the buyer of such protection (the CDS contract counterparty) upon the occurrence of one or more credit events specified in the CDS contract with respect to a referenced security or securities. The terms of the CDS

contracts issued by the Company generally only require the Company to make a payment upon the occurrence of one or more specified credit events after exhaustion of various levels of subordination or first-loss protection. In addition, pursuant to the terms of the Company's CDS contracts, the Company is precluded from transferring such contracts to other market participants without the consent of the counterparty.

Securities or assets referenced in the Company's in-force CDS contracts primarily include structured pools of obligations, such as collateralized loan obligations, corporate CDOs and commercial mortgage-backed securities ("CMBS") CDOs. Such pools were rated investment-grade or better at the issuance of the CDS contract.

The Company's policy has been to hold its CDS contracts to maturity and not to manage such contracts to realize gains or losses from periodic market fluctuations. However, in certain circumstances, the Company may enter into an off-setting position or back-to-back arrangement, commute, terminate or restructure a CDS contract prior to maturity for risk management purposes (for example, upon a deterioration in underlying credit quality or for the purposes of managing its capital).

Typical market CDS contracts are standardized, liquid instruments that reference tradable securities such as corporate bonds. These market standard CDS contracts also involve collateral posting, and upon a default of the referenced obligation, can be settled in cash. In contrast, the Company's CDS contracts do not contain the typical CDS market standard features as described above but have been customized to replicate the Company's financial guarantee insurance. The Company's CDS contracts provide protection on specified obligations, such as those described above and, generally, contain some form of subordination prior to the attachment of the Company's liability. The Company is not required to post collateral and, upon an underlying default, the Company generally makes payments on a "pay-as-you-go" basis after the subordination in a transaction is exhausted.

The Company's payment obligations after a default vary by deal type. There are three primary types of policy payment requirements: timely interest and ultimate principal; ultimate principal only at final maturity; and payments upon settlement of individual collateral losses as they occur upon erosion of subordination. The Company's CDS contracts are generally governed by a single transaction International Swaps and Dealers Association Master Agreement relating only to that particular transaction/contract. Under most monoline financial guarantee standard termination provisions, there is no requirement for mark-to-market termination payments upon the early termination of a guaranteed CDS contract. However, substantially all of the Company's CDS contracts provided for mark-to-market termination payments following the occurrence of events that are outside the Company's control, such as SGI being placed into receivership or rehabilitation or a regulator taking control of SGI or, in some instances, SGI's insolvency. Pursuant to the 2009 MTA, substantially all of the Company's guarantees of CDS contracts that were not commuted were novated to SCAI and amended to remove any events triggering mark-to-market termination payments except for SCAI failing to make payment under the applicable contract or being placed into receivership or rehabilitation or a regulator taking control of SCAI. Under current market conditions, if the Company were required to pay such termination payments, it would result in a liability to the Company which would be substantially in excess of that currently recorded by the Company and its ability to pay. An additional difference between the Company's CDS contracts and the typical market standard CDS contracts is that, except in the circumstances noted above, there is no acceleration of the payment to be made under the Company's CDS contracts unless the Company, at its option, elects to accelerate. Furthermore, by law, the Company's guarantees are unconditional and irrevocable, and cannot be transferred to most other capital market participants as they are not licensed to write such business. However, through the purchase of back-to-back credit protection, the risk of loss (but not counterparty risk) on these contracts can be transferred to other financial guarantee insurance and reinsurance companies.

Set forth below is certain information regarding the Company's in-force CDS and other swap contracts as of March 31, 2016, December 31, 2015 and December 31, 2014, including the aggregate notional amount outstanding, the weighted average life of such contracts, and the ratings of obligations referenced in such contracts.

CDS Contracts

(U.S. dollars in millions)	As of March 31, 2016	December 31, 2015	December 31, 2014
Notional amount outstanding	$5,350	$5,699	$7,765
Weighted average life (years)	17.0	16.4	14.3
Percentage of referenced assets by rating [(1)]			
AAA	18.6%	19.5%	21.4%
At or above investment grade but below AAA	76.3	75.6	71.0
Below investment grade	5.1	4.9	7.6
Total	100.0%	100.0%	100.0%

(1) Based on S&P rating as reflected in the Company's records, if available, and internal rating if no S&P rating is available.

The following table provides the components of the net change in fair value of credit default and other swap contracts for the three months ended March 31, 2016 and 2015 and the years ended December 31, 2015 and 2014:

(U.S. dollars in thousands)	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015	Year Ended December 31, 2015	Year Ended December 31, 2014
Change in fair value of credit default and other swap contracts:				
Realized gains (losses) and other settlements:				
Net CDS contract premiums received and receivable	$ 1,212	$ 1,712	$ 6,366	$ 10,781
Net CDS contract losses paid and payable	—	(5,006)	(8,675)	(710)
Total realized gains and losses and other settlements	1,212	(3,294)	(2,309)	10,071
Unrealized gains (losses):				
Change in fair value of CDS contracts	(32,843)	82,988	142,200	113,818
Net change in fair value of credit default and other swap contracts[(1) (2)]	$(31,631)	$79,694	$139,891	$123,889

(1) The change in realized/unrealized gains relating to the CDS and other swap contracts still held as of March 31, 2016 and 2015 and December 31, 2015 and 2014 was $(31.6) million, $84.7 million, $148.6 million, and $124.6 million, respectively.

(2) Includes unrealized losses of $1.4 million, $1.7 million, $1.3 million and $8.9 million for interest rate swap contracts for the three months ended March 31, 2016 and 2015 and for the years ended December 31, 2015 and 2014, respectively.

Valuation Techniques — Credit Default Swap Contracts

The principal drivers of the fair value of the Company's CDS contracts include: (i) general market credit spreads for the type(s) of assets referenced in CDS contracts, (ii) the specific quality and performance of the actual assets referenced in the contracts, (iii) the amount of subordination in the transaction before the Company's liability attaches, (iv) other customized structural features of such contracts (*e.g.,* terms, conditions, covenants), (v) supply and demand factors, including the volume of new issuance, and (vi) the market perception of the Company's ability to meet its obligations under its CDS contracts which is factored into the Company's fair value estimates as discussed below.

The fair value of the Company's in-force portfolio of CDS contracts represents the net present value of the difference between the remaining uncollected premiums that the Company originally charged for credit protection and management's best estimate of what a financial guarantor of comparable credit worthiness would hypothetically charge to provide the same protection as of the measurement date. The hypothetical nature of this exit value is representative of the lack of a principal market for the Company's CDS contracts. In the absence of such a principal market, the Company believes other financial guarantors of comparable credit quality to the Company best represent the hypothetical exit market for the Company's CDS contracts. Fair value is defined as the price at which an asset or a liability could be bought or transferred in a current transaction between willing parties. Fair value is determined based on quoted market prices, if available. Quoted market prices are available only on a limited portion of the Company's in-force portfolio of CDS contracts. If quoted market prices are not available, fair value is estimated based on valuation techniques involving management's judgment. In determining the fair value of its CDS contracts, the Company uses various valuation approaches with priority given to observable market prices when they are available. Market prices are generally available for traded securities and market standard CDS contracts but are less available or unavailable for highly-customized CDS contracts. Most of the Company's CDS contracts are highly customized structured credit derivative transactions that are not traded and do not have observable market prices.

Key variables used in the Company's valuation of substantially all of its CDS contracts include the balance of unpaid notional, expected remaining term, fair values of the underlying reference obligations, reference obligation credit ratings, assumptions about current financial guarantee CDS fee levels relative to reference obligation spreads, the Non-Performance Risk (as defined and described below) of its subsidiaries with in-force CDS contract exposure, and other factors. Fair values of the underlying reference obligations are obtained from broker quotes when available, or are derived from other market indications such as new issuance and secondary spreads and quoted values for similar transactions and indices, CDX (which index is comprised of investment grade corporate credits), or CMBX (which is comprised of commercial mortgage-backed securities). The Company's valuation of such CDS contracts does not generally provide for any adjustment to broker quotes. While such broker quotes are non-binding, the brokers from whom the Company obtains such quotes actively monitor and participate in the markets where such collateral is traded. Accordingly, the Company believes that such brokers rely on observable market information to the greatest extent possible when determining such quotes; however, such brokers may also rely on their internal models and unobservable inputs in making such determinations.

Implicit in the fair values obtained by the Company on the underlying reference obligations are the market's assumptions about default probabilities, default timing, correlation, recovery rates and collateral values. In general, the Company is using a percentage of the credit spread over proxy index (the "premium percentage") that management believes is consistent with (i) historical premium pricing for high credit spread transactions and (ii) levels attainable in the market just prior to the collapse of the market for CDS from financial guarantors. This data indicates that this premium percentage decreases as a function of increasing underlying credit spreads. A component of this relationship is the lack of liquidity reflected in the credit spread (the liquidity premium) that has historically flowed directly to the CDS counterparty as the funding institution and to cover the funders' additional funding costs and risks. Using the historical data available, a regression analysis was completed to determine the approximate rate of change of the premium percentage as underlying credit spreads move up and down. The resulting relationship from these analyses were applied to the current credit spread levels of the underlying reference securities, or their proxy index, to generate the expected current premium for each outstanding CDS.

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

Such Non-Performance Risk was reflected in the fair value of the companies' CDS contracts by incorporating the estimated spreads at which the CDS contracts would trade on the companies, as discussed above, into the discount rate used. The companies estimated a discount rate for each CDS contract based

on the swap rate and the companies' estimated credit spread for the duration that is the closest to the remaining weighted average life of the obligation referenced in the CDS contract.

Since the estimate of fair value of the Company's CDS contracts reflects significant unobservable inputs, the Company's CDS contracts are categorized in Level 3 of the fair value hierarchy. See Note 8 to the SHL consolidated GAAP financial statements.

Valuation Techniques — Interest Rate Swap Guarantees

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

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

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

Non-Performance Risk

The Company considers the effect of nonperformance risk in determining the fair value of its CDS liabilities and the consolidated VIE liabilities. The fair value of the Company's CDS reflects the risk that SGI or SCAI, as applicable, will not be able to honor their obligations under their CDS contracts, or its Non-Performance Risk. Since neither SGI nor SCAI have an observable market credit spread, SGI and SCAI each measure their Non-Performance Risk based on market observable credit spreads of comparable financial guarantee insurance companies.

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

Set forth below is information regarding the Company's in-force CDS and other swap contracts and VIE liabilities as of March 31, 2016 and December 31, 2015, including the fair value of such contracts and VIE liabilities, the Non-Performance Risk discount on such contracts and VIE liabilities which is embedded in the credit default and other swap contracts and the VIE liabilities on the accompanying consolidated balance sheets:

	CDS and other swap contracts		VIE liabilities	
(U.S. dollars in millions)	**2016**	**2015**	**2016**	**2015**
Fair value, before giving effect to Non-Performance Risk . . .	$434.6	$404.0	$81.7	$86.5
Less:				
Non-Performance Risk	303.5	306.1	12.0	12.8
Fair value, after giving effect to Non-Performance Risk	$131.1	$ 97.9	$69.7	$73.7

Valuation of Investments

The Company has a formal review process for all debt securities in the Company's investment portfolio, including a review for impairment losses. Factors considered when assessing impairment include:

- a decline in the market value of a security by 20% or more below amortized cost for a continuous period of at least six months;
- a decline in the market value of a security for a continuous period of 12 months;
- recent credit downgrades of the applicable security or the issuer by rating agencies;
- the financial condition of the applicable issuer;
- whether loss of investment principal is anticipated;
- whether scheduled interest payments are past due; and
- whether the Company intends to sell the security prior to its recovery in fair value.

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

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

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

If it is determined that an impairment is other than temporary, then an impairment loss is recognized in the consolidated statements of operations equal to the difference between the investment's cost and its fair value at the balance sheet date for which the assessment is made. The measurement of the impairment shall not include partial recoveries after the balance sheet date. The fair value of the investment becomes the new cost basis of the investment and shall not be adjusted for subsequent recoveries in fair value. The Company's assessment of a decline in value includes management's current assessment of the factors noted above. If that assessment changes in the future, the Company may ultimately record a loss after having originally concluded that the decline in value was temporary.

Discussion of Consolidated Results of Operations for the Three Months Ended March 31, 2016 and 2015

Consolidated Results of Operations

The following table presents consolidated statements of operations for the three months ended March 31, 2016 and 2015:

(in thousands)	Three Months Ended March 31, 2016	2015
Revenues		
Net premiums earned	$ 16,643	$ 13,797
Net investment income	10,530	10,176
Net realized (losses) gains on investments	(2,973)	2,141
Net (loss) earnings on insurance cash flow certificates	(12,970)	4,190
Toll revenue	5,949	5,232
Fees and other income	1,809	2,097
Net (loss) earnings on credit default and other swap contracts	(31,631)	79,694
Net change in the fair value of consolidated variable interest entities	6,807	11,309
Total revenues	(5,836)	128,636
Expenses		
Net losses and loss adjustment expenses	35,088	26,855
Amortization of deferred acquisition costs, net	2,508	2,107
Realized loss on interest rate derivative instrument	425	1,475
Interest expense	20,561	17,583
Operating expenses	20,889	22,725
Total expenses	79,471	70,745
Income (loss) before income tax expense	(85,307)	57,891
Income tax expense	409	692
Net income (loss)	(85,716)	57,199
Net income (loss) attributable to non-controlling interest	(51)	182
Net income (loss) attributable to Syncora Holdings Ltd.	$(85,665)	$ 57,017

Discussion of Consolidated Results of Operations for the Three Months Ended March 31, 2016 and 2015

Net Premiums Earned

The Company ceased writing substantially all new business in January 2008 and is no longer licensed to write new business in certain states and jurisdictions. The Company collects and expects to continue to collect premiums on existing business. Premiums charged in connection with the issuance of the Company's financial guarantee insurance contracts and policies were received either upfront or are paid in installments. Upfront premiums written are earned in proportion to the expiration of the related risk. Installment premiums written are earned ratably over the installment period, which is consistent with the expiration of the underlying risk or amortization of the underlying insured principal.

In addition, when an insured issue is retired early, is called by the issuer or is in substance paid in advance through a refunding accomplished by placing U.S. Government securities in escrow, any remaining unearned premium revenue is earned at that time, since there is no longer risk to the Company. Also, premiums earned may be accelerated as a result of the Company's remediation transactions, which result in the Company no longer being at risk (hereafter collectively with Refundings referred to as "Premium Accelerations"). While financial guarantee premiums assumed are earned based on reports provided by the ceding companies, we believe that the underlying reinsured companies generally follow our revenue recognition policies and practices discussed above.

The following table presents, for the three months ended March 31, 2016 and 2015, the amount of earned premiums attributable to upfront and installment policies and contracts, and a reconciliation of total premiums earned to net premiums earned:

(in thousands)	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Premiums earned:		
Upfront policies/contracts	$12,353	$ 8,871
Installment policies/contracts	5,502	6,638
Total	17,855	15,509
Less: Earned premiums on CDS contracts	(1,212)	(1,712)
Net premiums earned	$16,643	$13,797

Net premiums earned in 2016 were $16.6 million, as compared to $13.8 million in 2015. The overall decline in net premiums earned resulted primarily from the orderly run-off of the insured portfolio, partially offset by higher earnings from Premium Accelerations. Net premiums earned from Premium Accelerations were $6.2 million in 2016, as compared to $1.0 million in 2015.

Net Investment Income

Net investment income was $10.5 million in 2016, as compared to $10.2 million in 2015. The increase in net investment income was due primarily to higher average invested assets combined with a higher average yield as disclosed below.

The following tables present net investment income, net of fees, average invested assets, and the effective yield on our average invested assets for the three months ended March 31, 2016 and 2015, and the average duration of our invested assets as of March 31, 2016 and 2015:

(in thousands)	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Net investment income	$ 10,530	$ 10,176
Average invested assets(1)	$1,683,073	$1,653,148
Effective yield(2)	2.50%	2.46%

(1) Represents the quarterly average of the cost or amortized cost of debt securities, equities, other investments, short-term investments and cash and cash equivalents for the respective periods.

(2) Effective yield represents net investment income as a percentage of average invested assets annualized for the three months ended March 31, 2016 and 2015, respectively.

	As of March 31, 2016	As of March 31, 2015
Average duration (in years)	2.6	2.7

Net Realized (Losses) Gains on Investments

Net realized (losses) gains on investments were $(3.0) million and $2.1 million in 2016 and 2015, respectively. The increase in net realized losses was primarily due to higher other-than-temporary impairments of $(6.4) million, partially offset by net realized gains on disposition of securities in the portfolio.

Net (Loss) Earnings on Insurance Cash Flow Certificates

Net (loss) earnings on insurance cash flow certificates, which represent expected future claim payments that will be returned to the Company as a result of remediating certain insurance risks were $(13.0) million

in 2016, as compared to $4.2 million in 2015. This reduction was primarily due to changes in loss reserves net of reimbursements as a result of positive RMBS developments.

Toll Revenue

Pike Pointe and its American Roads operating subsidiaries generate toll revenue. Pike Pointe is one of the Company's non-insurance subsidiaries and was formed as the holding company for the American Roads assets after its emergence from Chapter 11 reorganization on September 4, 2013. American Roads is the owner and operator of certain toll road facilities located in the United States and Canada.

Toll revenue was $5.9 million in 2016, as compared to $5.2 million in 2015. The increase was primarily due to the combination of higher traffic volume and toll rate increases.

Fees and Other Income

Fees and other income include waiver, consent, termination and other fees in connection with certain of the Company's financial guarantee insurance transactions and fees related to Syncora Investment Holdings investments commenced in 2015. Rental, lease income and management fees related to Pike Pointe's operations are also included within fees and other income.

Fees and other income were $1.8 million and $2.1 million in 2016 and 2015, respectively. The decrease was primarily due to lower waiver, consent and termination fees related to certain remediation transactions of $0.4 million as compared to these received in 2015 and by lower fees of $0.5 million received in 2016 related to Syncora Investment Holdings investments, partially offset by higher rental, lease income and management fees of $0.5 million as compared to these received in 2015. Certain fees, including waiver, consent and termination fees are typically of a non-recurring nature and may vary significantly.

Net Earnings on Credit Default and Other Swap Contracts

Net earnings on credit default and other swap contracts consist of two components: (1) "Realized gains and losses and other settlements" and (2) "Unrealized gains and losses." The "Realized gains and losses and other settlements" component includes (i) net premiums received and receivable on issued credit derivatives, (ii) net premiums paid and payable on purchased credit derivatives, (iii) losses paid and payable to credit derivative counterparties due to the occurrence of a credit event or settlement, and (iv) losses recovered and recoverable on purchased credit derivatives due to the occurrence of a credit event. The "Unrealized gains and losses" component includes anticipated claims payable and anticipated recoveries, as well as all other changes in fair value.

Net (loss) earnings on credit default and other swap contracts were $(31.6) million in 2016, as compared to $79.7 million in 2015. The decrease was primarily due to the combination of higher collateral spreads and tightening of the Company's Non-Performance Risk.

Net Change in the Fair Value of Consolidated Variable Interest Entities

Net change in the fair value of consolidated variable interest entities was $6.8 million in 2016, as compared to $11.3 million in 2015. The decrease for the net change in the fair value of consolidated variable interest entities was primarily the result of unrealized gains on the deconsolidation of Redbank in 2015.

Net Losses and Loss Adjustment Expenses

Net losses and loss adjustment expenses include current year net losses incurred and adverse or favorable development of prior year net losses and loss adjustment expenses reserves.

The following table presents, for the periods indicated, the activity in our reserves for losses and loss adjustment expenses, net of reinsurance:

	Three Months Ended March 31,	
(in thousands)	**2016**	**2015**
Gross unpaid losses and loss adjustment expenses at beginning of period	$1,007,186	1,169,778
Salvage and subrogation recoverable	(87,829)	(72,823)
Reinsurance balances recoverable on unpaid losses and loss adjustment expenses	—	(139)
Net unpaid losses and loss adjustment expenses at beginning of period	919,357	1,096,816
Increase in net losses and loss adjustment expenses incurred in respect of losses occurring in:		
Current year	794	72
Prior years	34,294	26,783
Current year effect for consolidation of VIEs	—	10,890
Net losses and loss adjustment expenses (paid) recovered	(7,958)	(12,318)
Net unpaid losses and loss adjustment expenses at end of period	946,487	1,122,243
Salvage and subrogation recoverable	91,072	71,898
Reinsurance balances recoverable on unpaid losses and loss adjustment expenses	—	139
Gross unpaid losses and loss adjustment expenses at end of period	$1,037,559	$1,194,280

Net losses and loss adjustment expenses were $35.1 million in 2016, as compared to $26.9 million in 2015. The increase was primarily due to adverse development on Puerto Rico exposures, partially offset by positive developments on certain RMBS deals and certain structured single risk credits in 2016.

