

SYNCORA HOLDINGS LTD.

Liquidation Basis Financial Statements

(Unaudited)

March 31, 2020 and for the

Three Months Then Ended

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Syncora Holdings Ltd.
Liquidation Basis Financial Statements
(Unaudited)
As of March 31, 2020 and for the Three Months Then Ended
(U.S.dollars in thousands)

Liquidation Basis Statement of Net Assets

Cash and cash equivalents	\$ 25,469
Equity investment, at liquidation value	3,000
Accrued expenses	(229)
Accrued estimated liquidation costs and income	<u>(261)</u>
Net assets in liquidation as of March 31, 2020	\$ 27,979

Liquidation Basis Statement of Changes in Net Assets

Net assets in liquidation, January 1, 2020	\$ 444,219
Cash distribution to common shareholders on January 31, 2020	(415,000)
Remeasurement of assets and liabilities	<u>(1,240)</u>
Net assets in liquidation as of March 31, 2020	\$ 27,979

See accompanying Notes to Liquidation Basis Financial Statements (Unaudited)

SYNCORA HOLDINGS LTD.
NOTES TO LIQUIDATION BASIS FINANCIAL STATEMENTS (Unaudited)

1. Organization

Syncora Holdings Ltd. (“Syncora Holdings” and together with its subsidiaries, the “Company”), a Bermuda holding company which was formed on March 17, 2006, historically provided, through its former wholly-owned subsidiary, Syncora Guarantee Inc., financial guarantee insurance and reinsurance. On March 4, 2019, the Company announced that its Board of Directors had commenced a formal review process to explore and evaluate strategic alternatives for the Company focused on optimizing shareholder value and returning capital to its shareholders. The review process resulted in Syncora Holdings entering into an agreement to sell Syncora Guarantee Inc. to Star Insurance Holdings LLC, an entity organized by GoldenTree Asset Management LP on behalf of their managed funds and accounts. The sale of Syncora Guarantee Inc. for \$429 million in cash was completed on December 30, 2019.

Following the completion of the sale of Syncora Guarantee Inc., Syncora Holdings’ remaining assets primarily consist of cash and cash equivalents, an 80% interest in Swap Financial Group, LLC (“Swap Financial”), its non-controlling interest in Crown Global Insurance Group, LLC, a Delaware limited liability company, (“Crown Global”), real property and an option on real property in Detroit, Michigan, and a certificate that can be presented to the City of Detroit for value when purchasing certain city-owned property in Detroit, Michigan. These remaining assets, other than cash, are held indirectly through subsidiaries of Syncora Holdings.

Recent Developments - Plan of Liquidation

Subsequent to the sale of Syncora Guarantee Inc., the Company’s Board determined that it was in the best interest of its shareholders to return capital and liquidate the Company. As such, the Company sought shareholder approval to adopt a plan of liquidation (“Plan of Liquidation”). The Plan of Liquidation was intended to constitute a plan of complete liquidation of the Company within the meaning of the Internal Revenue Code.

Under the Plan of Liquidation, the Company will cease to be a going concern, will not engage in any new business activities and will otherwise limit its activities to prosecuting and defending civil, criminal or administrative suits by or against the Company, and such other activities as will enable the Company to settle and close its business, to dispose of and convey its property, to discharge its liabilities, to distribute to its shareholders any remaining assets and to wind up its affairs. The Plan of Liquidation provided for an initial distribution of \$415 million (or approximately \$4.767 per share), comprising the net cash proceeds from the sale of Syncora Guarantee Inc. and other available cash and may also provide for subsequent distributions to shareholders. Once all liabilities have been satisfied and all remaining assets have been distributed to its shareholders, the Company will be dissolved.

On January 28, 2020, Syncora Holdings held a special General Meeting of Shareholders to adopt the Plan of Liquidation. At the Special General Meeting, over 99% of the shareholders that attended the Special General Meeting in person or by proxy voted in favor of adopting the Company’s Plan of Liquidation. In addition, on January 28, 2020 Syncora Holdings cancelled its 3,044,588 treasury shares and announced that its Board authorized a distribution of \$415 million or \$4.767 per share to be made to shareholders of record holding 87,057,571 of common shares as of January 29, 2020. The distribution was made on January 31, 2020.

Any future dividends to shareholders will be subject to the discretion and approval of the Syncora Holdings’ Board of Directors, applicable law and the liquidator, as and when appointed. As of March 31, 2020, the Company had 87,057,571 common shares issued and outstanding and 500,000,000 common shares authorized.

As a result of shareholder approval of the Company’s Plan of Liquidation on January 28, 2020, the Company has met the requirements for liquidation basis of accounting, which the Company adopted prospectively effective January 1, 2020 as discussed further in Note 3.