Amortization of Deferred Acquisition Costs

In January 2008, the Company suspended writing substantially all new business and as a result, the Company has not deferred any policy acquisition costs since then. Prior to January 2008, the Company had deferred policy acquisition costs for those expenses that primarily were incurred in connection with the production of new business, which included direct and indirect expenses related to underwriting, marketing and policy issuance, rating agency fees and premium taxes. Such policy acquisition costs were deferred and amortized over the period in which the related premiums are earned. In the event of Premium Accelerations, the remaining net amount of the deferred acquisition costs is recognized at such time.

Amortization of deferred acquisition costs were $2.5 million and $2.1 million in 2016 and 2015, respectively. The increase in amortization of deferred acquisition costs in 2016 was primarily due to higher net premium earned.

Interest Expense

Interest expense was $20.6 million in 2016 compared to $17.6 million in 2015. The increase was primarily due to accretion of discount and accrual of interest on SGI's short-term and long-term notes.

Operating Expenses

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

Operating expenses were $20.9 million in 2016 compared to $22.7 million in 2015. Operating expenses recorded in 2016 contained lower foreign currency exchange losses and lower professional fees related to general legal and consulting expenses.

Income Tax Expense

Income tax expense was $0.4 million and $0.7 million in 2016 and 2015, respectively, which primarily represents foreign, state and local income taxes.

At March 31, 2016, the Company had net operating loss carryforwards expiring from 2027 through 2031 of $2.6 billion. Management has concluded that results from operations forecasted to be generated in the future are more likely than not insufficient to permit realization of the Company's U.S. deferred tax assets, thus a valuation allowance has been established against the entire U.S. deferred tax assets of the Company at March 31, 2016 and December 31, 2015. The valuation allowance was calculated in accordance with the provisions of the accounting pronouncements for income taxes, which place primary importance on operating results in recent periods when assessing the need for a valuation allowance. The Company intends to maintain a full valuation allowance for its net U.S. deferred tax assets until sufficient positive evidence exists to support reversal of all or a portion of the valuation allowance.

Consolidated Results of Operations

The following table presents consolidated statements of operations for the years ended December 31, 2015, 2014 and 2013:

	Year Ended December 31,		
(in thousands)	2015	2014	2013
Revenues			
Net premiums earned	$ 73,147	$ 69,775	$ 132,714
Net investment income	42,799	40,190	36,421
Net realized (losses) gains on investments	(3,330)	305	(7,355)
Net (loss) earnings on insurance cash flow certificates	(55,578)	(165,362)	232,604
Toll revenue	25,298	23,295	6,805
Fees and other income	12,526	14,536	14,423
Net earnings on credit default and other swap contracts	139,891	123,889	21,550
Net change in the fair value of consolidated variable interest entities	6,107	(58,504)	(108,620)
Total revenues	240,860	48,124	328,542
Expenses			
Net (recoveries) and loss adjustment expenses	(149,278)	(18,183)	(397,298)
Amortization of deferred acquisition costs, net	9,962	11,979	18,409
Realized loss (gain) on interest rate derivative instrument	2,660	3,852	(1,470)
Interest expense	72,572	64,350	55,243
Operating expenses	86,137	86,506	69,012
Total expenses	22,053	148,504	(256,104)
Income (loss) before income tax expense	218,807	(100,380)	584,646
Income tax expense	1,127	2,481	2,849
Net income (loss)	217,680	(102,861)	581,797
Net income attributable to non-controlling interest	976	—	—
Net income (loss) attributable to controlling interest	$ 216,704	$(102,861)	$ 581,797

Discussion of Consolidated Results of Operations for the Years Ended December 31, 2015, 2014 and 2013

Net Premiums Earned

The Company ceased writing substantially all new business in January 2008 and is no longer licensed to write new business in certain states and jurisdictions. The Company collects and expects to continue to collect premiums on existing business. Premiums charged in connection with the issuance of the Company's financial guarantee insurance contracts and policies were received either upfront or are paid in installments.

Upfront premiums written are earned in proportion to the expiration of the related risk. Installment premiums written are earned ratably over the installment period, which is consistent with the expiration of the underlying risk or amortization of the underlying insured principal.

In addition, when an insured issue is retired early, is called by the issuer or is in substance paid in advance through a refunding accomplished by placing U.S. Government securities in escrow, any remaining unearned premium revenue is earned at that time, since there is no longer risk to the Company. Also, premiums earned may be accelerated as a result of the Company's remediation transactions, which result in the Company no longer being at risk (hereafter collectively with refunding referred to as "Premium Accelerations"). While financial guarantee premiums assumed are earned based on reports provided by the ceding companies, we believe that the underlying reinsured companies generally follow our revenue recognition policies and practices discussed above.

The following table presents, for the years ended December 31, 2015, 2014 and 2013, the amount of earned premiums attributable to upfront and installment policies and contracts, and a reconciliation of total premiums earned to net premiums earned:

	Year Ended December 31,		
(in thousands)	**2015**	**2014**	**2013**
Premiums earned:			
Upfront policies/contracts	$55,892	$ 49,078	$103,456
Installment policies/contracts	23,621	31,478	46,920
Total	79,513	80,556	150,376
Less: Earned premiums on CDS contracts	(6,366)	(10,781)	(17,662)
Net premiums earned	$73,147	$ 69,775	$132,714

Net premiums earned in 2015 were $73.1 million, as compared to $69.8 million in 2014. The overall increase in net premiums earned resulted primarily from higher refunding volume in municipal finance and management's continued active remediation efforts, partially offset by the orderly run-off of the insured portfolio. The increase in upfront earned premiums is primarily attributed to higher earnings from Premium Accelerations in 2015 compared to 2014. The decrease in installment premiums earned is primarily due to lower earnings from the installment premium book of business as a result of the reduction of the insured portfolio. Net premiums earned from Premium Accelerations were $29.0 million in 2015, as compared to $16.4 million in 2014.

Net premiums earned in 2014 were $69.8 million, as compared to $132.7 million in 2013. The decrease in premiums earned in 2014, as compared to 2013, was primarily due to lower earnings from Premium Accelerations. Earned premiums from Premium Accelerations were $16.4 million in 2014 as a result from the combination of the Company's remediation activities and issuer Refundings, as compared to $67.6 million in 2013.

Net Investment Income

Net investment income was $42.8 million in 2015, as compared to $40.2 million in 2014. The increase in net investment income was due primarily to higher average invested assets combined with a higher average yield as disclosed below.

Net investment income was $40.2 million in 2014, as compared to $36.4 million in 2013. The increase in net investment income was due primarily to higher average invested assets as a result of the JPMorgan litigation settlement proceeds of $400.0 million received in 2014.

The following tables present net investment income, net of fees, average invested assets, and the effective yield on our average invested assets for the years ended December 31, 2015, 2014 and 2013, and the average duration of our invested assets as of December 31, 2015, 2014 and 2013:

(in thousands)	Year Ended December 31, 2015	2014	2013
Net investment income	$ 42,799	$ 40,190	$ 36,421
Average invested assets[1]	$1,670,824	$1,657,531	$1,425,815
Effective yield[2]	2.56%	2.42%	2.55%

(1) Represents the quarterly average of the cost or amortized cost of debt securities, equities, other investments, short-term investments and cash and cash equivalents for the respective periods.

(2) Effective yield represents net investment income as a percentage of average invested assets. The changes in the effective yield were due primarily to the mix of investment holdings and reflective of interest rate environments during each respective year.

	As of December 31, 2015	2014	2013
Average duration (in years)	2.6	2.7	2.8

Net Realized (Losses) Gains on Investments

Net realized (losses) gains on investments were $(3.3) million, $0.3 million, and $(7.4) million in 2015, 2014 and 2013, respectively. The change in net realized (losses) gains was primarily due to higher other-than-temporary impairments of $(12.3) million, partially offset by net realized gains on disposition of securities in the portfolio.

Net realized gains in 2014 were primarily attributable to $9.7 million of net realized gains on dispositions of securities, which were mostly offset by other-than-temporary impairment charges of $(9.4) million. Net realized losses in 2013 were primarily attributable to other-than-temporary impairment charges of $(20.2) million, partially offset by $12.8 million of net realized gains on dispositions of securities

Net (Loss) Earnings on Insurance Cash Flow Certificates

Net (loss) earnings on insurance cash flow certificates, which represent expected future claim payments that will be returned to the Company as a result of remediating certain insurance risks were $(55.6) million in 2015, as compared to $(165.4) million in 2014. This reduction was primarily due to changes in loss reserves net of reimbursements as a result of positive RMBS developments.

Net earnings on insurance cash flow certificates were $(165.4) million in 2014, as compared to $232.6 million in 2013. This reduction primarily reflects the reclassification of $124.9 million of future receipts associated with remediated Detroit exposures into variable interest entity assets.

Toll Revenue

Pike Pointe and its American Roads operating subsidiaries generate toll revenue. Pike Pointe is one of the Company's non-insurance subsidiaries and was formed as the holding company for the American Roads assets after its emergence from Chapter 11 reorganization on September 4, 2013. American Roads is the owner and operator of certain toll road facilities located in the United States and Canada.

Toll revenue was $25.3 million in 2015, as compared to $23.3 million in 2014. The increase was primarily due to the combination of higher traffic volume and toll rate increases during 2015.

Toll revenue was $23.3 million in 2014, as compared to $6.8 million in 2013. The increase was primarily due to the full year of toll revenue in 2014 attributed to Pike Pointe as compared to only four months of toll revenue in 2013 from the date Pike Pointe became the owner of the American Roads assets.

Fees and Other Income

Fees and other income include waiver, consent, termination and other fees in connection with certain of the Company's financial guarantee insurance transactions. Rental, lease income and management fees related to Pike Pointe's operations are also included within fees and other income.

Fees and other income were $12.5 million, $14.5 million and $14.4 million in 2015, 2014 and 2013, respectively. The decrease was primarily due to lower waiver, consent and termination fees of $8.8 million received in 2014 related to certain remediation transactions, partially offset by higher fees of $6.9 million received in 2015 related to Syncora Investment Holdings investments. Certain fees, including waiver, consent and termination fees are typically of a non-recurring nature and may vary significantly. Fees and other income in 2014 as compared to 2013 were in line.

Net Earnings on Credit Default and Other Swap Contracts

Net earnings on credit default and other swap contracts consist of two components: (1) "Realized gains and losses and other settlements" and (2) "Unrealized gains and losses." The "Realized gains and losses and other settlements" component includes (i) net premiums received and receivable on issued credit derivatives, (ii) net premiums paid and payable on purchased credit derivatives, (iii) losses paid and payable to credit derivative counterparties due to the occurrence of a credit event or settlement, and (iv) losses recovered and recoverable on purchased credit derivatives due to the occurrence of a credit event. The "Unrealized gains and losses" component includes anticipated claims payable and anticipated recoveries, as well as all other changes in fair value.

Net earnings on credit default and other swap contracts were $139.9 million in 2015, as compared to $123.9 million in 2014. The increase was primarily due to the combination of widening of the yield curve and the Company's Non-Performance Risk spread as a result of adverse developments related to Puerto Rico and terminations of CDS policies.

Net earnings on credit default and other swap contracts were $123.9 million in 2014, as compared to $21.6 million in 2013. The increase was primarily due to collateral spread tightening as a result of improvements to the underlying reference obligations, as well as the Company's Non-Performance Risk spread widening.

Net Change in the Fair Value of Consolidated Variable Interest Entities

Net change in the fair value of consolidated variable interest entities was $6.1 million in 2015, as compared to $(58.5) million in 2014. The decrease of the net change in the fair value of consolidated variable interest entities was primarily the result of the write-off of Detroit related VIE in connection with the settlement and related extinguishment of the City of Detroit's debt upon emergence from bankruptcy in December 2014.

Net change in the fair value of consolidated variable interest entities was $(58.5) million in 2014, as compared to $(108.6) million in 2013. The net change in the fair value of consolidated variable interest entities in 2014 was primarily a result of a $66.7 million write-off of the Detroit-related VIE in connection with the settlement and related extinguishment of the City of Detroit's debt upon emergence from bankruptcy in December 2014.

Net (Recoveries) Losses and Loss Adjustment Expenses

Net (recoveries) losses and loss adjustment expenses include current year net (recoveries) losses incurred and adverse or favorable development of prior year net (recoveries) losses and loss adjustment expenses reserves.

The following table presents, for the periods indicated, the activity in our reserves for losses and loss adjustment expenses, net of reinsurance:

(US dollars in thousands)	2015	2014	2013
Gross unpaid losses and loss adjustment expenses at beginning of year	$1,169,778	$1,359,547	$1,232,045
Salvage and subrogation recoverable	(72,823)	(468,003)	(139,226)
Reinsurance balances recoverable on unpaid losses and loss adjustment expenses	(139)	(165)	(3,715)
Net unpaid losses and loss adjustment expenses at beginning of year	1,096,816	891,379	1,089,104
Increase (decrease) in net losses and loss adjustment expenses incurred in respect of losses occurring in:			
Current year	39,494	62,839	98,203
Prior years	(188,772)	(81,022)	(495,501)
Current year effect for consolidation of VIEs	10,925	14,932	1,262
Net losses and loss adjustment expenses recovered (paid)	(39,106)	208,688	198,311
Net unpaid losses and loss adjustment expenses at end of period	919,357	1,096,816	891,379
Salvage and subrogation recoverable	87,829	72,823	468,003
Reinsurance balances recoverable on unpaid losses and loss adjustment expenses	—	139	165
Gross unpaid losses and loss adjustment expenses at end of period	$1,007,186	$1,169,778	$1,359,547

Net recoveries and loss adjustment expenses was $(149.3) million in 2015, as compared to $(18.2) million in 2014. The decrease was primarily due to positive developments on RMBS deals and release of reserves related to commutation transactions in 2015, partially offset by further adverse development on Puerto Rico exposures. During 2014, net loss and loss adjustment expenses were higher reflecting adverse developments on the Company's Puerto Rico and City of Detroit exposures.

Net (recoveries) losses and loss adjustment expenses was $(18.2) million in 2014, as compared to $(397.3) million in 2013. The decrease in recoveries was primarily due to the 2013 recognition of the RMBS litigation settlement with JP Morgan and the Jefferson County settlement, as well as increased reserves (net of recoveries) of $166.2 million during 2014, partially offset by a $184.4 million reduction to reserves as a result of the Detroit settlement. The increase in reserves in 2014 resulted primarily from $56.7 million of adverse developments on the Company's PREPA exposure, and $127.5 million from the establishment of reserves for certain distressed U.S. structured single risk exposures with existing or expected claims.

Amortization of Deferred Acquisition Costs

In January 2008, the Company suspended writing substantially all new business and as a result, the Company has not deferred any policy acquisition costs since then. Prior to January 2008, the Company had deferred policy acquisition costs for those expenses that primarily were incurred in connection with the production of new business, which included direct and indirect expenses related to underwriting, marketing and policy issuance, rating agency fees and premium taxes. Such policy acquisition costs were deferred and amortized over the period in which the related premiums are earned. In the event of Premium Accelerations, the remaining net amount of the deferred acquisition costs is recognized at such time.

Amortization of deferred acquisition costs were $10.0 million, $12.0 million and $18.4 million in 2015, 2014 and 2013, respectively. The decrease in amortization of deferred acquisition costs in 2015 was primarily due to lower Premium Accelerations.

Interest Expense

Interest expense was $72.6 million, $64.4 million and $55.2 million in 2015, 2014 and 2013, respectively. The increase was primarily due to accretion of discount and accrual of interest on SGI's short-term and long-term notes.

Operating Expenses

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

Operating expenses were $86.1 million in 2015 compared to $86.5 million in 2014. The decrease was primarily due to impairment charges recorded in 2014 related to Pike Pointe's toll assets, partially offset by higher professional fees related to general legal and consulting expenses related to the Company's ongoing strategic actions in 2015.

Operating expenses were $86.5 million in 2014 compared to $69.0 million in 2013. The increase was primarily due to the inclusion of a full year of Pike Pointe operating expenses in 2014 as compared to only four months of operating expenses in 2013.

Income Tax Expense

Income tax expense was $1.1 million, $2.5 million and $2.8 million in 2015, 2014 and 2013, respectively, which primarily represents foreign and state and local income taxes.

At December 31, 2015, the Company had net operating loss carryforwards expiring from 2027 through 2031 of $2.7 billion. Management has concluded that results from operations forecasted to be generated in the future are more likely than not insufficient to permit realization of the Company's U.S. deferred tax assets, thus a valuation allowance has been established against the entire U.S. deferred tax assets of the Company at December 31, 2015 and December 31, 2014. The valuation allowance was calculated in accordance with the provisions of the accounting pronouncements for income taxes, which place primary importance on operating results in recent periods when assessing the need for a valuation allowance. The Company intends to maintain a full valuation allowance for its net U.S. deferred tax assets until sufficient positive evidence exists to support reversal of all or a portion of the valuation allowance.

Liquidity and Capital Resources

The Company's principal source of liquidity resources is its invested assets and cash. The Company's liquid assets include its investments in debt and equity securities, short-term investments, cash and cash equivalents and accrued investment income. The Company's liquidity resources can be affected by the amount and timing of claim payments, reimbursements, changes in interest rates and general market conditions. The Company's liquidity resources are primarily used to pay its claims, operating expenses and support in-force business. At March 31, 2016 and December 31, 2015 and 2014, our total liquidity resources (including restricted cash and investments and accrued investment income), on a consolidated basis, were $1.7 billion and $1.7 billion and $1.7 billion, respectively.

SHL's Liquidity

SHL is a holding company with no operations or significant assets other than $4.6 million, $5.2 million, and $8.4 million of liquidity resources at March 31, 2016 and December 31, 2015 and 2014, respectively, and its common equity ownership of its subsidiaries. SHL's only potential sources of funds are dividends and/or reimbursements for certain expenses related to the general services agreement with its subsidiaries to provide funds for its working capital needs and to pay operating expenses. The remainder of its capital is held at SGI and SCAI, and any dividends and/or distributions from these entities are subject to contractual and regulatory prohibitions and limitations and to the prior claims of SGI's surplus noteholders and preferred shareholders. Based on the liquidity resources as of March 31, 2016, which aggregated $4.6 million, management believes that SHL will have sufficient liquidity to fund its obligations over the next twelve months. There can be no assurance that SHL will be able to maintain adequate capital or have sufficient liquidity in the future to pay its operating expenses.

The payment of dividends or advances from SGI is subject to regulatory restrictions. NYIL contains a test governing the amount of dividends that SGI can pay in any year and, as a result of the application of such test, SGI cannot currently pay dividends. In addition, SGI entered into an undertaking with the NYDFS pursuant to which it agreed not to pay any dividends to the shareholders of SGI, including SHL, without the prior consent of the NYDFS.

SHL's Board of Directors did not declare a quarterly dividend with respect to its Existing SHL Common Shares or a semi-annual dividend with respect to the Existing SHL Preferred Shares during the years ended December 31, 2015 or 2014 or at any time thereafter through to the issuance date of these financial statements. Any future dividends would be subject to the discretion and approval of SHL's Board of Directors, applicable law, regulatory, and contractual requirements. As dividends on Existing SHL Preferred Shares have not been paid in an aggregate amount equivalent to dividends for at least six full quarterly periods, holders of its Existing SHL Preferred Shares exercised their right to nominate two persons to serve as additional directors to the Board of Directors of SHL. Two persons were so elected and were seated as directors following their approval by the NYDFS. In connection with the Restructuring Transactions, the entitlement to these director seats will be eliminated; however, one or more of these directors may remain on the Board of Directors of SHL.

SGI's and SCAI's Liquidity

Liquidity resources at SGI and SCAI are primarily used to pay claims, operating expenses and support in-force business. SGI's and SCAI's principal sources of liquidity resources are their portfolio of liquid assets and net operating cash flows. SGI's and SCAI's liquidity resources can be affected by many factors, including the amount and timing of claim payments, reimbursements, changes in interest rates and general market conditions.

SGI's and SCAI's liquidity resources include investments in debt (including securities acquired through remediation of claims) and equity securities, short-term investments, cash and cash equivalents and accrued investment income. These liquidity resources are subject to market conditions and regulation requirements and we cannot guarantee that they will have sufficient liquidity resources in the future or that they will not have to seek alternative sources of liquidity, which may be more expensive than their current liquidity resource options. Based on each company's estimates, management believes, however, that SGI's and SCAI's sources of liquidity are adequate to meet their anticipated needs for at least the next twelve months. There can be no assurance that actual results will not differ materially from our estimates.

Payments made in connection with the Company's financial guarantee obligations arising from its insured portfolio may vary significantly from year-to-year, depending primarily on the frequency and severity of payment defaults, and the Company's on-going remediation strategies in order to mitigate future claim payments and losses.

SGI continues to face a potential "liquidity mismatch" between expected future medium to long-term claim payments and recoveries relating to such claims. As of March 31, 2016, SGI anticipates it will be requested to make substantial gross claim payments in the period 2017 to 2029 (of approximately $186 million, excluding remediated RMBS claims), followed in later years (in some cases significantly later years) by substantial anticipated recoveries of these claims payments. In addition, the potential "liquidity mismatch" also results from SGI's exposure to other transactions with refinancing risk through 2019, including one credit with a heightened risk of material claims payments with an aggregate par outstanding of $850.5 million and a number of other credits with exposure to refinancing risk and the risk of material principal repayments with an aggregate par outstanding of $2.5 billion, in each case as of March 31, 2016.

Pursuant to the Company's accounting policy and guidance under GAAP, the net present value of estimated claims and recoveries (including salvage and subrogation) are reflected in the Company's loss reserves (see the Company's accounting policy on reserves in Note 4 to the Company's most recent financial statements). The amount and timing of the recoveries related to the anticipated future claims payments are subject to greater uncertainty and timing than the amount and timing of such future claims payments themselves. If realized, this liquidity mismatch may have a material adverse effect on SGI and its ability to satisfy interest and principal payments on its surplus notes, and other obligations. Because of the inherent uncertainty in estimating future claim payments and recoveries (including, whether, when and to what extent investment grade and
non-investment grade credits may be able to refinance), no assurance can be given that the actual severity or timing of claims payments, related recoveries, or ultimate losses will not be different than SGI's estimates, and such differences could materially and adversely affect SGI's results of operations, financial condition and liquidity. Further, no assurance can be given that SGI will be successful in further enhancing liquidity or mitigating adverse developments associated with its future claim payments, recoveries, reserves for losses

or the aforementioned potential "liquidity mismatch". SGI may experience significant adverse development on its insured obligations that may place further demands on its liquidity and financial position. SGI cannot provide any assurance that, were it to experience further adverse loss and claims development, the NYDFS would not take regulatory action, which may include commencement of rehabilitation or liquidation proceedings.

The ability of SGI and SCAI to declare and pay a dividend to shareholders is governed by applicable New York law, including the NYIL. Under Section 4105 of the NYIL, each of SGI and SCAI is permitted to pay dividends to shareholders in any 12-month period, without the prior approval of the NYDFS in an amount equal to the lesser of 10% of its policyholders' surplus as of last financial statement filed with the NYDFS (annual or quarterly) or their adjusted net investment income for the 12-month period, as determined in accordance with Statutory Accounting Practices prescribed or permitted by the NYDFS. The NYIL also provides that each of SGI and SCAI may distribute dividends to shareholders in excess of the aforementioned amount only upon approval thereof by the NYDFS. Notwithstanding the foregoing, SGI and SCAI may not declare or distribute any dividends to shareholders except out of "earned surplus" (an amount equal to "unassigned funds (surplus)" as shown on SGI's and SCAI's respective statutory balance sheets, which as of March 31, 2016 and December 31, 2015 were $(1.758) billion and $(1.760) billion, respectively, for SGI and $(237) million and $(229) million, respectively, for SCAI, less in each case their respective "unrealized appreciation of assets").

The NYDFS retains broad discretion to approve or disapprove the payments of dividends to shareholders, including if it finds that the company will retain insufficient surplus to support its obligations. In addition, SGI entered into an undertaking with the NYDFS pursuant to which it agreed not to pay any dividends to the shareholders of SGI, including SHL, without the prior consent of the NYDFS.

Pursuant to the terms of the 2009 MTA, SGI is not permitted to pay dividends or repurchase, redeem, exchange or convert any equity securities until such time as the principal amount of the SGI Surplus Notes, and all accrued and unpaid interest thereon, have been paid in full in cash.

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

Among other requirements, Article 69 of the NYIL provides that financial guarantee insurance companies maintain minimum policyholders' surplus of $66 million. In accordance with accounting practices prescribed or permitted by the NYDFS, as of March 31, 2016 and December 31, 2015, SGI and SCAI reported policyholders' surplus of $1,088.5 million and $1,087.0 million, respectively and $184.5 million and $192.1 million, respectively. For the three months ended March 31, 2016 and 2015, SGI and SCAI reported net income (loss) of $8.4 million and $(6.2) million, respectively and $(11.8) million and $6.7 million, respectively.

It would be an event of default under most of the CDS contracts insured by SGI or SCAI if either company should be placed into rehabilitation, receivership, liquidation or other similar proceedings by a regulator. If there were an event of default or termination event under the CDS contracts guaranteed by SGI or SCAI, as a result of either company's insolvency or otherwise, while the event of default or determination event continued, in certain cases the holders of these CDS contracts may have the right to terminate the CDS contracts and to assert claims for termination payments from SGI or SCAI, based on the market value of the CDS contracts at the time of termination. If SGI or SCAI were required to make such payments, such amounts would, in the aggregate, significantly and adversely affect SGI's and SCAI's financial liquidity.

Consolidated Cash Flows for the Three Months Ended March 31, 2016 and 2015

Operating Activities

The Company reported net cash (used in) operating activities of $(16.1) million for the three months ended March 31, 2016, as compared to $(18.5) million for the three months ended March 31, 2015. The change was primarily attributable to higher premiums collected, lower losses paid on credit default swaps, partially offset by higher claims and loss adjustment expenses.

Investing Activities

The Company reported net cash (used in) investing activities of $(53.7) million for the three months ended March 31, 2016, as compared to net cash provided by investment activities of $36.9 million for the three months ended March 31, 2015. The decrease was primarily attributable to higher net purchases of investments in 2016, as compared to 2015, as a result of the deployment of cash and cash equivalents balances, held as of December 31, 2015 in anticipation of a rise in interest rates, into higher yielding securities.

Financing Activities

Financing activities relate to the Company's consolidated financial guarantee VIEs liabilities. The Company reported net cash (used in) financing activities of $(4.3) million for the three months ended March 31, 2016, as compared to $(2.2) million for the three months ended March 31, 2015. The increase was primarily attributable to higher net paydowns of liabilities in 2016 as compared with 2015.

Consolidated Cash Flows for the Years Ended December 31, 2015, 2014 and 2013

Operating Activities

The Company reported net cash (used in) operating activities of $(1.1) million for the year ended December 31, 2015, as compared to net cash provided by operating activities of $183.3 million for the year ended December 31, 2014. The decrease was primarily the result of the JPMorgan settlement proceeds of $400.0 million received in 2014, partially offset by lower net claim, loss adjustment expenses and commutation related payments.

The Company reported net cash provided by operating activities of $183.3 million for the year ended December 31, 2014, as compared to $73.2 million for the year ended December 31, 2013. The increase was primarily the result of the JPMorgan settlement proceeds of $400.0 million received in 2014, partially offset by higher net claim, loss adjustment expenses and commutation related payments.

Investing Activities

The Company reported net cash provided by investing activities of $110.3 million for the year ended December 31, 2015, as compared to net cash (used in) investment activities of $(262.3) million for the year ended December 31, 2014. The increase was primarily attributable to lower net purchases of investments in 2015, as compared to 2014, which was the result of the deployment of proceeds from the JPMorgan settlement.

The Company reported net cash (used in) investing activities of $(262.3) million for the year ended December 31, 2014, as compared to net cash provided by investment activities of $278.8 million for the year ended December 31, 2013. The decrease was primarily attributable to higher net purchases of investments in 2014, as a result of the deployment of proceeds from the JPMorgan settlement and lower net proceeds from consolidated financial guarantee VIEs in 2014 as compared to 2013, which included higher proceeds for consolidated financial guarantee VIEs related to the American Roads remediation transaction.

Financing Activities

Financing activities relate to the Company's consolidated financial guarantee VIEs liabilities. The Company reported net cash (used in) financing activities of $(13.5) million for the year ended December 31, 2015, as compared to $(8.1) million for the year ended December 31, 2014. The increase was primarily attributable to higher net paydowns of liabilities in 2015 as compared with 2014.

The Company reported net cash (used in) financing activities of $(8.1) million for the year ended December 31, 2014, as compared to $(230.2) million for the year ended December 31, 2013. The decrease was primarily attributable to significantly lower net paydowns of liabilities in 2014 as compared with 2013. During 2013, a consolidated financial guarantee VIE made payments to terminate interest rate swap liabilities and repaid a note in connection with the American Roads remediation transaction.

Investments

The Finance and Risk Oversight Committee of our Board of Directors approves our general investment objectives and internal policy guidelines. Our investment portfolio is also subject to certain restrictions as to dollar limits, minimum thresholds, types and quality of investments imposed by the State of New York insurance laws and regulations, as SGI and SCAI are New York domiciled financial guarantee insurance companies. Such investment policy guidelines set forth, among other criteria, minimum credit rating requirements and credit risk concentration limits.

Our primary investment objective is the preservation of capital, to maintain sufficient liquidity to meet our financial guarantee insurance obligations with respect to policyholder claims and other liabilities and generate investment income to support our operating and on-going strategic plan.

Independent investment managers manage most of our consolidated investment portfolio, while an insignificant amount is managed internally. We select our investment managers on the basis of various criteria, including investment style, historical performance, internal controls, operational risk, ability to contribute to the diversification of our portfolio and the reasonableness of fees.

Changes in the valuation of our invested assets reflect changes in interest rates (for example, changes in the level, slope and curvature of yield curves, volatility of interest rates, mortgage prepayment speeds and credit spreads), credit quality and general market conditions. Market risk therefore arises due to the uncertainty surrounding the future valuations of these different assets, the factors that affect their values and the effect that this could have on our results of operations.

We seek to manage the risks of our investment portfolio through a combination of asset class, industry and security level diversification. In addition, individual security and issuer exposures are controlled and monitored at the investment portfolio level via specific investment constraints outlined in our investment policy guidelines and agreed with the external and internal investment professionals. Additional constraints are generally agreed upon with the external and internal investment professionals and may address exposures to eligible securities, prohibited investments/transactions, credit quality and concentrations limits. We also have a policy not to invest in any securities that we guarantee unless executed as part of our overall remediation strategy.

At March 31, 2016 and December 31, 2015 and 2014, our consolidated investment portfolio, which primarily consisted of restricted and unrestricted debt securities; equity securities; restricted and unrestricted cash and cash equivalents; and accrued investment income was $1.7 billion, $1.7 billion and $1.7 billion, respectively. Our debt and equity securities are designated as available for sale securities in accordance with generally accepted accounting principles. The debt and equity securities are reported at fair value and the change in fair value is reported as part of accumulated other comprehensive income in the shareholders' equity section on the Company's consolidated balance sheets, unless a determination is made that the security is impaired and therefore fair value change would be charged to operations. Short-term investments consist of securities with maturities equal to or greater than 90 days but less than one year at time of purchase.

The average duration of our investment portfolio was 2.6 years, 2.6 years and 2.7 years at March 31, 2016, December 31, 2015 and December 31, 2014, respectively.

The table below shows the percentage of our debt securities portfolio by credit rating (excluding cash and cash equivalents) at March 31, 2016 and December 31, 2015:

(in thousands)	March 31, 2016	December 31, 2015
Credit Rating[1]:		
AAA	15.8%	17.4%
AA	38.8%	37.8%
A	21.4%	20.4%
BBB	9.2%	9.0%
BB & Below	14.8%	15.4%
Total	100.0%	100.0%

(1) Ratings represent the lower of S&P or Moody's classifications.

Our debt securities portfolio is exposed to interest rate risk. Interest rate risk is the price sensitivity of a debt security to changes in interest rates. We manage interest rate risk by setting duration targets for our investment portfolio, thus mitigating the overall economic effect of interest rate risk. We remain nevertheless exposed to interest rate risk since the assets are marked-to-market, thus subject to market conditions, while liabilities are accrued primarily at a static rate. The hypothetical case of an immediate 100 basis point adverse parallel shift in global bond yield curves at March 31, 2016 would have decreased the estimated fair value of our consolidated investment portfolio by approximately $44.4 million. The hypothetical case of an immediate 100 basis point adverse parallel shift in global bond yield curves at December 31, 2015 would have decreased the estimated fair value of our consolidated investment portfolio by approximately $44.0 million.

In addition to our debt securities portfolio, we also manage a small amount of invested assets primarily in exchange listed equity securities. We generally strive to invest in companies or issuers that possess favorable business and economic prospects, which also pay dividends. Our equity securities portfolio is exposed to fluctuations in market price and consequently, the amount realized in any subsequent sale of an equity security may significantly vary from the reported market value. Fluctuation in the market price of an equity security may result from perceived changes in the underlying economic characteristics, financial condition and near-term prospects of the issuer, as well as general market conditions.

The following tables summarize the amortized cost and fair value of investments as of March 31, 2016 and December 31, 2015 as follows:

	March 31, 2016			
(U.S. dollars in thousands)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
Mortgage-backed securities:				
RMBS[1]	$ 118,562	$ 2,868	$ (1)	$ 121,429
CMBS	127,085	1,208	—	128,293
Asset-backed securities	158,034	434	—	158,468
U.S. Government and government agencies	350,640	2,985	(2)	353,623
Corporate and other	515,959	16,668	(53)	532,574
U.S. states and political subdivisions of the states	140,982	4,574	—	145,556
Total debt securities	$1,411,262	$28,737	$(56)	$1,439,943

(1) Residential mortgage-backed securities include $4.3 million of fair value and $4.1 million of amortized cost related to UCFs at March 31, 2016.

(U.S. dollars in thousands)	December 31, 2015			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
Mortgage-backed securities:				
RMBS[1]	$ 100,848	$ 1,991	$ (574)	$ 102,265
CMBS	120,894	562	(2,963)	118,493
Asset-backed securities	170,434	60	(282)	170,212
U.S. Government and government agencies	337,237	1,027	(281)	337,983
Corporate and other	469,137	13,035	(2,409)	479,763
U.S. states and political subdivisions of the states	144,884	4,450	(2,065)	147,269
Total debt securities	$1,343,434	$21,125	$(8,574)	$1,355,985

(1) Residential mortgage-backed securities include $2.8 million of fair value and $2.5 million of amortized cost related to UCFs at December 31, 2015.

The amortized cost and fair value of bonds at March 31, 2016 and December 31, 2015 by contractual maturity are shown below. Actual maturity may differ from contractual maturity because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities are generally more likely to be prepaid than other fixed-maturity securities. As the stated maturities of such securities may not be indicative of actual maturities, the totals for mortgage-backed securities are shown separately. See Note 5 to SHL's audited Consolidated Financial Statements for additional information regarding our debt securities available for sale at March 31, 2016 and December 31, 2015.

(U.S. dollars in thousands)	2016		2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	$ 163,196	$ 163,619	$ 93,448	$ 93,656
Due after one through five years	582,680	588,005	598,588	599,420
Due after five through ten years	118,301	121,532	115,354	115,235
Due after ten years	143,404	158,597	143,868	156,704
Subtotal	1,007,581	1,031,753	951,258	965,015
Mortgage- and asset-backed securities	403,681	408,190	392,176	390,970
Total	$1,411,262	$1,439,943	$1,343,434	$1,355,985

At March 31, 2016 and December 31, 2015 and 2014, our consolidated investment portfolio contained cash and securities of $79.7 million, $75.6 million and $104.1 million, respectively, based on fair value, that were primarily either held in trust or placed on deposit to collateralize our contractual obligations under certain agreements, or otherwise restricted.

Long-Term Contractual Obligations

The following table presents our long-term contractual obligations and related payments as of March 31, 2016, due by period:

(in millions)	2016	2017	2018	2019	2020	2021-2025	2026-2030	2031-2035	After 2035	Total
Estimated gross claim payments[1]	$51.1	$57.4	$29.9	$18.7	$15.6	$80.1	$86.5	$111.3	$206.2	$656.9
Total	$51.1	$57.4	$29.9	$18.7	$15.6	$80.1	$86.5	$111.3	$206.2	$656.9

(1) Represents estimated and undiscounted cash outflows under direct and assumed financial guarantee contracts, excluding remediated RMBS claims and after ceded insurance. The timing and ultimate amount of the claims payments, net of anticipated recoveries before giving effect to reinsurance, could differ materially from our estimated amounts. For information regarding the estimates for unpaid loss and loss expenses as well as factors affecting potential payment patterns of reserves for actual and potential claims related to our different lines of business, see "— Critical Accounting Policies and Estimates" above.

The following table presents our long-term contractual obligations and related payments as of December 31, 2015, due by period:

(in millions)	2016	2017	2018	2019	2020	2021-2025	2026-2030	2031-2035	After 2035	Total
Estimated gross claim payments[1]	$55.7	$45.9	$29.4	$18.1	$15.7	$76.9	$84.5	$110.4	$212.7	$649.4
Total	$55.7	$45.9	$29.4	$18.1	$15.7	$76.9	$84.5	$110.4	$212.7	$649.4

(1) Represents estimated and undiscounted cash outflows under direct and assumed financial guarantee contracts, excluding remediated RMBS claims and after ceded insurance.

Off-Balance Sheet Arrangements

As of March 31, 2016 and December 31, 2015, we did not have any off-balance sheet arrangements that were not accounted for or disclosed in our consolidated financial statements.

Non-GAAP Financial Measures

In addition to our results of operations prepared in accordance with GAAP, we also prepare Adjusted Book Value, a financial measure that is not calculated in accordance with GAAP. While the Company does not manage its business or measure its performance using non-GAAP measures, such as Adjusted Book Value, we have included this measure because we believe it provides investors with important additional information to compare the Company to other financial guarantors. Reference should be made to Note 20 of SHL's consolidated GAAP financial statements as of and for the period ended March 31, 2016. In addition, because other financial guarantors may calculate Adjusted Book Value or similarly titled measures differently, or may not be subject to the restrictions noted above, Adjusted Book Value is not necessarily comparable to similarly titled measures reported by other financial guarantors. Set forth in the table below is a reconciliation of GAAP common shareholders' equity reported by us as of March 31, 2016, December 31, 2015 and December 31, 2014, respectively, to Adjusted Book Value at such dates. Non-GAAP financial measures should not be viewed in isolation or as substitutes for their most directly comparable GAAP measures.

Syncora Holdings Ltd.
Reconciliation of GAAP Common Shareholders' Equity to
Adjusted Book Value
(in millions)

	As of		
	March 31, 2016	**December 31, 2015**	**December 31, 2014**
	(unaudited)	**(unaudited)**	**(unaudited)**
GAAP Common Shareholders' Equity	**$ 268.0**	**$ 335.5**	**$ 57.5**
Series A preferred shares[1]	(2.2)	(2.2)	(3.4)
Series B preferred shares[1]	(121.0)	(121.0)	(121.0)
Adjusted GAAP Common Shareholders' Equity	**$ 144.8**	**$ 212.3**	**$ (66.9)**
After-tax adjustments:			
Deferred acquisition costs[2]	(51.7)	(54.2)	(64.2)
Effect of deconsolidating VIEs[3]	69.1	69.9	53.7
Net credit derivative liability[4]	83.2	53.4	179.5
Net present value of estimated net future credit derivative revenue[5]	73.5	72.1	85.4
Net unearned premium reserve on financial guaranty contracts in excess of expected loss to be expensed[6]	295.6	298.6	373.0
Notes payable[7]	(345.1)	(352.9)	(378.1)
Unrealized gains on investments[8]	(30.7)	(15.8)	(32.1)
Adjusted Book Value	**$ 238.7**	**$ 283.4**	**$ 150.3**
Common shares outstanding at end of the period	56.3	56.3	56.3
Book value per common share	$ 2.57	$ 3.77	$ (1.19)
Adjusted book value per common share	$ 4.24	$ 5.03	$ 2.67

(1) Addition of the excess of the outstanding liquidation preference of the Existing SHL Preferred Shares and the Series B Preferred Shares over their carrying values. Including the Existing SHL Preferred Shares and the Series B Preferred Shares at their outstanding liquidation value (which, for the Series B Preferred Shares, is net of the shares received in connection with our 2012 settlement with Countrywide, Bank of America Corp.) instead of their carrying value is more in line with the residual value to common shareholders.