2. Description of Risks and Uncertainties and Certain Tax Considerations to Ownership of the Company's Common Shares

Risks and Uncertainties

The Company is exposed to the following risks and uncertainties that may materially affect the amounts the Company expects to collect in disposing its remaining assets and settling its outstanding liabilities.

- The remaining assets include the Company's 80% interest in Swap Financial, a non-controlling interest in Crown Global, real property and an option on real property in Detroit, Michigan, and a certificate that can be presented to the City of Detroit for value when purchasing certain city-owned property in Detroit, Michigan. These real property-related assets include certain requirements which may make them less valuable, and if not sold subjects them to potential repossession by the City of Detroit. The remaining assets may not have a readily ascertainable value, and the Company may not be able to monetize these assets for what it believes to be the fair market value, or find a buyer at all. In addition, the Company is currently involved in disputes related to certain of these assets, which may not be resolved favorably or at all, and which may have a negative effect on the value of these assets.
- The Company intends to retain cash to pay ongoing operating expenses, including expenses related to monetizing the remaining assets, salaries of personnel overseeing the liquidation, liquidator fees, legal fees, other overhead expenses, and expenses to satisfy any outstanding and contingent liabilities, including ongoing litigation. As a result, this cash will not be available to be paid to shareholders, except to the extent such cash is not ultimately spent as described above. In addition, the Company may have unknown liabilities that are presented while it is in liquidation, which may require it to satisfy those liabilities with cash on hand or cash generated from the sale of its remaining assets. Any such operating expenditure or unknown liability may reduce the amount of any subsequent distribution, or prevent any subsequent distribution from being paid.
- Given the recent outbreak of the coronavirus, the cascading effects of the coronavirus pandemic could increase expenses, affect the values of the remaining assets or the timing of their liquidation, or affect the timing of litigation due to court closures.
- The Company intends to treat any distributions to its shareholders as distributions in complete liquidation of the Company for U.S. federal income tax purposes. There can be no assurance that the Company will be able to complete the liquidation and dissolution in the manner and within the timeframe required by the IRS. Given the nature of the remaining assets and certain ongoing litigation relating thereto, the Company may not be able to monetize the remaining assets and complete the liquidation under Bermuda Law within three years from the adoption of the Plan of Liquidation. If the liquidation process takes longer than three years, there may be adverse U.S. federal income tax consequences to a U.S. holder of the Company's common shares.
- The Company has not requested a ruling from the IRS with respect to the anticipated U.S. federal income tax consequences of the Plan of Liquidation. The Company intends to accomplish the liquidation and dissolution in a manner that will qualify as a "complete liquidation" of the Company within the meaning of the Internal Revenue Code, but there can be no assurance that the Company's efforts to do so will be successful. If any of the anticipated tax consequences of the Plan of Liquidation prove to be incorrect, the result could be increased taxation at the corporate and/or shareholder level, thus reducing the benefit to the shareholders and the Company from the liquidation and dissolution. Shareholders are urged to consult their own tax advisors as to the specific tax consequences to them of the Plan of Liquidation in light of each shareholder's particular circumstances.

SYNCORA HOLDINGS LTD.
NOTES TO LIQUIDATION BASIS FINANCIAL STATEMENTS (Unaudited)

- If the Company is a “passive foreign investment company” (“PFIC”) for any taxable year (or portion thereof) that is included in the holding period of a U.S. person treated as a U.S. shareholder of its shares, such U.S. person may be subject to adverse U.S. federal income tax consequences and may be subject to additional reporting requirements. The determination as to whether the Company is a PFIC for any taxable year is based on the application of complex U.S. federal income tax rules. U.S. investors are urged to consult their own tax advisors regarding the possible application of the PFIC rules. While the Company does not believe it was a PFIC for 2019, and does not intend to become a PFIC in the future, if it were to do so, it could result in adverse U.S. federal income tax consequences for shareholders.
- Should the Company experience an “ownership change” for purposes of Section 382 of the Internal Revenue Code, the Company’s ability to utilize its net operating loss carryforwards and recognize certain built-in losses would be subject to an annual limitation in the future. Any such limitation could result in an increased U.S. federal income tax liability, which may not be fully offset by the Company’s net operating losses and therefore materially adversely affect the Company. While the Syncora Holdings’ bye-laws contain restrictions intended to reduce the likelihood of such an “ownership change,” it remains possible that an “ownership change” could nonetheless occur. These limitations may prevent Syncora Holdings from taking certain strategic actions and may reduce liquidity of trading in the Company’s common shares. These limitations could have a material adverse effect on the Company, or the amount of any liquidation or trading price of the Company’s common shares. In addition, although the Company has not taken any uncertain tax positions, the IRS may nonetheless disagree with the Company’s interpretation of this and other tax related matters which could result in a material adverse effect on the amount of U.S. net operating losses available to the Company to offset future taxable income.
- The Company is involved in legal proceedings. Management cannot predict the outcomes of these legal proceedings with certainty. These legal proceedings may involve significant expense. An unfavorable outcome could materially affect the amount of distributions shareholders may receive upon liquidation.
- The Company relies upon information technology and systems, including those of third parties, to support a variety of its business processes and activities. In addition, the Company has collected and stored confidential information. The Company’s data systems and those of third parties on which it relies may be vulnerable to security breaches from external and internal factors. Problems in, or security breaches of, these systems could result in, among other things, the disclosure or misuse of confidential or proprietary information, legal costs and regulatory penalties. As the Company’s business operations rely on the continuous availability of its computer systems, as well as those of certain third parties, a failure to maintain business continuity in the wake of disruptive events could prevent the timely completion of critical processes across its operations. These failures could result in additional costs, fines and litigation.
- The Company expects that its common shares will continue to trade for some period of time on the OTC Markets Pink market following the adoption of the Plan of Liquidation and the initial distribution, but may be volatile, experience substantial declines in price and have limited trading volume and any investment in the Company’s common shares is considered speculative.

3. Significant Accounting Policies

Basis of Presentation

As a result of the approval of the Plan of Liquidation, the Company’s basis of accounting changed from the going-concern basis to the liquidation basis of accounting. This basis of accounting is considered appropriate when liquidation of the Company is imminent, which, for the Company, was the date the shareholders approved the Plan of Liquidation. Although the Plan of Liquidation was approved by the shareholders on January 28, 2020, the Company is adopting the liquidation basis of accounting effective January 1, 2020 as a convenience date. Under the liquidation basis of accounting, the consolidated balance sheet, statement of operations and comprehensive income (loss), changes in shareholders’ equity and cash flows are no longer presented. The Statement of Net Assets and the Statement of Changes in Net Assets are the principal financial statements presented under the liquidation basis of accounting.

SYNCORA HOLDINGS LTD.
NOTES TO LIQUIDATION BASIS FINANCIAL STATEMENTS (Unaudited)

The accompanying unaudited liquidation basis financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information. In the opinion of management, all adjustments considered necessary for a fair presentation pursuant to these requirements have been included.

In preparing the liquidation basis financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that may affect the reported amounts of assets and liabilities, including the estimated liquidation values of assets and liabilities, and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of changes in net assets in liquidation during the reporting period. Actual results could differ materially from those estimates.

Liquidation Basis Statement of Net Assets

Under the liquidation basis of accounting, all of the Company’s assets are measured at their liquidation value (which represents the estimated amount of cash the Company expects to collect in settling and disposing of its assets). All liabilities are measured either at their contractual amounts or at the estimated amounts at which the liabilities are expected to be settled, including those estimated costs associated with implementing the Plan of Liquidation. These amounts are presented in the accompanying Liquidation Basis Statement of Net Assets. These estimates will be periodically reviewed and adjusted as appropriate. There can be no assurance that these estimated values will be realized. Such amounts should not be taken as an indication of the timing or amount of future distributions or the Company’s actual liquidation. The valuation of assets and liabilities represent estimates, based on present facts and circumstances, and the costs associated with carrying out the Plan of Liquidation. The Company’s assumptions and estimates as of March 31, 2020 are based on completing the liquidation by December 31, 2020. The actual values and costs associated with carrying out the Plan of Liquidation are expected to differ from amounts reflected in the accompanying financial statements because of the plan’s inherent uncertainty. These differences may be material. In particular, the estimates of the Company’s costs will vary with the length of time necessary to complete the Plan of Liquidation. Accordingly, it is not possible to predict with certainty the timing to complete the Plan of Liquidation or the aggregate amount which may ultimately be distributed to shareholders and no assurance can be given that the distributions will equal the estimate presented in the accompanying Liquidation Basis Statement of Net Assets.

Liquidation Basis Statement of Changes in Net Assets

The Liquidation Basis Statement of Changes in Net Assets presents those changes that occurred since January 1, 2020, the date we adopted Liquidation Basis of Accounting. The Liquidation Basis Statement of Changes in Net Assets for the period presented includes summarized increases and decreases in net assets resulting from cash distributions to common shareholders and remeasurement of assets and liabilities.