(2) Elimination of after-tax deferred acquisition costs as these amounts represent net deferred expenses that have already been paid and will be expensed in future accounting periods.

(3) Elimination of the effects of consolidating VIEs, as GAAP requires the Company to consolidate certain VIEs that (a) have issued debt obligations that are insured and controlled by the Company and (b) were designed to effectively defease or, in-substance, commute the Company's exposure on certain of its other financial guarantee insurance policies. Excluding the effects of consolidating VIEs presents all financial guarantee contracts and remediation transactions on a more consistent basis of accounting, whether or not GAAP requires consolidation.

(4) Elimination of the consolidated net credit derivative liability which represents an estimate of the fair value of the Company's guarantees issued as CDS contracts in excess of the present value of the expected losses. By excluding the net credit derivative liability, this metric eliminates the benefit to our shareholders' equity embedded therein from the Company's Non-Performance Risk, which reflects the market's view of the risk that the Company will not be able to financially honor its obligations as they become due. The fair value adjustments on derivative financial instruments are heavily influenced by, and fluctuate, in part according to, market interest rates, credit spreads and other factors that management cannot control or predict and that are not expected to result in an economic gain or loss.

In addition, by including our best estimate of losses we expect to incur on our CDS contracts if we were to hold such CDS contracts to maturity and pay claims as they arise over the remaining life of such contracts, the metric presents our guarantees of insurance and derivatives on a consistent basis, which results in a more meaningful measure of our value.

(5) Addition of the after-tax net present value of estimated net future credit derivative revenues. Including the net present value of estimated net future credit derivative revenues enables an evaluation of the value of future estimated credit derivative revenue for which there is no corresponding GAAP financial measure.

(6) Addition of the after-tax value of the unearned premium reserve on financial guarantee contracts in excess of expected losses to be expensed, net of reinsurance as the unearned premium reserve on financial guarantee contracts represents revenues that are expected to be earned in the future.

(7) Addition of the full face amount, in excess of the carrying amount, of the surplus notes payable held by third parties (including interest paid-in-kind), as including the full face amount of the surplus notes is consistent with the treatment of these instruments as debt.

(8) Elimination of the after-tax unrealized gains (losses) on the Company's investments that are recorded as a component of AOCI, excluding the effects of foreign exchange. The effects of the AOCI component of the fair value adjustment on investments is not deemed economic as the Company generally holds such investments to maturity and therefore the Company should not recognize an economic gain or loss.

As of March 31, 2016, Adjusted Book Value decreased by $44.7 million to $238.7 million from $283.4 million as of December 31, 2015. This decrease was primarily due to adverse developments during the quarter on SHL's insured book of business. As of December 31, 2015, Adjusted Book Value increased by $133.1 million to $283.4 million from $150.3 million as of December 31, 2014. This increase was primarily due to net positive developments on SHL's insured book of business, as well as from gains resulting from our remediation activities.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

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

In February of 2015, the FASB issued "Consolidation — Amendments to the Consolidation Analysis" for consolidation of legal entities including VIEs. This standard eliminates the specialized consolidation model and guidance for limited partnerships, amends the conditions for evaluating whether a fee paid to a decision maker or a service provider represents a variable interest in a VIE, amends the related party guidance for the determination of the primary beneficiary of a VIE, and requires certain investment funds designed as VIEs, except money market funds, to apply the amended consolidation guidance. The standard was effective for interim and annual periods beginning January 1, 2016. The adoption of this standard did not have a material effect on the Company's consolidated financial statements.

Accounting Pronouncements Pending Adoption

In May of 2014, the FASB issued "Revenue from Contracts with Customers". This standard amends the accounting guidance for recognizing revenue for the transfer of goods or services from contracts with customers unless those contracts are within the scope of other accounting standards. In August 2015, the FASB issued "Revenue from Contracts with Customers — Deferral of the Effective Date" which defers the effective date of this standard to interim and annual periods beginning January 1, 2018, and is applied on a retrospective or modified retrospective basis. The Company is evaluating the effect of adopting this standard.

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

In May of 2015, the FASB issued "Financial Services — Insurance — Disclosures about Short-Duration Contracts." The primary objective of this standard is to improve disclosures for insurance entities which issue short-duration contracts. This standard made significant amendments to the Short-Duration Contract disclosure section and limited amendments affecting the General disclosures. The Company, as a provider of financial guarantee contracts, is subject to the General sections but not the Short-Duration Contract sections. As such, the limited amendments made to the General disclosure section are not expected to have a material effect on the Company's financial statement disclosures. This standard is effective for annual periods beginning after December 15, 2015, and interim periods within annual periods beginning after December 15, 2016.

In January 2016, the FASB issued "Financial Instruments — Overall — Recognition and Measurement of Financial Assets and Financial Liabilities". This standard amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This guidance includes requirements for certain equity investments with readily determinable fair values to be measured at fair value with changes recognized in net income and for financial liabilities where the fair value option has been elected, requiring the portion of the fair value change related to instrument-specific credit risk (which includes a Company's own credit risk) to be separately reported in other comprehensive income. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those years. The Company is evaluating the effect of adopting this standard.

In February 2016, the FASB issued "Leases". This standard amends the accounting guidance for leasing transactions, which requires lessees to recognize right-of-use assets and lease liabilities, initially measured at the present value of the lease payments, on the balance sheet. This standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is evaluating the effect of adopting this standard.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF STATUTORY FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF SGI

The following discussion and analysis of SGI's financial condition and results of operations is prepared in conformity with SAP and the accounting practices permitted and prescribed by the NYDFS and should be read in conjunction with SGI's Statutory Financial Statements. The following discussion contains forward-looking statements based upon current expectations and related to future events and SGI's future financial performance that involve risks and uncertainties. SGI's actual results and timing of events could differ materially. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below and in our "Risk Factors."

Overview of SGI's Business

General

SGI is an insurance company domiciled in the State of New York and was licensed to conduct financial guarantee insurance business throughout all 50 of the United States, as well as in the Commonwealth of Puerto Rico, the District of Columbia, and the U.S. Virgin Islands. However, because of the events discussed below, as of March 31, 2016, in 28 states or jurisdictions, SGI's license to conduct insurance business in such states or jurisdictions was suspended, revoked, had an order of impairment placed against it, expired, was voluntarily surrendered by SGI, or SGI agreed to cease writing business in such states or jurisdictions, or SGI opted not to renew its license in such states or jurisdictions.
Management anticipates that SGI will be able to continue to collect premiums on existing business in such states or jurisdictions. Additional states or jurisdictions may suspend SGI's license, place an order of impairment against it or, in lieu of a suspension or order, SGI may voluntarily agree to cease writing business and let such licenses expire or opt not to renew its licenses in additional states or jurisdictions. SGI does not intend to seek licenses to write new business.

Prior to January 2008, SGI was primarily engaged in the business of providing (i) credit enhancement on fixed and variable rate debt obligations through the issuance of financial guarantee insurance policies, and (ii) credit protection on specific referenced credits or on pools of specific referenced credits through the issuance of financial guarantee insurance policies covering the obligations under credit default swap CDS contracts issued by trusts established to comply with the NYIL. SGI ceased writing substantially all new business in January of 2008.

SGI is the 100% owner of an insurance company, SCAI, a New York licensed financial guarantee insurer. SGI is also 100% owner of a non-insurance holding company, Pike Pointe, which wholly owns a number of subsidiaries that ultimately own and operate certain toll road facilities located in the United States and Canada.

SGI is also 100% owner of Syncora Investment Holdings LLC ("SIH"), a Delaware limited liability company, which was established to enhance asset and liability management for longer dated liabilities and create long-term value for SGI. SIH commenced investing in 2015 and plans to invest an aggregate amount of up to $43.0 million in debt and equity investments in positions in small-to mid-market private companies within the financial services and related sectors.

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

Permitted or Prescribed Practices

SGI prepares its statutory basis financial statements in accordance with accounting practices prescribed or permitted by the NYDFS. The NYDFS recognizes only statutory accounting practices prescribed or permitted by the State of New York for determining and reporting the financial condition and results of operations of an insurance company and for determining its solvency under insurance law. The NAIC SAP, has been adopted as a component of prescribed or permitted practices by the State of New York. **The State of New York has adopted certain prescribed accounting practices that differ from those found in NAIC SAP. The NYDFS has the right to permit, and has permitted SGI to use, other specific practices which deviate from prescribed practices, including the following:**

(a) Pursuant to certain prescribed accounting practices under Articles 14 and 69 of the NYIL that differ with those found in NAIC SAP, the admissible carrying value of a share of an insurer is limited to a stipulated percentage of policyholders' surplus, and investments in certain securities (including the Uninsured Cash Flow Certificates (see Note 21.H. to the Statutory Financial Statements)) are also subject to limitations. In connection with the 2009 MTA discussed in the NYDFS permitted SGI to admit these assets notwithstanding the otherwise applicable limitations.

(b) Pursuant to approval granted by the NYDFS in accordance with section 6903 of the NYIL, as of March 31, 2016 and December 31, 2015, SGI has de-recognized $398.6 million and $398.6 million, respectively, in the aggregate, of contingency reserves on terminated policies, and policies on which SGI has established case reserves, whereas under NAIC SAP SGI would still be required to carry such reserves. SGI applies the permitted practice described above to release contingency reserves on an obligation by obligation basis under policies insuring multiple obligations rather than on a policy by policy basis.

(c) The NYDFS granted SGI a permitted practice to de-recognize reserves for unpaid losses, unearned premium reserve and contingency reserves relating to, and expense payments (which are reflected in "Losses incurred" on the Statement of Income) made to effect, certain transactions executed in connection with its continued remediation efforts described in Note 21.H. to the Statutory Financial Statements which effectively defeased or, in-substance, commuted, in whole or in part, the policies relating thereto, whereas under NAIC SAP such reserves would continue to be carried until such time as the underlying contracts were legally extinguished and the payments made to effect the transactions would have resulted in the recording of an asset, as such payments were made in exchange for the assignment to SGI or an affiliate of SGI of all rights under the aforementioned policies. As of March 31,
2016, such de-recognized reserves for unpaid losses, unearned premium reserve and contingency reserves (as of the date of the effective defeasance or, in-substance commutations) aggregated $6.1 billion, $4.2 million and $3.1 million, respectively. As of December 31, 2015, such de-recognized reserves for unpaid losses, unearned premium reserve and contingency reserves (as of the date of the effective defeasance or, in-substance commutations) aggregated $6.1 billion, $4.2 million and $3.1 million, respectively. As of December 31, 2015, SGI no longer sought approval for the de-recognition of unpaid losses, unearned premium reserves and contingency reserves relating to, and expense payments made which effectively defeased or, in-substance, commuted certain CDS contracts executed in connection with the consummation of the 2009 MTA and that were previously disclosed on an aggregate basis. As such CDS contracts were legally extinguished as of December 31, 2015, the associated reserves were released under NAIC SAP resulting in no difference between NAIC SAP and NY basis, and therefore the permitted practice is no longer required.

(d) The NYDFS granted SGI a permitted practice to value the surplus notes issued by SGI in settlement of certain policy obligations in connection with the 2009 MTA (see Note 21.H. to the Statutory Financial Statements) at original face value of $625.0 million in the aggregate, as compared to the estimated fair value thereof, that SGI would otherwise have been required to reflect such surplus notes in accordance with NAIC SAP.

Any adjustment to the carrying value of surplus notes would result in an equal and offsetting adjustment to unassigned funds. As both surplus notes and unassigned funds are elements of policyholders' surplus, a change in the value of the surplus notes would not affect policyholders' surplus.

(e) The NYDFS granted SGI a permitted practice to account for its ownership of the common stock of American Roads entities (see Note 10 to SGI's 2015 Statutory Financial Statements) as salvage recoverable using a discounted cash flow model, which is deducted from the liability for unpaid claims or losses, whereas under NAIC SAP, SGI would be required to record its 100% equity ownership of the American Roads entities using GAAP equity value.

Description of Financial Guarantee Insurance, and Reinsurance

Financial Guarantee Insurance

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 thereon when due. Financial guarantee insurance adds another potential source of repayment of principal and interest for an investor, namely the credit quality of the financial guarantor.

Generally, in the event of any default on an insured debt obligation, payments made pursuant to the applicable insurance policy may not be accelerated by the holder of the insured debt obligation without the approval of the insurer. While the holder of such an insured debt obligation continues to receive guaranteed payments of principal and interest on schedule as if no default had occurred, and each subsequent purchaser of the obligation generally receives the benefit of such guarantee, the insurer normally retains the option to pay the debt obligation in full at any time. Also, the insurer generally has recourse against the issuer of the defaulted obligation and/or any related collateral for amounts paid under the terms of the insurance policy as well as pursuant to general rights of subrogation.

The issuer of an insured debt obligation generally pays the premium for financial guarantee insurance, either in full at the inception of the policy, as is the case in most public finance transactions, or in periodic installments funded by the cash flow generated by related pledged collateral, as is the case in most structured finance and international transactions. Typically, premium rates paid by an issuer are stated as a percentage of the total principal (in the case of structured finance and international transactions) or principal and interest (in the case of public finance transactions) of the insured obligation. Premiums are almost always non-refundable and are invested upon receipt. See Note 1.C.(1) to SGI's 2015 Statutory Financial Statements.

Financial Guarantee Reinsurance

Reinsurance indemnifies a primary insurance company against part or all of the loss that it may sustain under a policy that it has issued. All of the reinsurance protection purchased or provided by SGI is quota share reinsurance. Quota share reinsurance involves one or more reinsurers taking a stated percent share of each policy that an insurer produces ("writes"). This means that the reinsurer will receive that stated percentage of each dollar of premiums and will pay that percentage of each dollar of losses. In addition, the reinsurer will allow a "ceding commission" to the insurer to compensate the insurer for the costs of writing and administering the business. Under a traditional reinsurance arrangement, the ceding company collects premiums from, and pays claims to, its policyholders, and then periodically (usually quarterly) settles with its reinsurer based on the reinsurer's share of the premium collected and claims paid.

Reinsurance does not relieve a primary insurance company of its obligations under an insurance policy. Generally, a policyholder of a reinsured policy has no rights to pursue a reinsurer for payment of its claims or obligation to pay it premiums. However, certain reinsurance agreements contain cut-through provisions that allow a policyholder to have rights directly against or obligations directly to, the reinsurer under the reinsurance agreement. SGI's reinsurance agreement with SCAI (see Note 10 to SGI's 2015 Statutory Financial Statements) represents a 100% quota share reinsurance agreement and contains

cut-through provisions, that require policyholders to remit premiums due under such reinsured policies directly to SCAI and provides policyholders the ability to submit claims under such policies directly to SCAI for payment.

Information About Financial Instruments with Off-Balance Sheet Risk And Financial Instruments With Concentrations of Credit Risk

While SGI establishes reserves for losses and loss adjustment expenses on obligations it has guaranteed or reinsured to the extent it determines that losses are probable and reasonably estimable, the risk of loss under SGI's guarantees extends to the full amount of unpaid principal and interest on all debt obligations it has guaranteed (see description of financial guarantee insurance and reinsurance in Note 21.I. of SGI's March 31, 2016 Statutory Financial Statements). The table below reflects certain information regarding SGI's in-force principal and interest exposure at March 31, 2016, December 31, 2015 and December 31, 2014. See Note 16 to SGI's March 31, 2016 Statutory Financial Statements and to SGI's Annual Statements for the years ended December 31, 2015 and 2014 for further information. References in the table below to "Gross" mean that the amounts are before the effect of ceded reinsurance and references to "Net" mean that the amounts are after the effect of ceded reinsurance. The table below excludes SGI's gross principal and interest exposure of $5.4 billion and $4.0 billion at March 31, 2016, $5.7 billion and $4.2 billion at December 31, 2015 and $7.4 billion and $5.0 billion at December 31, 2014, respectively, (net principal and interest exposure of $5.4 billion and $4.0 billion at March 31, 2016, $5.7 billion and $4.1 billion at December 31, 2015 and $7.4 billion and $5.0 billion at December 31, 2014, respectively) under the Back-Up Guarantees, which relate to policies novated by SGI to SCAI.

The following table sets forth SGI's in-force guaranteed principal and interest exposure by bond sector as of March 31, 2016, December 31, 2015 and 2014, respectively:

Bond Exposure

(U.S. dollars in millions)	GPO[1]			NPO[1]		
	March 31, 2016	December 31, 2015	December 31, 2014	March 31, 2016	December 31, 2015	December 31, 2014
Public Finance						
General Obligation	$ 4,017	$ 4,379	$ 7,700	$ 157	$ 161	$ 209
Special Revenue	4,865	5,056	6,741	78	108	127
Utility	2,558	2,659	3,944	61	61	62
Appropriation	816	861	1,333	11	12	17
Other	4	4	5	4	4	5
Non Ad Valorem	1,604	1,721	2,587	—	—	—
Total Public Finance	$13,864	$14,680	$22,310	$ 311	$ 346	$ 420
Asset-Backed Securities						
RMBS	$ 533	$ 559	$ 971	526	552	$ 963
Commercial ABS	—	—	4	—	—	4
Total Asset-Backed Securities	$ 533	$ 559	$ 975	$ 526	$ 552	$ 967
Collateralized Debt Obligations						
Cashflow CDO	$ 41	$ 42	$ 447	$ 41	$ 42	$ 447
Total Collateralized Debt Obligations	$ 41	$ 42	$ 447	$ 41	$ 42	$ 447
Structured Single Risk						
Global Infrastructure	$ 3,829	$ 3,793	$ 5,096	$2,783	$2,710	$ 4,541
Power & Utilities	3,873	3,927	4,699	2,504	2,560	3,125
Specialized Risk	412	424	792	412	424	792
Total Structured Single Risk	$ 8,114	$ 8,144	$10,587	$5,699	$5,694	$ 8,458
Total Outstanding	$22,552	$23,425	$34,319	$6,577	$6,634	$10,292

(1) GPO and NPO represent Gross Principal Outstanding and Net Principal Outstanding, respectively.

Statements of Admitted Assets, Liabilities and Capital and Surplus:

The following table presents Statements of Admitted Assets, Liabilities and Capital and Surplus as of March 31, 2016 and December 31, 2015:

(U.S. dollars in thousands)	As of	
	March 31, 2016	December 31, 2015
Admitted Assets		
Cash and invested assets		
Bonds, at amortized cost	$ 939,570	$ 872,250
Derivatives	97	521
Other invested assets	225,048	229,094
Cash, cash equivalents and short-term investments	78,640	138,547
Total cash and invested assets	1,243,355	1,240,412
Premiums receivable	483	945
Amounts recoverable from reinsurers	361	516
Investment income due and accrued	3,151	2,930
Receivable from parent, subsidiaries and affiliates	415	109
Other assets	3,876	4,534
Total admitted assets	$ 1,251,641	$ 1,249,446
Liabilities and Capital and Surplus		
Liabilities		
Unearned premiums	$ 110,342	$ 111,061
Losses (recoverables) and loss adjustment expenses	(48,441)	(45,407)
Mandatory contingency reserve	86,776	85,147
Ceded reinsurance premiums payable	336	151
Payable for securities	6,644	—
Other expenses	2,526	3,695
Payable to parent, subsidiaries and affiliates	4,561	7,485
Provision for reinsurance	133	133
Taxes, licenses and fees	221	224
Total liabilities	163,098	162,489
Capital and surplus		
Common stock	15,000	15,000
Preferred stock	200,000	200,000
Surplus notes	584,334	584,334
Gross paid-in capital and contributed surplus	2,046,972	2,046,972
Unassigned deficit	(1,757,763)	(1,759,349)
Total capital and surplus	1,088,543	1,086,957
Total liabilities and capital and surplus	$ 1,251,641	$ 1,249,446

Discussion of Statements of Admitted Assets, Liabilities and Capital and Surplus as of March 31, 2016 and December 31, 2015

Set forth below is a discussion of certain line items of the Statements of Admitted Assets, Liabilities and Capital and Surplus above.

Cash and Invested Assets

Cash and invested assets were $1,243.4 million at March 31, 2016, an increase of $3.0 million, compared to $1,240.4 million at December 31, 2015. The increase is primarily the result of $7.8 million of net investment gain, $3.0 million net premium receipts, $2.3 million of unrealized foreign exchange gains, $0.8 million net claim and commutation related recoverables, partially offset by $10.3 million of expenses paid primarily related to operating, loss adjustment, commission and other expenses and $0.4 million of unrealized losses on derivatives held.

Premiums Receivable

Premiums receivable were $0.5 million at March 31, 2016, a decrease of $0.4 million, as compared to $0.9 million at December 31, 2015. The decrease is primarily due to a reduction in receivable balance from SGI-UK as a result of the termination of the quota share reinsurance agreement with SGI-UK upon the effectiveness of the Part VII Transfer.

Investment Income Due and Accrued

See discussion of net investment income below.

Receivable from Parent, Subsidiaries and Affiliates

Receivable from parent, subsidiaries and affiliates were $0.4 million and $0.1 million at March 31, 2016 and at December 31, 2015, respectively. The slight increase represents a higher receivable due from SCAI.

Other Assets

Other assets were $3.9 million at March 31, 2016, a decrease of $0.6 million, as compared to $4.5 million at December 31, 2015. The net decrease was primarily due to collection of account receivables.

Unearned Premiums

Unearned premiums were $110.3 million at March 31, 2016, a decrease of $0.8 million, as compared to $111.1 million at December 31, 2015. The decrease was primarily due to the recognition of premiums earned from the upfront business.

Losses (Recoverables) and Loss Adjustment Expenses

Losses (recoverables) and loss adjustment expenses were $(48.4) million at March 31, 2016, a change of $(3.0) million, as compared to $(45.4) million at December 31, 2015. The change from the December 31, 2015 balances is attributable to positive development in SGI's guarantees of RMBS reserves and improved recoveries on certain other loss exposures, partially offset by adverse developments on SGI's Puerto Rico exposures.

Mandatory Contingency Reserve

Pursuant to section 6903 of the NYIL, the NYDFS granted SGI approval, in connection with the preparation of our statutory basis financial statements as of and for the period ended March 31, 2016 and December 31, 2015, to release statutory basis contingency reserves on terminated policies, synthetically commuted policies and policies on which we have established case basis reserves for losses. Effective for both the period ended March 31, 2016 and December 31, 2015, the NYDFS confirmed that SGI may apply the permitted practice described above to release contingency reserves on an obligation by obligation basis under policies insuring multiple obligations rather than on a policy by policy basis.

Mandatory contingency reserve was $86.8 million at March 31, 2016, an increase of $1.7 million, as compared to $85.1 million at December 31, 2015. The increase was due to normal accretion to contingency reserves on the in-force business.

Other Expenses

Other expenses were $2.5 million at March 31, 2016, a decrease of $1.2 million, as compared to $3.7 million at December 31, 2015. The decrease is principally due to lower professional legal, audit and consulting expenses as well as premium taxes.

Payable to Parent, Subsidiaries and Affiliates

Payable to parent, subsidiaries and affiliates was $4.6 million at March 31, 2016, a decrease of $2.9 million, as compared to $7.5 million at December 31, 2015. The decrease is principally due to SGI's payment to Syncora Guarantee Services Inc. of its balance due as of December 31, 2015.

SGI and its affiliates are parties to a Second Amended and Restated General Services Agreement, whereby Syncora Guarantee Services Inc. provides SGI and its affiliates with general services, including substantially all personnel support, certain office overhead and expenses, rent, information technology services and other items. Under the terms of such agreement, the costs of the aforementioned services are charged to SGI and its affiliates in accordance with the requirements of NYDFS Insurance Regulation 30. For the period ended March 31, 2016 and March 31, 2015, SGI incurred costs under this agreement in the amount of $4.1 million and $5.3 million, respectively.

Preferred Capital Stock

Refer to Note 13.B of SGI's 2015 Annual Statement for information regarding SGI's preferred capital stock. There was no change in the preferred capital stock.

Existing SGI Surplus Notes

The carrying value of the Existing SGI Surplus Notes was $584.3 million at March 31, 2016 and December 31, 2015.

In 2009, SGI issued $625.0 million face amount of surplus notes. Pursuant to a permitted accounting practice granted to SGI by the NYDFS, SGI reports the carrying value of the Existing SGI Surplus Notes at a face value amount of $625.0 million, as compared to the estimated fair value thereof, that SGI would otherwise have been required to reflect such Existing SGI Surplus Notes at in accordance with NAIC SAP. Any adjustment to the carrying value of Existing SGI Surplus Notes would result in an equal and offsetting adjustment to unassigned funds. As both surplus notes and unassigned funds are elements of capital and surplus, a change in the value of the surplus notes would not impact capital and surplus.

Gross Paid-In and Contributed Surplus

There was no change in the gross paid-in-capital and contributed surplus. The balance for gross paid-in and contributed surplus was $2,047.0 million at March 31, 2016 and December 31, 2015.

Unassigned Deficit

The unassigned deficit was $(1,757.8) million at March 31, 2016, a change of $1.5 million, as compared to a deficit of $(1,759.3) million at December 31, 2015. The improvement was primarily attributable to $8.4 million in net income, a change of $(3.0) million in non admitted assets, $(1.8) million of net unrealized loss, $(1.6) million in mandatory contingency reserves and $(0.4) million in unrealized loss of derivative asset.

Statements of Income

The following table presents Statements of Income data for the three months ended March 31, 2016 and 2015:

(U.S. dollars in thousands)	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Underwriting Income		
Net premiums earned	$ 3,246	$ 8,077
Underwriting deductions		
Net losses (benefit) and loss adjustment expense	(752)	14,237
Other underwriting expenses	6,234	8,512
Total underwriting deductions	5,482	22,749
Net underwriting income (loss)	(2,236)	(14,672)
Investment Income		
Net investment income	7,032	6,561
Net realized capital gains	732	816
Net investment income	7,764	7,377
Fees and other income	11	75
Income before federal income taxes	5,539	(7,220)
Current federal income tax (benefit) expense	(2,887)	(1,027)
Net income (loss)	$ 8,426	$ (6,193)

Discussion of Statements of Income for the Three Months Ended March 31, 2016 and 2015

Set forth below is a discussion of the change in certain line items of the Statements of Income above.

Net Premiums Earned

Premiums charged in connection with the issuance of SGI's policies are received either upfront or in installments. Such premiums are recognized as written when due. Accordingly, under NAIC SAP, future installment premiums are not recognized as receivable until they are due. Once due, installment premiums written are earned ratably over the installment period, generally one to six months, which is consistent with the expiration of the underlying risk or amortization of the underlying insured principal. Upfront premiums written are earned based on the proportion of principal and interest paid during the period, as compared to the total amount of principal and interest to be paid over the contractual life of the insured debt obligation.

In addition, when an insured issue is retired early, is called by the issuer or is in substance paid in advance through a refunding accomplished by placing U.S. Government securities in escrow (hereafter collectively referred to as "Accelerations"), the remaining unearned premium is earned at that time. While financial guarantee premiums assumed are earned based on reports from the reinsured companies, we believe that the underlying reinsured companies generally follow the revenue recognition policies and practices discussed above.

The following table presents, for the three months ended March 31, 2016 and 2015, the amount of earned premiums attributable to upfront and installment policies and contracts:

(U.S. dollars in thousands)	Three Months Ended March 31, 2016	2015
Net premiums earned:		
Upfront policies/contracts	$ 283	$4,143
Installment policies/contracts	2,963	3,934
Net premiums earned	$3,246	$8,077

Net premiums earned were $3.2 million for the three months ended March 31, 2016, a decrease of $4.9 million, as compared to $8.1 million for three months ended March 31, 2015. The decrease in upfront earned premiums is primarily attributed to lower earnings from premium Accelerations in 2016 compared to 2015 and as a result of the reduction of the insured portfolio. The decrease in installment premiums earned is primarily due to lower earnings from the installment premium book of business as a result of the reduction of the insured portfolio and the cumulative effect of management's continued remediation efforts.

Discussion of Certain Components of Net Premiums Earned for the Three Months Ended March 31, 2016 as Compared to the Three Months Ended March 31, 2015

Direct Premiums Written

Financial guarantee insurance premiums written during the period include: (i) premiums received upfront on insurance policies and (ii) installment premiums due during the period on in-force insurance policies. Accordingly, SGI guarantee premiums written during any period are a function of the mix of such business. SGI ceased writing substantially all new business since January 2008.

The following table presents, for the three months ended March 31, 2016 and 2015, the amount of direct premiums written attributable to upfront and installment policies.

(U.S. dollars in thousands)	Three Months Ended March 31, 2016	2015
Direct premiums written:		
Upfront policies/contracts	$ —	$ —
Installment policies/contracts	3,984	3,799
Total direct premiums written	$3,984	$3,799

Direct premiums written were $4.0 million for the three months ended March 31, 2016, an increase of $0.2 million, from $3.8 million for the three months ended March 31, 2015. The increase in installment premiums written is mainly due to premiums recognized by SGI upon the termination of the quota share reinsurance agreement with SGI-UK in connection with the effectiveness of the Part VII Transfer, partially offset by terminations and runoff of the installment book of business.

Reinsurance Premiums Assumed

The following table presents, for the three months ended March 31, 2016 and 2015, the amount of premiums assumed from SGI-UK, Assured Guaranty Municipal Corp. and other third-party companies.

(U.S. dollars in thousands)	Three Months Ended March 31, 2016	2015
Assumed premiums written:		
Affiliate – SGI-UK	$ —	$1,091
Assured Guaranty Municipal Corp.	1,467	1,287
XL Insurance (Bermuda) Ltd.	19	30
Total assumed premiums written	$1,486	$2,408

Reinsurance premiums assumed were $1.5 million for the three months ended March 31, 2016, a decrease of $0.9 million as compared to $2.4 million for the three months ended March 31, 2015. The decrease is mainly due to the termination of the quota share reinsurance agreement with SGI-UK upon the effectiveness of the Part VII Transfer.

Ceded Premiums

The following table presents, for the three months ended March 31, 2016 and 2015, the amount of premiums ceded to SCAI and third-party reinsurers:

	Three Months Ended March 31,	
(U.S. dollars in thousands)	**2016**	**2015**
Ceded premiums written:		
SCAI	$2,622	$2,775
Third-party reinsurers	322	26
Total premiums ceded written	$2,944	$2,801

Ceded premiums remained flat and were $2.9 million and $2.8 million for the three months ended March 31, 2016 and March 31, 2015 respectively.

Net Losses and Loss Adjustment Expenses Incurred

Net losses and loss adjustment expenses include current year net losses incurred and adverse or favorable development of prior year net losses and loss adjustment expenses reserves.

The following table presents, for the periods indicated, the activity in SGI's reserves for losses and loss adjustment expenses, net of reinsurance:

(U.S. dollars in thousands)	
Net ending balance, December 31, 2014	$111,302
Case reserve provision	8,741
Loss adjustment expense	5,496
Net losses and loss adjustment expenses	14,237
Paid losses and loss adjustment expenses	(24,391)
Net ending balance, March 31, 2015	$101,148
Net ending balance, December 31, 2015	$ (45,407)
Case reserve benefit	(2,796)
Loss adjustment expense	2,044
Net (benefit) losses and loss adjustment expenses	(752)
Paid losses and loss adjustment expenses	(2,282)
Net ending balance, March 31, 2016	$ (48,441)

Case Basis Reserves for Losses and Loss Adjustment Expenses

A summary of case basis reserves for losses and loss adjustment expenses as of March 31, 2016 and December 31, 2015 are summarized as follows:

(U.S. dollars in thousands)	**2016**	**2015**
HELOC, CES and Alt-A mortgage loan collateral	$ 114,269	$ 121,923
Public finance	35,296	22,717
Structured single risk	(198,797)	(190,829)
CDOs	791	782
Total	$ (48,441)	$ (45,407)

SGI recorded a (benefit) provision for losses and loss adjustment expenses of $(0.8) million and $14.2 million for the three months ended March 31, 2016 and 2015, respectively. The benefit primarily reflects positive development in SGI's guarantees of certain RMBS and structured single risk transactions, partially offset by adverse development in SGI's guarantees of certain public finance transactions. See below for discussion.

Asset-Backed Securities

For the three months ended March 31, 2016 and 2015, SGI recorded a benefit for losses and loss adjustment expenses, after giving effect to reinsurance, of $(7.9) million and $(1.6) million, respectively, relating to its guarantees of insured obligations related to RMBS, supported by HELOC, CES, and Alt-A (first lien mortgages ineligible for purchase by Fannie Mae or Freddie Mac) mortgage loan collateral. Reserves for unpaid losses and loss adjustment expenses on such guarantees, after giving effect to reinsurance, were $114.3 million and $121.9 million as of March 31, 2016 and December 31, 2015, respectively ($114.3 million and $121.9 million, respectively, before giving effect to reinsurance).

SGI's estimates of reserves are determined based on an analysis of results of cash flow models. The models project expected cash flows from the underlying mortgage notes. The model output is dependent on, and sensitive to, key assumptions regarding default rates, draw rates, draw periods, recoveries and prepayment rates, among others. The cash flow from the mortgages is then run through the payment "waterfall" as set forth in the indenture for each transaction. Claims in respect of principal generally result when the outstanding principal balance of the mortgages is less than the outstanding principal balance of the insured notes, except when the principal balance is due for payment on the scheduled maturity date. Recoveries result when cash flow from the mortgages is available for repayment, typically after the insured notes are paid off in full.

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

SGI generally observed peak defaults for the second lien transactions in 2009 and 2010. Default rates at March 31, 2016 are mostly forecasted with steady state default rates. Exceptions to this may include transactions for which there is an excessive build-up of severely delinquent loans for which defaults are anticipated or transactions whose collateral includes loans whose interest-only periods will end, at which point temporary increases to default rates are expected.

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

SGI's default assumptions for the first lien transactions at March 31, 2016 were based on current delinquent loans and analysis of historical defaults for loans with similar characteristics. A loss severity was applied to the first lien defaults ranging from 41.8% to 66.8% based upon actual loss severity observances and collateral characteristics to determine the expected loss on the collateral in those transactions.

SGI has exercised rights available to it in connection with its insurance of certain RMBS to require the sponsor of such securities and/or the originator of mortgage loans backing such securities to repurchase mortgage loans backing such securities that breached certain representations and warranties and/or to pay damages, and in the case of claims against GreenPoint, these claims are now being pursued by U.S. Bank as indenture trustee. While a sponsor and GreenPoint have disputed, and may in the future dispute, their obligations to repurchase all or a portion of these mortgages and/or to pay damages, if SGI or the indenture trustee is successful in enforcing its rights, whether through litigation or otherwise, it will reduce the ultimate losses SGI expects to incur through its insurance of the aforementioned securities. As of March 31, 2016, SGI recorded a net benefit for a portion of SGI's interest in noticed putbacks, which include approximately $527 million in original principal balance of mortgage loans putbacks that have been noticed to date by U.S. Bank which, despite the strength of SGI's or indenture trustee's claims, are subject to material discounts for the inherent uncertainty of litigation, timing and collectability. The amount of noticed putbacks may increase through future repurchase demands. SGI's discounted interest in this benefit

is recorded in SGI's financial statements through a reduction in reserves for losses that it would otherwise have had to carry. Given the inherent uncertainty of litigation, no assurance can be given that SGI or indenture trustee will be successful in enforcing its rights to require a sponsor or GreenPoint to repurchase the mortgage loans and/or pay damages discussed above or, if successful, in collecting. If SGI or indenture trustee were successful in enforcing these rights, the ability of SGI to realize a financial benefit from the repurchase of mortgages loans and/or damages paid by a sponsor or GreenPoint is limited to the losses incurred by SGI through its insurance of the RMBS backed by such mortgages and by the financial ability of the sponsor or GreenPoint to honor their obligations. As a result, and due to the risks involved in any litigation, the actual recoveries and therefore the benefit to SGI may vary materially (favorably or unfavorably) from SGI's estimates.

Public Finance

During the three months ended March 31, 2016 and 2015, SGI recorded a provision for losses and loss adjustment expenses, after giving effect to reinsurance, of $12.6 million and $6.2 million, respectively, relating to its guarantees of public finance transactions. As of March 31, 2016 and December 31, 2015, SGI's reserves for unpaid losses and loss adjustment expenses on such guarantees, after giving effect to reinsurance, were $35.3 million and $22.8 million ($87.4 million and $62.5 million before giving effect to reinsurance).

Structured Single Risk

During the three months ended March 31, 2016 and 2015, SGI recorded a (benefit) provision for losses and loss adjustment expenses, after giving effect to reinsurance, of $(5.5) million and $9.6 million, respectively, relating to its guarantees of structured single risk transactions. As of March 31, 2016 and December 31, 2015, SGI's reserves for unpaid losses and loss adjustment expenses on such guarantees, after giving effect to reinsurance, were $(198.8) million and $(190.9) million ($(198.4) million and $(190.1) million before giving effect to reinsurance).

Collateralized Debt Obligations

During the three months ended March 31, 2016 and 2015, SGI recorded a benefit for losses and loss adjustment expenses, after giving effect to reinsurance, of $0 million, relating to its guarantees of CDOs. Reserves for unpaid losses and loss adjustment expenses on such guarantees, after giving effect to reinsurance, were $0.8 million as of March 31, 2016 ($0.8 million before giving effect to reinsurance). Such reserves relate to one transaction with total gross principal exposure of $2.2 million at March 31, 2016.

Reserves for unpaid losses and loss adjustment expenses on such guarantees, after giving effect to reinsurance, were $0.8 million as of December 31, 2015 ($0.8 million before giving effect to reinsurance). Such reserves relate to one transaction with total gross principal exposure of $2.2 million at December 31, 2015.

Other Underwriting Expenses

Other underwriting expenses were $6.2 million for the three months ended March 31, 2016, a decrease of $2.3 million as compared to $8.5 million for the three months ended March 31, 2015. The decrease resulted primarily from lower compensation for employee services and professional services (including legal, financial advisory, consulting, accounting and tax services) of $(1.0) million and lower operating expenses of $(1.1) million.

SGI and its affiliates are parties to a Second Amended and Restated General Services Agreement, whereby Syncora Guarantee Services Inc. provides SGI and its affiliates with general services, including substantially all personnel support, certain office overhead and expenses, rent, information technology services and other items. Under the terms of such agreement, the costs of the aforementioned services are charged to SGI and its affiliates in accordance with the requirements of NYDFS Insurance Regulation 30. For the three months ended March 31, 2016 and 2015, SGI incurred costs under this agreement in the amount of $4.1 million and $5.3 million, respectively.

Net Investment Income

Net investment income was $7.0 million for the three months ended March 31, 2016, an increase of $0.4 million, as compared to $6.6 million for the three months ended March 31, 2015. The increase in net investment income was primarily due to the higher level of average invested assets coupled with a longer duration.

The following tables present investment income, net of fees, average invested assets, and the effective yield for the three months ended March 31, 2016 and 2015, and the duration of SGI's invested assets as of March 31, 2016 and 2015:

	Three Months Ended March 31,	
(U.S. dollars in thousands)	**2016**	**2015**
Investment income, net of fees	$ 7,032	$ 6,561
Average invested assets[(1)]	$1,252,783	$1,170,491
Effective yield[(2)]	2.25%	2.24%

(1) Represents the average of the amortized cost of debt securities, other invested assets, short-term investments and cash and cash equivalents for the respective periods.

(2) Effective yield represents investment income, net of fees as a percentage of average invested assets. The increase in effective yield was mainly due to disposition of lower yielding bonds to fund loss related and remediation activity.

	As of March 31,	
	2016	**2015**
Duration (in years)	1.6	1.5

Net Realized Capital Gains

Net realized capital gains on investments were $0.7 million for three months ended March 31, 2016, as compared to net realized capital gains of $0.8 million for the three months ended March 31, 2015. The net realized capital gains for the three months ended March 31, 2016 were primarily due to realized gains on dispositions of uninsured cash flow certificates of $0.9 million, partially offset by other than temporary impairments of $(0.2) million on bonds in the portfolio.

Current Federal Income Tax Benefit

Under SHI's tax sharing agreement with its subsidiaries, a complimentary method is used which results in reimbursement by profitable affiliates to loss affiliates for tax benefits generated by loss affiliates. As a result of this tax sharing agreement, SGI recorded a $2.9 million tax benefit for current federal and foreign income taxes during the three months ended March 31, 2016 compared to a $1.0 million tax benefit during the three months ended March 31, 2015.