Cash and Cash Equivalents

The Company’s cash and cash equivalents include cash on hand and money market funds, as well as amounts restricted as to withdrawal and use which include deposits held in escrow accounts and cash deposits. The Company defines cash equivalents as short-term, highly liquid securities and interest earning deposits with maturities at time of purchase of 90 days or less.

Cash and cash equivalents also include the Company’s interest in Swap Financial’s cash on hand as of March 31, 2020. As a result of the uncertainty surrounding the resolution of pending litigation (see Note 5) and the monetization of Swap Financial, the Company has established a policy to carry Swap Financial at the value of its controlling interest in its cash on hand, which is also within a range of liquidation values as determined by management. As of March 31, 2020, the carrying value of Swap Financial was \$0.5 million.

SYNCORA HOLDINGS LTD.
NOTES TO LIQUIDATION BASIS FINANCIAL STATEMENTS (Unaudited)

Equity Investment, at Liquidation Value

The Company's equity investment represents a non-controlling interest in Crown Global. In 2015, the Company acquired an approximately 13% interest in Crown Global for \$4.9 million in connection with its strategy at the time to match assets with its mid-to-long term expected liabilities. In connection with the sale of Syncora Guarantee Inc. to Star Insurance Holdings LLC on December 30, 2019, the Company adjusted its cost basis in Crown Global to \$3.0 million, which is its current carrying value as of March 31, 2020. As a result of this investment, the Company is also entitled to a cumulative preferential cash distribution in an amount equal to 4.5% per year (payable quarterly) through May 26, 2021.

Accrued Expenses

Accrued expenses as of March 31, 2020 represent fees for professional services being rendered to the Company.

Accrued Estimated Liquidation Costs and Income

The liquidation basis of accounting requires the Company to estimate net cash flows from operations and to accrue all costs associated with implementing and completing the Plan of Liquidation. These amounts can vary significantly due to, among other things, the costs of retaining personnel to oversee the liquidation, the timing and amounts associated with discharging known and contingent liabilities and the costs associated with cessation of the Company's operations, including an estimate of costs subsequent to that date. As a result, the Company has accrued the projected costs, including fees and expenses related to monetizing the remaining assets, ongoing operating expenses, salaries of personnel overseeing the liquidation, liquidator fees, legal fees and other overhead expenses. These costs are anticipated to be paid throughout the liquidation period. In addition, as discussed further below, estimated projected income from the sale of some or all of its real property-related assets in Detroit, Michigan is accrued as well. Accrued estimated liquidation costs and income will be adjusted from time to time as projections and assumptions change.

Real Property-Related Assets in Detroit, Michigan

The Company owns real property and an option on real property in Detroit, Michigan, and a \$6.0 million face value certificate that can be presented to the City of Detroit to offset up to 50% of the purchase price for certain city-owned property in Detroit, Michigan. These real property-related assets include certain requirements, including that (1) construction on the real property interest owned by the Company begin on such property within 15 months and be completed within 39 months of December 10, 2019, the date when the Company took ownership, (2) the real property option be exercised before December 10, 2021 and that construction begin on such property within 15 months and be completed within 39 months of exercising the option, and (3) the purchase certificate be used by December 10, 2054 and is restricted to property located within a three mile radius from the center of the downtown riverfront. These conditions may make these real property-related assets less marketable and less valuable, and subjects them to the risk of potential repossession by the City of Detroit.

4. Income Taxes

Syncora Holdings is not subject to any taxes in Bermuda on either income or capital gains under current Bermuda law. In the event that there is a change such that these taxes are imposed, Syncora Holdings would be exempted from any such tax until March 2035 pursuant to Bermuda law.

As the Company is a Bermuda corporation and, except for gross basis withholding taxes on U.S. source investment income, neither it nor its previous non-U.S. subsidiaries have paid U.S. Federal corporate income taxes, on the basis that they are not engaged in a trade or business or otherwise subject to taxation in the United States. However, because definitive identification of activities which constitute being engaged in a trade or business in the United States is not provided by the Internal Revenue Code of 1986, as amended, regulations or court decisions, there can be no assurance that the Internal Revenue Service would not contend that the Company or its previous non-U.S. subsidiaries are engaged in a trade or business or otherwise subject to taxation in the United States.

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NOTES TO LIQUIDATION BASIS FINANCIAL STATEMENTS (Unaudited)

SHI (the U.S. common parent of the Syncora Holdings' group) files a consolidated U.S. federal tax return with its other U.S. based subsidiaries. SHI maintains a tax sharing agreement with its subsidiaries, whereby each subsidiary determines its payment due to/from SHI on a separate company return basis. Further, if the subsidiary's separate return computation results in a taxable loss for the period, SHI is obligated to reimburse the subsidiary to the extent that such loss reduces the Company's consolidated income tax liability. The tax sharing agreement calls for the reimbursement to take place within thirty days of SHI filing its federal consolidated tax return.