Statements of Admitted Assets, Liabilities and Capital and Surplus:

The following table presents Statements of Admitted Assets, Liabilities and Capital and Surplus as of December 31, 2015 and 2014:

(U.S. dollars in thousands)	As of December 31, 2015	2014
Admitted Assets		
Cash and invested assets		
Bonds, at amortized cost	$ 872,250	$ 884,210
Common stock	—	59,406
Derivatives	521	3,182
Other invested assets	229,094	165,670
Cash, cash equivalents and short-term investments	138,547	92,147
Total cash and invested assets	1,240,412	1,204,615
Premiums receivable	945	2,370
Amounts recoverable from reinsurers	516	370
Investment income due and accrued	2,930	2,807
Receivable from parent, subsidiaries and affiliates	109	1,491
Other assets	4,534	7,878
Total admitted assets	$ 1,249,446	$ 1,219,531
Liabilities and Capital and Surplus		
Liabilities		
Unearned premiums	$ 111,061	$ 141,637
Losses (recoverables) and loss adjustment expenses	(45,407)	111,302
Reinsurance payable on paid loss and loss adjustment expenses	—	462
Mandatory contingency reserve	85,147	98,454
Ceded reinsurance premiums payable	151	164
Payable for securities	—	3,774
Other expenses	3,695	966
Deferred gain	—	139
Payable to parent, subsidiaries and affiliates	7,485	6,219
Provision for reinsurance	133	199
Taxes, licenses and fees	224	219
Total liabilities	162,489	363,535
Capital and surplus		
Common stock	15,000	15,000
Preferred stock	200,000	200,000
Surplus notes	584,334	584,334
Gross paid-in capital and contributed surplus	2,046,972	2,046,972
Unassigned deficit	(1,759,349)	(1,990,310)
Total capital and surplus	1,086,957	855,996
Total liabilities and capital and surplus	$ 1,249,446	$ 1,219,531

Discussion of Statements of Admitted Assets, Liabilities and Capital and Surplus as of December 31, 2015 and 2014

Set forth below is a discussion of certain line items of the Statements of Admitted Assets, Liabilities and Capital and Surplus above.

Cash and Invested Assets

Cash and invested assets were $1,240.4 million at December 31, 2015, an increase of $35.8 million, compared to $1,204.6 million at December 31, 2014. The increase is primarily the result of $53.8 million of net investment income, $23.7 million of unrealized gains on other invested assets, $14.7 million of net premium receipts and $1.3 million of other income, partially offset by $38.7 million of expenses paid primarily related to operating, loss adjustment, commission and other expenses, $11.2 million of net claim and commutation related payments, $5.8 million of unrealized foreign exchange loss and $2.7 million of unrealized losses on derivatives held.

Premiums Receivable

Premiums receivable were $0.9 million at December 31, 2015, a decrease of $1.5 million, as compared to $2.4 million at December 31, 2014. The decrease is primarily due to a reduction in receivable balance from SGI-UK as a result of the termination of the quota share reinsurance agreement with SGI-UK upon the effectiveness of the Part VII Transfer.

Investment Income Due and Accrued

See discussion of net investment income below.

Receivable from Parent, Subsidiaries and Affiliates

Receivable from parent, subsidiaries and affiliates were $0.1 million and $1.5 million at December 31, 2015 and at December 31, 2014, respectively. The $1.4 million decrease represents $1.5 million of payments to SGI from Pike Pointe and SHI on their December 31, 2014 balances due SGI partially offset by a $0.1 million December 31, 2015 SGI receivable due from SCAI.

Other Assets

Other assets were $4.5 million at December 31, 2015, a decrease of $3.4 million, as compared to $7.9 million at December 31, 2014. The net decrease was primarily due to a return of the $3.8 million collateral deposit in 2015 as a result of the associated policy termination.

Unearned Premiums

Unearned premiums were $111.1 million at December 31, 2015, a decrease of $30.5 million, as compared to $141.6 million at December 31, 2014. The decrease was primarily due to the recognition of premiums earned from the upfront business and Premium Accelerations (as defined below) as a result of the effect of management's active remediation efforts during the year.

Losses (Recoverables) and Loss Adjustment Expenses

Losses (recoverables) and loss adjustment expenses were $(45.4) million at December 31, 2015, a change of $(156.7) million, as compared to $111.3 million at December 31, 2014. This positive change was primarily driven by the release of reserves related to transactions in December 2015 that commuted and reinsured key structured single risk credits with refinancing, foreign exchange and/or index-linked risks, as well as structured RMBS credits, in addition to an increase in salvage recoverable.

Mandatory Contingency Reserve

Pursuant to section 6903 of the NYIL, the NYDFS granted SGI approval, in connection with the preparation of our statutory basis financial statements as of and for the year ended December 31, 2015 and 2014, to release statutory basis contingency reserves on terminated policies, synthetically commuted policies

and policies on which we have established case basis reserves for losses. Effective for both the year ended December 31, 2015 and 2014, the NYDFS confirmed that SGI may apply the permitted practice described above to release contingency reserves on an obligation by obligation basis under policies insuring multiple obligations rather than on a policy by policy basis.

Mandatory contingency reserve was $85.1 million at December 31, 2015, a decrease of $13.4 million, as compared to $98.5 million at December 31, 2014. The decrease was primarily due to $(11.2) million of contingency reserves released pursuant to SGI's permitted accounting practices noted above and $(6.2) million of reinsurance contingency reserves ceded, partially offset by $4.0 million of normal accretion to contingency reserves on the in-force business.

Other Expenses

Other expenses were $3.7 million at December 31, 2015, an increase of $2.7 million, as compared to $1.0 million at December 31, 2014. The increase is principally due to accruals related to legal, professional and consulting fees.

Payable to Parent, Subsidiaries and Affiliates

Payable to parent, subsidiaries and affiliates was $7.5 million at December 31, 2015, an increase of $1.3 million, as compared to $6.2 million at December 31, 2014. The increase is due to $3.0 million increase in SGI's liability to Syncora Guarantee Services Inc. for charges under the general services agreement, partially offset by SGI's payment to SCAI of its December 31, 2014 balance due of $1.8 million.

SGI and its affiliates are parties to a Second Amended and Restated General Services Agreement, whereby Syncora Guarantee Services Inc. provides SGI and its affiliates with general services, including substantially all personnel support, certain office overhead and expenses, rent, information technology services and other items. Under the terms of such agreement, the costs of the aforementioned services are charged to SGI and its affiliates in accordance with the requirements of NYDFS Insurance Regulation 30. For the year ended December 31, 2015 and 2014, SGI incurred costs under this agreement in the amount of $19.4 million and $18.9 million, respectively.

Preferred Capital Stock

Refer to Note 13.B of SGI's 2015 Annual Statement for information regarding SGI's preferred capital stock. There was no change in the preferred capital stock.

Existing SGI Surplus Notes

The carrying value of Existing SGI Surplus Notes were $584.3 million at December 31, 2015 and December 31, 2014.

In 2009, SGI issued $625.0 million face amount of surplus notes. Pursuant to a permitted accounting practice granted to SGI by the NYDFS, SGI reports the carrying value of the Existing SGI Surplus Notes at a face value amount of $625.0 million, as compared to the estimated fair value thereof, that SGI would otherwise have been required to reflect such Existing SGI Surplus Notes at in accordance with NAIC SAP. Any adjustment to the carrying value of Existing SGI Surplus Notes would result in an equal and offsetting adjustment to unassigned funds. As both surplus notes and unassigned funds are elements of capital and surplus, a change in the value of the Existing SGI Surplus Notes would not impact capital and surplus.

Gross Paid-In and Contributed Surplus

There was no change in the gross paid-in-capital and contributed surplus. The balance for gross paid-in and contributed surplus was $2,047.0 million at December 31, 2015 and 2014.

Unassigned Deficit

The unassigned deficit was $(1,759.3) million at December 31, 2015, a positive change of $231.0 million, as compared to a deficit of $(1,990.3) million at December 31, 2014. The improvement was primarily attributable to $209.0 million in net income, a change of $17.9 million of net unrealized gains, $13.3 million in mandatory contingency reserves, partially offset by $(2.7) million in unrealized loss of derivative asset and $(6.6) million in change in non admitted assets.

Statements of Income

The following table presents Statements of Income data for the year ended December 31, 2015 and 2014:

(U.S. dollars in thousands)	Year Ended December 31, 2015	Year Ended December 31, 2014
Underwriting Income		
Net premiums earned	$ 43,346	$ 49,210
Underwriting deductions		
Net (benefit) losses and loss adjustment expense	(140,958)	118,263
Other underwriting expenses	36,262	27,531
Total underwriting deductions	(104,696)	145,794
Net underwriting income (loss)	148,042	(96,584)
Investment Income		
Net investment income	39,433	36,475
Net realized capital gains	14,382	1,311
Net investment income	53,815	37,786
Fees and other income	668	1,140
Income (loss) before federal income taxes benefit	202,525	(57,658)
Current federal income tax benefit	(6,444)	(4,916)
Net income (loss)	$ 208,969	$ (52,742)

Discussion of Statements of Income for the Year Ended December 31, 2015 and 2014

Set forth below is a discussion of the change in certain line items of the Statements of Income above.

Net Premiums Earned

Premiums charged in connection with the issuance of SGI's policies are received either upfront or in installments. Such premiums are recognized as written when due. Accordingly, under NAIC SAP, future installment premiums are not recognized as receivable until they are due. Once due, installment premiums written are earned ratably over the installment period, generally one to six months, which is consistent with the expiration of the underlying risk or amortization of the underlying insured principal. Upfront premiums written are earned based on the proportion of principal and interest paid during the period, as compared to the total amount of principal and interest to be paid over the contractual life of the insured debt obligation.

In addition, when an insured issue is retired early, is called by the issuer or is in substance paid in advance through a refunding accomplished by placing U.S. Government securities in escrow, any remaining unearned premium revenue is earned at that time since there is no longer risk to SGI. Also, premiums earned may be accelerated as a result of SGI's remediation transactions, which result in SGI no longer being at risk (hereafter collectively referred to as "Premium Accelerations"). While financial guarantee premiums assumed are earned based on reports from the reinsured companies, we believe that the

underlying reinsured companies generally follow the revenue recognition policies and practices discussed above.

The following table presents, for the year ended December 31, 2015 and 2014, the amount of earned premiums attributable to upfront and installment policies and contracts:

(U.S. dollars in thousands)	Year Ended December 31, 2015	2014
Net premiums earned:		
Upfront policies/contracts	$30,399	$29,791
Installment policies/contracts	12,947	19,419
Net premiums earned	$43,346	$49,210

Net premiums earned were $43.3 million for the year ended December 31, 2015, a decrease of $5.9 million, as compared to $49.2 million for year ended December 31, 2014. The increase in upfront earned premiums is primarily attributed to higher earnings from Premium Accelerations in 2015 compared to 2014. The decrease in installment premiums earned is primarily due to lower earnings from the installment premium book of business as a result of the reduction of the insured portfolio.

Discussion of Certain Components of Net Premiums Earned for the Year Ended December 31, 2015 as Compared to the Year Ended December 31, 2014

Direct Premiums Written

Financial guarantee insurance premiums written during the period include: (i) premiums received upfront on insurance policies and (ii) installment premiums due during the period on in-force insurance policies. Accordingly, SGI's guarantee premiums written during any period are a function of the mix of such business. SGI ceased writing substantially all new business since January 2008.

The following table presents, for the year ended December 31, 2015 and 2014, the amount of direct premiums written attributable to upfront and installment policies.

(U.S. dollars in thousands)	Year Ended December 31, 2015	2014
Direct premiums written:		
Upfront policies/contracts	$59,401	$ 3,957
Installment policies/contracts	13,225	14,285
Total direct premiums written	$72,626	$18,242

Direct premiums written were $72.6 million for the year ended December 31, 2015, an increase of $54.4 million, from $18.2 million for the year ended December 31, 2014. Upfront premiums written increased as a result of the novated policies from SGI-UK. The lower installment premiums written is mainly due to terminations and the runoff of the installment book of business.

Reinsurance Premiums Assumed

The majority of SGI's financial guarantee reinsurance business was assumed from SGI-UK (see Note 10 of SGI's 2015 Annual Statement) and Assured Guaranty Municipal Corp.

The following table presents, for the year ended December 31, 2015 and 2014, the amount of premiums assumed from SGI-UK, Assured Guaranty Municipal Corp. and other third-party companies.

(U.S. dollars in thousands)	Year Ended December 31, 2015	2014
Assumed premiums written:		
Affiliate – SGI-UK	$(56,051)	$1,317
Assured Guaranty Municipal Corp.	3,786	5,599
XL Insurance (Bermuda) Ltd.	104	130
Third-party primary companies	—	30
Total assumed premiums written	$(52,161)	$7,076

Reinsurance premiums assumed were $(52.2) million for the year ended December 31, 2015, a decrease of $(59.3) million as compared to $7.1 million for the year ended December 31, 2014. The decrease is mainly due to the termination of the quota share reinsurance agreement with SGI-UK upon the effectiveness of the Part VII Transfer.

Ceded Premiums

The following table presents, for the year ended December 31, 2015 and 2014, the amount of premiums ceded to SCAI and other third-party reinsurers:

(U.S. dollars in thousands)	Year Ended December 31, 2015	2014
Ceded premiums written:		
SCAI	$6,037	$6,070
Other third-party reinsurers	1,657	112
Total premiums ceded written	$7,694	$6,182

Ceded premiums were $7.7 million for the year ended December 31, 2015, an increase of $1.5 million as compared to $6.2 million for the year ended December 31, 2014. The increase in other third party reinsurance is mainly the result of SGI's remediation related transactions.

Net (Benefit) Losses and Loss Adjustment Expenses

Net (benefit) losses and loss adjustment expenses include current year net (benefit) losses incurred and adverse or favorable development of prior year net losses and loss adjustment expenses.

The following table presents, for the periods indicated, the activity in SGI's reserves for losses and loss adjustment expenses, net of reinsurance:

(U.S. dollars in thousands)	
Net ending balance, December 31, 2013	$(258,784)
Case reserve provision	113,520
Loss adjustment expense	4,743
Net losses and loss adjustment expenses	118,263
Paid losses and loss adjustment expenses	251,823
Net ending balance, December 31, 2014	111,302
Case reserve benefit	(146,633)
Loss adjustment expense	5,675
Net (benefit) losses and loss adjustment expense	(140,958)
Paid losses and loss adjustment expenses	(15,751)
Net ending balance, December 31, 2015	$ (45,407)

Net (benefit) for losses and loss adjustment expenses incurred were $(141.0) million and $118.3 million for the year ended December 31, 2015 and 2014, respectively. The benefit was primarily driven by the release of reserves related to the commutation transactions noted above, as well as improved recoveries on loss exposures. See below for further discussion.

Asset-Backed Securities

For the year ended December 31, 2015 and 2014, SGI recorded a benefit for losses and loss adjustment expenses, after giving effect to reinsurance, of $(23.9) million and $(29.2) million, respectively, relating to its guarantees of insured obligations related to RMBS, supported by HELOC, CES, and Alt-A (first lien mortgages ineligible for purchase by Fannie Mae or Freddie Mac) mortgage loan collateral. Reserves for unpaid losses and loss adjustment expenses on such guarantees, after giving effect to reinsurance, were $121.9 million and $142.5 million as of December 31, 2015 and 2014, respectively ($121.9 million and $142.5 million, respectively, before giving effect to reinsurance).

SGI's estimates of reserves are determined based on an analysis of results of cash flow models. The models project expected cash flows from the underlying mortgage notes. The model output is dependent on, and sensitive to, key assumptions regarding default rates, draw rates, draw periods, recoveries and prepayment rates, among others. The cash flow from the mortgages is then run through the payment "waterfall" as set forth in the indenture for each transaction. Claims in respect of principal generally result when the outstanding principal balance of the mortgages is less than the outstanding principal balance of the insured notes, except when the principal balance is due for payment on the scheduled maturity date. Recoveries result when cash flow from the mortgages is available for repayment, typically after the insured notes are paid off in full.

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

SGI generally observed peak defaults for the second lien transactions in 2009 and 2010. Default rates at December 31, 2015 are mostly forecasted with steady state default rates. Exceptions to this may include transactions for which there is an excessive build-up of severely delinquent loans for which defaults are anticipated or transactions whose collateral includes loans whose interest-only periods will end, at which point temporary increases to default rates are expected.

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

SGI's default assumptions for the first lien transactions at December 31, 2015 were based on current delinquent loans and analysis of historical defaults for loans with similar characteristics. A loss severity was applied to the first lien defaults ranging from 42.3% to 67.3% based upon actual loss severity observances and collateral characteristics to determine the expected loss on the collateral in those transactions.

SGI has exercised rights available to it in connection with its insurance of certain RMBS to require the sponsor of such securities and/or the originator of mortgage loans backing such securities to repurchase mortgage loans backing such securities that breached certain representations and warranties and/or to pay damages, and in the case of claims against GreenPoint, these claims are now being pursued by U.S. Bank as indenture trustee. While a sponsor and GreenPoint have disputed, and may in the future dispute, their obligations to repurchase all or a portion of these mortgages and/or to pay damages, if SGI or the indenture trustee is successful in enforcing its rights, whether through litigation or otherwise, it will reduce the ultimate losses SGI expects to incur through its insurance of the aforementioned securities (see Note 21 of SGI's 2015 Annual Statement). As of December 31, 2015 and December 31, 2014, SGI recorded a net benefit for a portion of SGI's interest in noticed putbacks, which include approximately $527 million in original principal balance of mortgage loan putbacks that have been noticed to date by U.S. Bank which, despite the strength of SGI's or indenture trustee's claims, are subject to material discounts for the inherent uncertainty of litigation, timing and collectability. The amount of noticed putbacks may increase through future repurchase demands. SGI's discounted interest in this benefit is recorded in SGI's financial

statements through a reduction in reserves for losses that it would otherwise have had to carry. Given the inherent uncertainty of litigation, no assurance can be given that SGI or indenture trustee will be successful in enforcing its rights to require a sponsor or GreenPoint to repurchase the mortgage loans and/or pay damages discussed above or, if successful, in collecting. If SGI or indenture trustee were successful in enforcing these rights, the ability of SGI to realize a financial benefit from the repurchase of mortgages loans and/or damages paid by a sponsor or GreenPoint is limited to the losses incurred by SGI through its insurance of the RMBS backed by such mortgages and by the financial ability of the sponsor or GreenPoint to honor their obligations. As a result, and due to the risks involved in any litigation, the actual recoveries and therefore the benefit to SGI may vary materially (favorably or unfavorably) from SGI's estimates.

Public Finance

During the year ended December 31, 2015 and 2014, SGI recorded a provision (benefit) for losses and loss adjustment expenses, after giving effect to reinsurance, of $19.5 million and $(6.0) million, respectively, relating to its guarantees of public finance transactions. As of December 31, 2015 and 2014, SGI's reserves for unpaid losses and loss adjustment expenses on such guarantees, after giving effect to reinsurance, were $22.8 million and $11.4 million ($62.5 million and $33.5 million before giving effect to reinsurance).

Structured Single Risk

During the year ended December 31, 2015 and 2014, SGI recorded a (benefit) provision for losses and loss adjustment expenses, after giving effect to reinsurance, of $(136.7) million and $155.8 million, respectively, relating to its guarantees of structured single risk transactions. As of December 31, 2015 and 2014, SGI's reserves for unpaid losses and loss adjustment expenses on such guarantees, after giving effect to reinsurance, were $(190.9) million and $(43.3) million ($(190.1) million and $(43.3) million before giving effect to reinsurance).

Collateralized Debt Obligations

During the year ended December 31, 2015 and 2014, SGI recorded a provision (benefit) for losses and loss adjustment expenses, after giving effect to reinsurance, of $0.1 million and $(2.3) million, respectively, relating to its guarantees of CDOs. Reserves for unpaid losses and loss adjustment expenses on such guarantees, after giving effect to reinsurance, were $0.8 million as of December 31, 2015 ($0.8 million before giving effect to reinsurance). Such reserves relate to one transaction with total gross principal exposure of $2.2 million at December 31, 2015.

Reserves for unpaid losses and loss adjustment expenses on such guarantees, after giving effect to reinsurance, were $0.7 million as of December 31, 2014 ($0.7 million before giving effect to reinsurance). Such reserves relate to one transaction with total gross principal exposure of $2.2 million at December 31, 2014.

Other Underwriting Expenses

Other underwriting expenses were $36.3 million for the year ended December 31, 2015, an increase of $8.8 million as compared to $27.5 million for the year ended December 31, 2014. The increase resulted primarily from higher compensation expenses, as well as increased professional services (including legal, financial advisory, consulting, accounting and tax services) related to SGI's strategic initiatives.

SGI and its affiliates are parties to a Second Amended and Restated General Services Agreement, whereby Syncora Guarantee Services Inc. provides SGI and its affiliates with general services, including substantially all personnel support, certain office overhead and expenses, rent, information technology services and other items. Under the terms of such agreement, the costs of the aforementioned services are charged to SGI and its affiliates in accordance with the requirements of NYDFS Insurance Regulation 30. For the year ended December 31, 2015 and 2014, SGI incurred costs under this agreement in the amount of $19.4 million and $18.9 million, respectively.

Net Investment Income

Net investment income was $39.4 million for the year ended December 31, 2015, an increase of $2.9 million, as compared to $36.5 million for the year ended December 31, 2014. The increase in net investment income was primarily due to the higher level of average invested assets coupled with a longer duration.

The following tables present investment income, net of fees, average invested assets, and the effective yield for the year ended December 31, 2015 and 2014, and the duration of SGI's invested assets as of December 31, 2015 and 2014:

(U.S. dollars in thousands)	Year Ended December 31, 2015	Year Ended December 31, 2014
Investment income, net of fees[1]	$ 39,433	$ 36,475
Average invested assets[2]	$1,212,403	$1,146,485
Effective yield[3]	3.25%	3.18%

(1) Net investment income includes $12.2 million and $12.2 million of interest earned on surplus note of SCAI for the year ended December 31, 2015 and December 31, 2014, respectively.

(2) Represents the average of the amortized cost of debt securities, other invested assets, short-term investments and cash and cash equivalents for the respective periods.

(3) Effective yield represents investment income, net of fees as a percentage of average invested assets. The increase in effective yield was mainly due to 2015's mix of investment holdings with longer-duration, higher-yielding securities as compared to 2014.

	As of December 31, 2015	As of December 31, 2014
Duration (in years)	1.5	1.3

Net Realized Capital Gains

Net realized capital gains on investments were $14.4 million, before provision for capital gains tax expense of zero for year ended December 31, 2015, as compared to net realized capital gains of $1.7 million before provision for capital gains tax expense of $(0.4) million for the year ended December 31, 2014. The net realized capital gains for the year ended December 31, 2015 were primarily due to realized gains on dissolution of the common stock of SGI-UK of $17.4 million, realized gains on dispositions of uninsured cash flow certificates and bonds of $0.4 million and $0.3 million, respectively, and the recapture of $0.1 million of previously deferred capital gains on securities transferred in the initial capitalization of SCAI, partially offset by other than temporary impairments of $3.7 million on bonds in the portfolio.

Current Federal Income Tax Benefit

Under SHI tax sharing agreement with its subsidiaries, a complimentary method is used which results in reimbursement by profitable affiliates to loss affiliates for tax benefits generated by loss affiliates. As a result of this tax sharing agreement, SGI recorded a current federal income tax benefit of $(6.7) million that was partially offset by a $0.3 million foreign tax provision during the year ended December 31, 2015 compared to current federal income tax benefit of $(5.6) million that was partially offset by a $0.7 million foreign tax provision during the year ended December 31, 2014.

Statements of Admitted Assets, Liabilities and Capital and Surplus:

The following table presents Statements of Admitted Assets, Liabilities and Capital and Surplus data for the as of December 31, 2014 and 2013:

(U.S. dollars in thousands)	As of December 31, 2014	2013
Admitted Assets		
Cash and invested assets		
Bonds, at amortized cost	$ 884,210	$ 678,624
Common stock	59,406	58,297
Derivatives	3,182	7,033
Other invested assets	165,670	186,425
Cash, cash equivalents and short-term investments	92,147	89,248
Total cash and invested assets	1,204,615	1,019,627
Premiums receivable	2,370	3,275
Amounts recoverable from reinsurers	370	163
Investment income due and accrued	2,807	2,116
Receivable from parent, subsidiaries and affiliates	1,491	3,655
Other assets	7,878	5,684
Total admitted assets	$ 1,219,531	$ 1,034,520
Liabilities and Capital and Surplus		
Liabilities		
Unearned premiums	$ 141,637	$ 171,711
Losses and loss adjustment expenses	111,302	(258,784)
Reinsurance payable on paid loss and loss adjustment expenses	462	(42)
Mandatory contingency reserve	98,454	102,449
Ceded reinsurance premiums payable	164	72
Payable for securities	3,774	—
Other expenses	966	13,864
Deferred gain	139	1,042
Payable to parent, subsidiaries and affiliates	6,219	30,718
Provision for reinsurance	199	24
Taxes, licenses and fees	219	134
Total liabilities	363,535	61,188
Capital and surplus		
Common stock	15,000	15,000
Preferred stock	200,000	200,000
Surplus notes	584,334	584,334
Gross paid-in capital and contributed surplus	2,046,972	2,046,972
Unassigned deficit	(1,990,310)	(1,872,974)
Total capital and surplus	855,996	973,332
Total liabilities and capital and surplus	$ 1,219,531	$ 1,034,520

Discussion of Statements of Admitted Assets, Liabilities and Capital and Surplus as of December 31, 2014 and 2013

Set forth below is a discussion of certain line items of the Statements of Admitted Assets, Liabilities and Capital and Surplus above.

Cash and Invested Assets

Cash and invested assets were $1,204.6 million at December 31, 2014, an increase of $185.0 million, compared to $1,019.6 million at December 31, 2013. The increase is primarily the result of net claim and commutation related benefits of $275.9 million (JPMorgan settlement proceeds of $400 million, partially offset by net claim and commutation related payments), $38.2 million of net investment gain, $20.0 million net premium receipts, $3.7 million of federal income tax recovered, partially offset by $64.1 million of expenses paid primarily related to operating, loss adjustment, commissions and other expenses, $54.4 million of unrealized losses on other invested assets, $25.9 million of other cash applied and $8.0 million of unrealized foreign exchange loss.

Premiums Receivable

Premiums receivable were $2.4 million at December 31, 2014, a decrease of $0.9 million, as compared to $3.3 million at December 31, 2013. The decrease is primarily due to terminations and the runoff of the installment premium book of business.

Investment Income Due and Accrued

See discussion of net investment income below.

Receivable from Parent, Subsidiaries and Affiliates

Receivable from parent, subsidiaries and affiliates were $1.5 million and $3.7 million at December 31, 2014 and at December 31, 2013, respectively, the $2.2 million decrease represents a lower admitted receivable balance due from Syncora Holdings US Inc. related to its tax sharing arrangement.

Other Assets

Other assets were $7.9 million at December 31, 2014, an increase of $2.2 million, as compared to $5.7 million at December 31, 2013. The net increase was primarily due to a $3.8 million collateral deposit made in 2014, partially offset by lower accounts receivable.

Unearned Premiums

Unearned premiums were $141.6 million at December 31, 2014, a decrease of $30.1 million, as compared to $171.7 million at December 31, 2013. The decrease was primarily due to the recognition of premiums earned of $29.7 million from the upfront business and the effect of SGI's remediation transactions.

Losses and Loss Adjustment Expenses

Losses and loss adjustment expenses (recoverable) were $111.3 million at December 31, 2014, a change of $370.1 million, as compared to $(258.8) million at December 31, 2013. The change from the December 31, 2013 balances reflect the effects of the receipt of cash from the JPMorgan settlement, adverse development in SGI's guarantees of structured single risk transactions, an increase to the recoverable amount related to a structured single risk transaction and positive development in SGI's guarantees of RMBS transactions.

Mandatory Contingency Reserve

Pursuant to section 6903 of the NYIL, the NYDFS granted SGI approval, in connection with the preparation of SGI's Statutory Financial Statements as of and for the year ended December 31, 2014 and 2013, to release statutory basis contingency reserves on terminated policies, synthetically commuted policies

and policies on which we have established case basis reserves for losses. Effective for both the year ended December 31, 2014 and 2013, the NYDFS confirmed that SGI may apply the permitted practice described above to release contingency reserves on an obligation by obligation basis under policies insuring multiple obligations rather than on a policy by policy basis.

Mandatory contingency reserve was $98.5 million at December 31, 2014, a decrease of $3.9 million, as compared to $102.4 million at December 31, 2013. The decrease was primarily due to $13.7 million of contingency reserves released pursuant to SGI's permitted accounting practices noted above, partially offset by $9.7 million of normal accretion to contingency reserves on the in-force business.

Other Expenses

Other expenses were $1.0 million at December 31, 2014, a decrease of $12.9 million, as compared to $13.9 million at December 31, 2013. The decrease is primarily due to $12.6 million of warrants that were ceded and distributed to a third-party reinsurer as a result of the Jefferson County settlement.

Deferred Gain

The gains on bonds transferred by SGI to SCAI to effect the Public Finance Reinsurance Agreement and the CDS Novation Agreement were required to be deferred by SGI and recognized on a basis consistent with the amortization of the individual securities or upon their sale, paydown or disposal.

As a result of dispositions of securities by SCAI in 2014, SGI amortized or recognized approximately $0.9 million of such deferred gains during the year ended December 31, 2014. As of December 31, 2014, the remaining balance of the aforementioned deferred gain was $0.1 million.

Payable to Parent, Subsidiaries and Affiliates

Payable to parent, subsidiaries and affiliates was $6.2 million at December 31, 2014, a decrease of $24.5 million, as compared to $30.7 million at December 31, 2013. The decrease is due to charges under SGI's general services agreements with Syncora Guarantee Services Inc. discussed below. Balances may fluctuate from period to period as a result of the timing of settlement payments.

SGI and its affiliates are parties to a Second Amended and Restated General Services Agreement, whereby Syncora Guarantee Services Inc. provides SGI and its affiliates with general services, including substantially all personnel support, certain office overhead and expenses, rent, information technology services and other items. Under the terms of such agreement, the costs of the aforementioned services are charged to SGI and its affiliates in accordance with the requirements of NYDFS Insurance Regulation 30. For the year ended December 31, 2014 and 2013, SGI incurred costs under this agreement in the amount of $18.9 million and $22.8 million, respectively.

Preferred Capital Stock

Refer to Note 13.B of SGI's 2014 Statutory Financial Statements for information regarding the SGI's preferred capital stock. There was no change in the preferred capital stock.

Existing SGI Surplus Notes

The carrying value of Existing SGI Surplus Notes was $584.3 million at December 31, 2014 and December 31, 2013.

In 2009, SGI issued $625.0 million face amount of the Existing SGI Surplus Notes. Pursuant to a permitted accounting practice granted to SGI by the NYDFS, SGI reports the carrying value the Existing SGI Surplus Notes at face value of $625.0 million, as compared to the estimated fair value thereof, that SGI would otherwise have been required to reflect such Existing SGI Surplus Notes at in accordance with NAIC SAP. Any adjustment to the carrying value of the Existing SGI Surplus Notes would result in an equal and offsetting adjustment to unassigned funds. As
both surplus notes and unassigned funds are elements of capital and surplus, a change in the value of the Existing SGI Surplus Notes would not impact capital and surplus.

Gross Paid-In and Contributed Surplus

There was no change in the Gross Paid-In-Capital and Contributed Surplus. The balance for gross paid-in and contributed surplus was $2,047.0 million at December 31, 2014 and 2013.

Unassigned Deficit

The unassigned deficit was $(1,990.3) million at December 31, 2014, a change of $117.3 million, as compared to a deficit of $(1,873.0) million at December 31, 2013. The change was primarily due to the current year net loss of $52.7 million and $54.4 million of net unrealized loss on its investment in subsidiaries.

Statements of Income

The following table presents Statements of Income data for the year ended December 31, 2014 and 2013:

	Year Ended December 31,	
(U.S. dollars in thousands)	**2014**	**2013**
Underwriting Income		
Net premiums earned	$ 49,210	$ 74,366
Underwriting deductions		
Net losses and loss adjustment expense (benefit)	118,263	(397,553)
Other underwriting expenses	27,531	33,267
Total underwriting deductions	145,794	(364,286)
Net underwriting (loss) income	(96,584)	438,652
Investment Income		
Net investment income	36,475	31,292
Net realized capital gains (losses)	1,311	(48,513)
Net investment income (loss)	37,786	(17,221)
Fees and other income	1,140	1,305
(Loss) Income before federal income taxes (benefit)	(57,658)	422,736
Current federal income tax (benefit) expense	(4,916)	31,238
Net (loss) income	$ (52,742)	$ 391,498

Discussion of Statements of Income for the Year Ended December 31, 2014 and 2013

Set forth below is a discussion of the change in certain line items of the Statements of Income above.

Net Premiums Earned

Premiums charged in connection with the issuance of SGI's policies are received either upfront or in installments. Such premiums are recognized as written when due. Accordingly, under NAIC SAP, future installment premiums are not recognized as receivable until they are due. Once due, installment premiums written are earned ratably over the installment period, generally one to nine months, which is consistent with the expiration of the underlying risk or amortization of the underlying insured principal. Upfront premiums written are earned based on the proportion of principal and interest paid during the period, as compared to the total amount of principal and interest to be paid over the contractual life of the insured debt obligation. In addition, when an insured issue is retired early, is called by the issuer or is in substance

paid in advance through a refunding accomplished by placing U.S. Government securities in escrow (hereafter collectively referred to as "Refundings"), the remaining unearned premiums is earned at that time. While financial guarantee premiums assumed are earned based on reports from the reinsured companies, we believe that the underlying reinsured companies generally follow the revenue recognition policies and practices discussed above.

The following table presents, for the year ended December 31, 2014 and 2013, the amount of earned premiums attributable to upfront and installment policies and contracts:

	Year Ended December 31,	
(U.S. dollars in thousands)	**2014**	**2013**
Net premiums earned:		
Upfront policies/contracts	$29,791	$49,589
Installment policies/contracts	19,419	24,777
Net premiums earned	$49,210	$74,366

Net premiums earned were $49.2 million for the year ended December 31, 2014, a decrease of $25.2 million or 33.9%, as compared to $74.4 million for year ended December 31, 2013. The decrease in upfront earned premiums is primarily attributed to lower earnings from Refundings in 2014 compared to 2013. The decrease in installment premiums earned is primarily due to lower earnings from the installment premium book of business as a result of the reduction of the insured portfolio.

Discussion of Certain Components of Net Premiums Earned for the Year Ended December 31, 2014 as Compared to the Year Ended December 31, 2013

Direct Premiums Written

Financial guarantee insurance premiums written during the period include: (i) premiums received upfront on insurance policies and (ii) installment premiums due during the period on in-force insurance policies. Accordingly, SGI's guarantee premiums written during any period are a function of the mix of such business. SGI ceased writing substantially all new business since January 2008.

The following table presents, for the year ended December 31, 2014 and 2013, the amount of direct premiums written attributable to upfront and installment policies.

	Year Ended December 31,	
(U.S. dollars in thousands)	**2014**	**2013**
Direct premiums written:		
Upfront policies/contracts	$ 3,957	$ —
Installment policies/contracts	14,285	17,686
Total direct premiums written	$18,242	$17,686

Direct premiums written were $18.2 million for the year ended December 31, 2014, an increase of $0.5 million or 2.8%, from $17.7 million for the year ended December 31, 2013. Upfront premium written increased due to the receipt of premiums as a result of a novated policy from SGI-UK. The lower installment premiums written is mainly due to terminations and the runoff of the installment book of business.

Reinsurance Premiums Assumed

The majority of SGI's financial guarantee reinsurance business is assumed from SGI-UK and Assured Guaranty Municipal Corp.

The following table presents, for the year ended December 31, 2014 and 2013, the amount of premiums assumed from SGI-UK, Assured Guaranty Municipal Corp. and other third-party companies.

(U.S. dollars in thousands)	Year Ended December 31, 2014	2013
Assumed premiums written:		
Affiliate – SGI-UK	$1,317	$ 6,696
Assured Guaranty Municipal Corp.	5,599	5,607
XL Insurance (Bermuda) Ltd.	130	253
Third-party primary companies	30	(315)
Total assumed premiums written	$7,076	$12,241

Reinsurance premiums assumed were $7.1 million for the year ended December 31, 2014, a decrease of $5.1 million as compared to $12.2 million for the year ended December 31, 2013. The decrease is mainly due to lower installment premiums written as a result of remediation transactions during the year and the runoff of the installment premium book of business.

Ceded Premiums

The following table presents, for the year ended December 31, 2014 and 2013, the amount of premiums ceded to SCAI and other third-party reinsurers:

(U.S. dollars in thousands)	Year Ended December 31, 2014	2013
Ceded premiums written:		
SCAI	$6,070	$6,159
Other third-party reinsurers	112	111
Total premiums ceded written	$6,182	$6,270

Ceded premiums remained flat and were $6.2 million and $6.3 million for the year ended December 31, 2014 and December 31, 2013, respectively.

Net Losses and Loss Adjustment Expenses Incurred

Net losses and loss adjustment expenses include current year net losses incurred and adverse or favorable development of prior year net losses and loss adjustment expenses reserves.

The following table presents, for the periods indicated, the activity in SGI's reserves for losses and loss adjustment expenses, net of reinsurance:

(U.S. dollars in thousands)	
Net ending balance, December 31, 2012	$ 209,558
Case reserve benefit	(410,267)
Loss adjustment expense	12,714
Net losses and loss adjustment benefit	(397,553)
Paid losses and loss adjustment expenses	(70,789)
Net ending balance, December 31, 2013	(258,784)
Case reserve provision	113,520
Loss adjustment expense	4,743
Net losses and loss adjustment expenses	118,263
Paid losses and loss adjustment expenses	251,823
Net ending balance, December 31, 2014	$ 111,302

SGI recorded a provision (benefit) for losses and loss adjustment expenses of $118.3 million and $(397.6) million for the year ended December 31, 2014 and 2013, respectively. The provision primarily reflects adverse development in SGI's guarantees of structured single risk transactions partially offset by positive development in SGI's guarantees of RMBS transactions. See below for discussion.

Collateralized Debt Obligations

During the year ended December 31, 2014 and 2013, SGI recorded a (benefit) provision for losses and loss adjustment expenses, after giving effect to reinsurance, of $(2.3) million and $0.4 million, respectively, relating to its guarantees of CDOs. Reserves for unpaid losses and loss adjustment expenses on such guarantees, after giving effect to reinsurance, were $0.7 million as December 31, 2014 ($0.7 million before giving effect to reinsurance). Such reserves relate to one transaction with total gross principal exposure of $2.2 million at December 31, 2014.

Reserves for unpaid losses and loss adjustment expenses on such guarantees, after giving effect to reinsurance, were $3.7 million as of December 31, 2013 ($3.7 million before giving effect to reinsurance). Such reserves relate to two transactions with total gross principal exposure of $9.6 million at December 31, 2013.

Asset-Backed Securities

For the year ended December 31, 2014 and 2013, SGI recorded a benefit for losses and loss adjustment expenses, after giving effect to reinsurance, of $(29.2) million and $(355.1) million, respectively, relating to its guarantees of insured obligations related to RMBS, supported by HELOC, CES, and Alt-A (first lien mortgages ineligible for purchase by Fannie Mae or Freddie Mac) mortgage loan collateral. Reserves for unpaid losses and loss adjustment expenses on such guarantees, after giving effect to reinsurance, were $142.5 million and $(233.9) million as of December 31, 2014 and December 31, 2013, respectively ($142.5 million and $(233.9) million, respectively, before giving effect to reinsurance).

SGI's estimates of reserves are determined based on an analysis of results of cash flow models. The models project expected cash flows from the underlying mortgage notes. The model output is dependent on, and sensitive to, key assumptions regarding default rates, draw rates, draw periods, recoveries and prepayment rates, among others. The cash flow from the mortgages is then run through the payment "waterfall" as set forth in the indenture for each transaction. Claims in respect of principal generally result when the outstanding principal balance of the mortgages is less than the outstanding principal balance of the insured notes, except when the principal balance is due for payment on the scheduled maturity date. Recoveries result when cash flow from the mortgages is available for repayment, typically after the insured notes are paid off in full.

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

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

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

SGI's default assumptions for the first lien transactions at December 31, 2014 were based on current delinquent loans and analysis of historical defaults for loans with similar characteristics. A loss severity was applied to the first lien defaults ranging from 46.3% to 75.7% based upon actual loss severity observances and collateral characteristics to determine the expected loss on the collateral in those transactions.