As of March 31, 2020 and December 31, 2019, respectively, the Company had no unrecognized tax benefits and no adjustments to liabilities were required. Tax years 2017 through 2019 are subject to examination by U.S. federal tax authorities. There are currently no state or local tax audits underway for the Company as of March 31, 2020.

The sale of 100% of Syncora Guarantee Inc's common stock on December 30, 2019 resulted in a tax capital loss of \$274 million for SHI. However, U.S. Treasury Regulation Section 1.1502-36 allows the Company to reattribute the tax capital loss of \$274 million as net operating losses that can be carried forward. These net operating losses retain both their IRC Sec. 382 limitation, as well as their original expiry dates.

As of March 31, 2020, the Company's cumulative net operating losses, which may be carried forward to offset future taxable income, are approximately \$290 million. The Company's ability to utilize its net operating losses as of March 31, 2020 expires from 2027 through 2040. Approximately \$161.3 million of the Company's net operating losses are subject to limitation under Section 382 of the Internal Revenue Code as a result of an ownership change, as defined under that code section that occurred on August 5, 2008. An ownership change, as defined under Section 382 generally occurs if the percentage stock ownership of shareholders owning (or deemed under Section 382 to own) 5% or more of Syncora Holdings' common shares increases by more than 50 percentage points over the lowest percentage of Syncora Holdings' common shares owned by such shareholders during a defined period of time. To avoid an ownership change in the future and further limitation on the use of the Company's net operating losses, on October 21, 2008, Syncora Holdings' Board of Directors approved changes to Syncora Holdings' Bye-laws which were subsequently approved by the shareholders on February 9, 2009 to limit the transfer of shares prior to the expiration of certain time periods specified in such Bye-laws.

The Company's significant net operating losses may reduce future U.S. tax liabilities that otherwise would be payable by the Company. The ability to utilize these net operating losses would be limited in certain events, including if an "ownership change" under Section 382 were to occur. Section 382 limits the ability of a corporation that experiences an ownership change to utilize its net operating losses and certain built-in losses after the ownership change. An ownership change is generally any 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 groupings of shareholders each of whom owns less than the 5% threshold) or any change 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 by its "pre-change losses" (which include its net operating losses) 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. These limitations generally prohibit transactions that result in the creation of a new 5% shareholder or increases the ownership interest of an existing 5% shareholder. A 5% shareholder for this purpose is defined in Syncora Holdings bye-laws by reference to Section 382 and the Treasury Regulations issued thereunder, and includes "public groups". A prohibited transaction under Syncora Holdings bye-laws is void at inception.

No value attributable to the income tax benefit of the net operating losses are included in these liquidation basis financial statements.

5. Commitments and Contingencies

Legal Matters

In September 2018, a service provider whose relationship with Swap Financial had been terminated filed a complaint in Federal Court claiming, in part, inaccurate payments by Swap Financial for services provided by the service provider. Swap Financial denied all of the service provider's claims. In September 2019, the Federal Court granted Swap Financial's motion to dismiss the complaint. The service provider re-filed its lawsuit in State Court, adding vicarious liability and direct claims against Syncora Holdings and certain of its former subsidiaries. In December 2019, Syncora Holdings and its subsidiaries named in the suit made a motion to dismiss all of the claims asserted against them. Swap Financial made a motion to dismiss all the claims asserted against it, with the exception of certain contract claims, for which it sought partial dismissal. As of March 31, 2020, the Company has not accrued a liability or an estimated future liquidation cost with respect to this matter.

On May 8, 2020, the Court granted in its entirety the motion of Syncora Holdings and its subsidiaries, dismissing all claims against those entities. The Court granted in part, the motion of Swap Financial, dismissing all claims except the contract claims.

Severance

Under company policy, the aggregate remaining severance commitments to current and former employees of the Company is approximately \$3.0 million as of March 31, 2020. These amounts are reflected as accrued estimated liquidation costs on the Liquidation Basis Statement of Net Assets.

Lease

The Company entered into a two year lease commitment for its New York office premises commencing on December 15, 2018. The aggregate remaining lease commitment through December 15, 2020 is approximately \$0.5 million as of March 31, 2020 and is also reflected as an accrued estimated liquidation cost on the Liquidation Basis Statement of Net Assets.

6. Subsequent Events

The Company has evaluated all subsequent events through May 15, 2020, the date the liquidation basis financial statements were available to be issued.