SGI has exercised rights available to it in connection with its insurance of certain RMBS to require the sponsor of such securities and/or the originator of mortgage loans backing such securities to repurchase mortgage loans backing such securities that breached certain representations and warranties and/or to pay damages, and in the case of claims against GreenPoint, these claims are now being pursued by U.S. Bank as indenture trustee. While a sponsor and GreenPoint have disputed, and may in the future dispute, their obligations to repurchase all or a portion of these mortgages and/or to pay damages, if SGI or the indenture trustee is successful in enforcing its rights, whether through litigation or otherwise, it will reduce the ultimate losses SGI expects to incur through its insurance of the aforementioned securities (see Note 21 to SGI's 2014 Statutory Financial Statements). As of December 31, 2014 and December 31, 2013, SGI estimated that it would realize a net benefit for certain of these cases from such recoveries, which are subject to material discounts for uncertainty, timing and collectability. This benefit is recorded in SGI's Statutory Financial Statements through a reduction in reserves for losses that it would otherwise have had to carry. Given the inherent uncertainty of litigation, no assurance can be given that SGI or the indenture trustee will be successful in enforcing its rights to require a sponsor or GreenPoint to repurchase the mortgages and/or pay damages discussed above or, if successful, in collecting. If SGI or indenture trustee were successful in enforcing these rights, the ability of SGI to realize a financial benefit from the repurchase of mortgages loans and/or damages paid by a sponsor or originator is limited to the losses incurred by SGI through its insurance of the RMBS backed by such mortgages and by the financial ability of the sponsor or GreenPoint to honor their obligations. As a result, and due to the risks involved in any litigation, the actual recoveries and therefore benefit to SGI may vary materially (favorably or unfavorably) from SGI's estimates. In addition, no benefit is available to SGI to the extent it defeased such insured RMBS through the acquisition of Insurance Cash Flow Certificates or the use of alternative structures which mirror the economics of the Insurance Cash Flow Certificates (see Note 21.H. to SGI's 2014 Statutory Financial Statements).

Public Finance

During the year ended December 31, 2014 and 2013, SGI recorded a benefit for losses and loss adjustment expenses, after giving effect to reinsurance, of $(6.0) million and $(34.9) million, respectively, relating to its guarantees of public finance transactions. As of December 31, 2014 and December 31, 2013, SGI's reserves for unpaid losses and loss adjustment expenses on such guarantees, after giving effect to reinsurance, were $11.4 million and $24.5 million ($33.5 million and $95.2 million before giving effect to reinsurance).

Structured Single Risk

During the year ended December 31, 2014 and 2013, SGI recorded a provision (benefit) for losses and loss adjustment expenses, after giving effect to reinsurance, of $155.8 million and $(8.0) million, respectively, relating to its guarantees of structured single risk transactions. The increase in the provision for losses was primarily due to refinements in the assumptions used in SGI's cash flow models based on research and information review. As of December 31, 2014 and December 31, 2013, SGI's reserves for unpaid losses and loss adjustment expenses on such guarantees, after giving effect to reinsurance, were $(43.3) million and $(53.1) million ($(43.3) million and $(48.6) million before giving effect to reinsurance).

Other Underwriting Expenses

Other underwriting expenses were $27.5 million for the year ended December 31, 2014, a decrease of $5.8 million as compared to $33.3 million for the year ended December 31, 2013. The decrease resulted primarily from (i) lower compensation for employee services and professional services (including legal, financial advisory, consulting, accounting and tax services) of $2.7 million (ii) lower operating expenses for information technology and related office expenses of $1.7 million and (iii) lower assumed commission expense of $1.3 million.

SGI and its affiliates are parties to a Second Amended and Restated General Services Agreement, whereby Syncora Guarantee Services Inc. provides SGI and its affiliates with general services, including substantially all personnel support, certain office overhead and expenses, rent, information technology

services and other items. Under the terms of such agreement, the costs of the aforementioned services are charged to SGI and its affiliates in accordance with the requirements of NYDFS Insurance Regulation 30. For the year ended December 31, 2014 and 2013, SGI incurred costs under this agreement in the amount of $18.9 million and $22.8 million, respectively.

Net Investment Income

Net investment income was $36.5 million for the year ended December 31, 2014, an increase of $5.2 million, as compared to $31.3 million for the year ended December 31, 2013. The increase in net investment income was primarily due to the higher average asset balances.

The following tables present investment income, net of fees, average invested assets, and the effective yield for the year ended December 31, 2014 and 2013, and the duration of SGI's invested assets as of December 31, 2014 and 2013:

	Year Ended December 31,	
(U.S. dollars in thousands)	**2014**	**2013**
Investment income, net of fees[(1)]	$ 36,475	$ 31,292
Average invested assets[(2)]	$1,146,485	$881,331
Effective yield[(3)]	3.18%	3.55%

(1) Net investment income includes $12.2 million and $12.2 million of interest earned on surplus note of Syncora Capital Assurance for the year ended December 31, 2014 and December 31, 2013, respectively.

(2) Represents the average of the amortized cost of debt securities, other invested assets, short-term investments and cash and cash equivalents for the respective periods.

(3) Effective yield represents investment income, net of fees as a percentage of average invested assets. The decrease in effective yield was mainly due to 2014's mix of investment holdings with a focus on shorter-duration, lower-yielding securities compared to 2013.

	As of December 31,	
	2014	**2013**
Duration (in years)	1.3	1.4

Net Realized Capital Gains (Losses)

Net realized capital gains on investments were $1.7 million, before provision for capital gains tax expense of $(0.4) million for the year ended December 31, 2014, as compared to net realized capital losses of $(48.5) million for the year ended December 31, 2013. The net realized capital gains for 2014 were primarily due to realized gains on dispositions of uninsured cash flow certificates and bonds of $2.7 million and $0.4 million, respectively, and the recapture of $0.9 million of previously deferred capital gains on securities transferred in the initial capitalization of SCAI, partially offset by other than temporary impairments of $2.3 million on uninsured cash flow certificates.

Current Federal Income Tax (Benefit) Expense

Under Syncora Holding US Inc. tax sharing agreement with its subsidiaries, a complimentary method is used which results in reimbursement by profitable affiliates to loss affiliates for tax benefits generated by loss affiliates. As a result of this tax sharing agreement, SGI recorded a current federal income tax benefit of $5.6 million that was partially offset by a $0.7 million foreign tax provision during the year ended December 31, 2014 compared to current federal tax provision of $31.2 million during the year ended December 31, 2013.

Liquidity Resources

SGI's liquidity resources are primarily used to pay its claims, operating expenses, premiums for reinsurance, and support in-force business. SGI's principal source of liquidity resources is its portfolio of invested assets. SGI's liquidity resources can be affected by the amount and timing of claim payments and changes in interest rates. SGI's liquid assets include its investments in debt securities, short-term investments and cash and cash equivalents.

At March 31, 2016 SGI's total liquid assets (including restricted cash and investments) aggregated $1,018.2 million, an increase of $7.4 million from $1,010.8 million at December 31, 2015. The increase is primarily the result of $7.8 million of net investment gain, $6.6 million of payable for securities, $3.0 million net premium receipts, $2.2 million of unrealized foreign exchange gain and $0.8 million of loss related benefits, partially offset by $10.3 million of expenses paid in the ordinary course of business, $2.6 million of other net cash applied.

At March 31, 2016, approximately 99.9% of SGI's debt securities, short-term investments and cash equivalents (excluding uninsured cash flow certificates of $59.0 million and other bonds purchased for remediation of $8.6 million) were rated investment grade.

At December 31, 2015 SGI's total liquid assets (including restricted cash and investments) aggregated $1,010.8 million, an increase of $34.4 million from $976.4 million at December 31, 2014. The increase is primarily the result of the dissolution of SGI-UK of $59.4 million, $53.8 million of net investment gain, $14.7 million net premium receipts and $1.3 million of other income, partially offset by $38.7 million of expenses paid primarily related to operating, loss adjustment, commission and other expenses, $34.9 million of additional investments in subsidiaries, $11.2 million of loss related payments, $2.5 million of other net cash applied and $5.8 million of unrealized foreign exchange loss.

At December 31, 2014, SGI's total liquid assets (including restricted cash and investments) aggregated $976.4 million, an increase of $208.5 million from $767.9 million at December 31, 2013. The increase is primarily the result of net claim and commutation related benefits of $275.9 million (JPMorgan settlement proceeds of $400 million, partially offset by net claim and commutation related payments), $38.2 million of net investment gain, $20.0 million net premium receipts, $3.7 million of federal income tax recovered, partially offset by $64.1 million of expenses paid primarily related to operating, loss adjustment, commissions and other expenses, $33.6 million of additional investments in subsidiaries, $25.9 million of other cash applied and $8.0 million of unrealized foreign exchange loss.

At December 31, 2015, approximately 99.9% of SGI's debt securities, short-term investments and cash equivalents (excluding uninsured cash flow certificates of $54.2 million and other bonds purchased for remediation of $8.5 million) were rated investment grade.

At December 31, 2014, approximately 100.0% of SGI's debt securities, short-term investments and cash equivalents (excluding uninsured cash flow certificates of $62.8 million and other bonds purchased for remediation of $9.5 million) were rated investment grade.

Cash Flows for the Three Months Ended March 31, 2016 and 2015

SGI reported net cash (used in) operating activities of $(2.5) million for the three months ended March 31, 2016, a change of $19.2 million from $(21.7) million at March 31, 2015. The decrease was primarily the result of lower net claim payments of $(26.0) million, partially offset by $6.8 million of higher expenses paid primarily related to operating, loss adjustment, commissions and lower premiums and investment income.

SGI reported net cash (used in) investments of $(54.8) million for the three months ended March 31, 2016, a change of $(42.1) million, as compared to $(12.7) million net cash (used in) investments for the three months ended March 31, 2015. The change was primarily attributable to redeployment of cash and equivalents into longer-term securities, coupled with lower proceeds from dispositions of investments used to fund operational needs during 2016, as compared to 2015.

SGI reported net cash (used in) financing and miscellaneous sources of $(2.6) million for the three months ended March 31, 2016, a change of $(6.6) million, as compared to net cash provided by financing and miscellaneous sources of $4.0 million for the three months ended March 31, 2015. The change was primarily attributable to fluctuation of intercompany balances.

Cash Flows for the Years Ended December 31, 2015 and 2014

SGI reported net cash (used in) operating activities of $(1.0) million for the year ended December 31, 2015, a decrease of $266.0 million from net cash provided by of $265.0 million at December 31, 2014. The decrease was primarily the result of the JPMorgan settlement proceeds of $400.0 million received in 2014,

partially offset by $25.4 million of lower expenses paid primarily related to operating, loss adjustment, commissions and other expense.

SGI reported net cash provided by investments of $42.9 million for the year ended December 31, 2015, a change of $279.1 million, as compared to $(236.2) million net cash (used in) investments for the year ended December 31, 2014. The change was primarily attributable to lower net purchases of investments in 2015. In 2014, the higher net purchases were the result of the deployment of proceeds from the JPMorgan settlement.

SGI reported net cash provided by financing and miscellaneous sources of $4.5 million for the year ended December 31, 2015, a change of $30.4 million, as compared to net cash (used in) financing and miscellaneous sources of $(25.9) million during 2014. The change was primarily attributable to fluctuation of intercompany balances.

Cash Flows for the Years Ended December 31, 2014 and 2013

SGI reported net cash provided by operating activities of $265.0 million for the year ended December 31, 2014, an increase of $125.7 million from $139.3 million at December 31, 2013. The increase was primarily the result of higher net claim benefits of $114.2 million primarily from litigation recovery, $13.7 million of lower expenses paid primarily related to operating, loss adjustment, commissions and other expenses, $3.6 million of higher net tax recoveries, partially offset by $4.3 million of lower net premium receipts, and $1.4 million of lower net investment income.

SGI reported net cash used in investments of $(236.2) million for the year ended December 31, 2014, a change of $85.2 million, as compared to $(151.0) million net cash used in investments for the year ended December 31, 2013. The change was primarily attributable to higher net purchases of investments, as a result of the deployment of proceeds from the JPMorgan settlement, partially offset by the proceeds from investments sold to fund operational needs.

SGI reported net cash used in financing and miscellaneous sources of $(25.9) million for the year ended December 31, 2014, a decrease of $50.2 million, as compared to net cash provided by financing and miscellaneous sources of $24.3 million during 2013. The change was primarily attributable to fluctuation of intercompany balances.

Contractual Obligations

Existing Surplus Notes

Payment of $150.0 million original principal balance of the Existing Short-Term Surplus Notes issued by SGI, together with paid-in-kind interest and accrued and unapproved interest, totaling approximately $169.6 million, that was scheduled to be paid on December 28, 2011, was subject to the satisfaction of certain conditions precedent, including prior regulatory approval by the NYDFS. SGI has sought such approval nine times since such date, none of which requests were granted. Although the terms of the Existing Short-Term Surplus Notes do not require SGI to seek the NYDFS approval for payments according to any schedule, SGI intends to seek approval for such payments on at least an annual basis.

In addition, had the NYDFS granted approval to do so, SGI would have been obligated by the terms of its Existing Long-Term Surplus Notes to pay interest thereon of approximately $97.5 million and $56.8 million on each of December 28, 2015 and December 28, 2014. SGI sought NYDFS approval for all scheduled interest payments on the Existing Long-Term Surplus Notes, including such amounts both prior to the scheduled payment dates and thereafter. The NYDFS has not to date approved such requests. In June 2016, SGI sought approval for payment of interest on its Existing Long-Term Surplus Notes, and on June 28, 2016, the NYDFS did not approve such payment. Notwithstanding SGI's litigation settlements, SGI remains exposed to significant risks and uncertainties that may materially and adversely affect its financial condition, liquidity position and ability to make payments on its surplus notes. Consequently, there is significant uncertainty and there can be no assurance as to whether and when the NYDFS would approve any future payments on the Existing SGI Surplus Notes.

Surplus Notes:

As of March 31, 2016

Date Issued	Interest Rate	Par Value (Face Amount of Notes)[3]	Carrying Value of Notes at March 31, 2016	Principal and Interest Paid for the Three Months Ended March 31, 2016	Total Interest and Principal Paid	Unapproved Principal and Interest	Date of Maturity
Surplus Notes held by Third Parties:							
7/15/2009	5.00%[1]	$144,197,488	$130,760,000	$ —	$ —	$180,704,978	12/28/2011
7/15/2009	6.00%[2]	574,944,298	453,574,000	—	—	93,084,907	6/27/2024
		$719,141,786	$584,334,000	$ —	$ —	$273,789,885	
Surplus Notes held by the Company:							
7/15/2009	5.00%	$ 21,217,189	$ 19,240,000	$ —	$ —	$ 26,588,894	12/28/2011
7/15/2009	6.00%	27,159,309	21,426,000	—	—	4,397,159	6/27/2024
		$ 48,376,498	40,666,000	$ —	$ —	$ 30,986,053	
Total Surplus Notes:							
7/15/2009	5.00%	$165,414,677	$150,000,000	$ —	$ —	$207,293,872	12/28/2011
7/15/2009	6.00%	602,103,607	475,000,000	—		97,482,066	6/27/2024
		$767,518,284	$625,000,000	$ —	$ —	$304,775,938	

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

(2) Interest on the Existing Long-Term Surplus Notes was payable semi-annually on June 27th and December 28th of each year (commencing December 28, 2009). Such interest was payable in cash or in-kind at the election of SGI through June 27, 2013. Interest subsequent to June 27, 2013 was required to be paid in cash, subject in each case to the prior approval of the NYDFS. Absent the satisfaction of the conditions to payment, including the approval of the NYDFS, SGI is not entitled to make payments on its Existing Long-Term Surplus Notes. Failure to make any payment as a result of the failure of any such condition (as in the present case) would not constitute a default thereunder. Accordingly, any interest not approved for payment by the NYDFS on or after December 28, 2013 will not be capitalized on the outstanding principal balance reflected above, but will continue to accrue interest at the existing rate. The outstanding principal balance of the Existing Long-Term Surplus Notes as of June 27, 2013 also will separately continue to accrue interest at such rate. Commencing on December 28, 2018, principal amortizes in twelve equal installments payable semi-annually on June 27th and December 28th through the maturity of the Existing Long-Term Surplus Notes.

(3) Includes interest paid-in-kind as of March 31, 2016 of $142.5 million.

As of December 31, 2015

Date Issued	Interest Rate	Par Value (Face Amount of Notes) [3]	Carrying Value of Notes at December 31, 2015	Principal and Interest Paid for the Year Ended December 31, 2015	Total Interest and Principal Paid	Unapproved Principal and Interest	Date of Maturity
Existing SGI Surplus Notes held by Third Parties:							
7/15/2009	5.00% [1]	$144,197,488	$130,760,000	$ —	$ —	$180,704,978	12/28/2011
7/15/2009	6.00% [2]	574,944,298	453,574,000	—	—	93,084,907	6/27/2024
		$719,141,786	$584,334,000	$ —	$ —	$273,789,885	
Existing SGI Surplus Notes held by the SGI:							
7/15/2009	5.00%	$ 21,217,189	$ 19,240,000	$ —	$ —	$ 26,588.894	12/28/2011
7/15/2009	6.00%	27,159,309	21,426,000	—	—	4,397,159	6/27/2024
		$ 48,376,498	$ 40,666,000	$ —	$ —	$ 30,986,053	
Total Existing SGI Surplus Notes:							
7/15/2009	5.00%	$165,414,677	$150,000,000	$ —	$ —	$207,293,872	12/28/2011
7/15/2009	6.00%	602,103,607	475,000,000	—	—	97,482,066	6/27/2024
		$767,518,284	$625,000,000	$ —	$ —	$304,775,938	

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

(2) Interest on the Existing Long-Term Surplus Notes was payable semi-annually on June 27th and December 28th of each year (commencing December 28, 2009). Such interest was payable in cash or in-kind at the election of SGI through June 27, 2013. Interest subsequent to June 27, 2013 was required to be paid in cash, subject in each case to the prior approval of the NYDFS. Absent the satisfaction of the conditions to payment, including the approval of the NYDFS, SGI is not entitled to make payments on its Existing SGI Surplus Notes. Failure to make any payment as a result of the failure of any such condition (as in the present case) would not constitute a default thereunder. Accordingly, any interest not approved for payment by the NYDFS on or after December 28, 2013 will not be capitalized on the outstanding principal balance reflected above, but will continue to accrue interest at the existing rate. The outstanding principal balance of the Existing Long-Term Surplus Notes as of June 27, 2013 also will separately continue to accrue interest at such rate. Commencing on December 28, 2018, principal amortizes in twelve equal installments payable semi-annually on June 27th and December 28th through the maturity of the Existing Long-Term Surplus Notes.

(3) Includes interest paid-in-kind as of December 31, 2015 of $142.5 million.

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

Each of the Existing SGI Surplus Notes noted in the table above ranks *pari passu*. In the event SGI is subject to liquidation or other such proceeding, claims for payment of policy payments and other obligations of SGI would be afforded greater priority than claims for payment under the Existing SGI Surplus Notes, but claims for distributions on SGI's equity securities would rank junior to such claims.

The following table presents SGI's undiscounted claim payments only for exposures in which SGI has loss reserves established as of March 31, 2016, due by period:

(US. dollars in millions)	2016	2017	2018	2019	2020	2021–2025	2026–2030	2031–2035	After 2035	Total
Estimated gross claim payments[1]	$29.1	$27.4	$19.8	$15.9	$13.8	$64.2	$72.3	$110.5	$202.3	$555.2
Total	$29.1	$27.4	$19.8	$15.9	$13.8	$64.2	$72.3	$110.5	$202.3	$555.2

(1) Represents estimated and undiscounted cash outflows under direct and assumed financial guarantee contracts, excluding remediated RMBS claims and after ceded insurance. The timing and ultimate amount of the claims payments, net of anticipated recoveries before giving effect to reinsurance, could differ materially from our estimated amounts. For information regarding the estimates for unpaid loss and loss expenses as well as factors affecting potential payment patterns of reserves for actual and potential claims related to our different lines of business, see "— Critical Accounting Policies and Estimates" above.

LEGAL PROCEEDINGS UPDATE

On May 27, 2016, Lehman Brothers filed a new motion against SGI in the bankruptcy court, seeking to disallow SGI's claim in its entirety or, in the alternative, to reduce the reserve on that claim to $0. In that motion, Lehman Brothers argues that (1) the claims set forth in the Syncora Claim fail to plead adequately a claim for relief under New York law; and (2) any contractual or other bases for relief that are not explicitly set forth in the proof of claim are barred by the Bankruptcy Court's Bar Date Order or, in the alternative, fail as a matter of law. SGI's response to this motion is due on July 15, 2016. A hearing on the motion is set for August 16, 2016.

Other Litigation

In May, Macquarie Capital (USA) Inc. filed a motion to dismiss SGI's amended complaint and, in the alternative, to narrow SGI's claims and damages. SGI's opposition to the motion to dismiss is due on July 18, 2016. Pretrial discovery is continuing and is anticipated to conclude in the fourth quarter of 2016