Global Credit Research
Credit Opinion
8 AUG 2008

Credit Opinion: Syncora Holdings Ltd.

Syncora Holdings Ltd.

Hamilton, Bermuda

Ratings

Category	Moody's Rating
Rating Outlook	NEG
Syncora Guarantee Inc.	
Rating Outlook	RUR
Insurance Financial Strength	B2
Syncora Guarantee (U.K.) Ltd.	
Rating Outlook	RUR
Insurance Financial Strength	B2
Syncora Guarantee Re Ltd.	
Rating Outlook	RUR
Insurance Financial Strength	B2

Contacts

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Key Indicators

[1]
Syncora Holdings Ltd.

	2007	2006	2005	2004	2003
Gross Par Written [2]	$ 66,973	$ 50,561	$ 32,750	$ 33,655	$ 23,261
Gross Premiums Written	$ 378	$ 409	$ 285	$ 277	$ 319
Net Par Outstanding	$ 165,012	$ 118,012	$ 81,891	$ 66,934	$ 42,883
Hard Capital (Statutory)	$ 3,359	$ 2,834	$ 1,934	$ 1,462	$ 1,070
Net Income to Common Shares (GAAP)	$ (1,225)	$ 117	$ 80	$ 59	$ 61
Strategy & Franchise Value					
% of Industry Net Par Outstanding	6.3%	5.1%	3.9%	3.5%	2.5%
% of Industry Gross Par Written [2]	10.6%	8.8%	6.1%	7.2%	5.6%
Portfolio Characteristics					
Credit Risk Ratio (bps)	85.5	51.8	51.9	43.7	39.3
Tail Risk Ratio (bps)	288.9	168.3	169.4	154.2	168.2
Capital Adequacy					
Aaa Hard Capital Ratio [3]	0.78x	1.43x	1.38x	1.45x	1.50x
Aaa Total Capital Ratio [3]	0.72x	1.39x	1.35x	1.42x	1.28x
Reinsurance Utilization	10.2%	23.6%	30.2%	na	na
Profitability					
Adjusted Return on Equity	-48.7%	11.0%	10.2%	6.7%	8.8%
Loss Ratio (GAAP)	334.0%	8.2%	17.1%	18.3%	19.4%
Expense Ratio (GAAP on NPW)	38.8%	24.1%	32.6%	24.8%	23.2%
Financial Flexibility					
Earnings Coverage	NM	17.2x	10.8x	4.0x	5.7x
Cash Flow Coverage	6.6x	46.2x	na	na	na
Double Leverage	98.0%	97.1%	na	na	na

[1] Dollar Amounts in Millions [2] Excludes reinsurance gross par written [3] as of March 31, 2008, estimated Aaa capital adequacy ratios were 0.61x (hard capital ratio) and 0.53x (total capital ratio)

Opinion

SUMMARY RATING RATIONALE

Moody's B2 insurance financial strength ratings (on review for possible upgrade) on the operating subsidiaries of Syncora Holdings Ltd. (formerly Security Capital Assurance Ltd), including Syncora Guarantee Inc. ("SG" - formerly XL Capital Assurance Inc.) and Syncora Guarantee Re Ltd. ("SG Re" - formerly XL Financial Assurance Ltd.)("SCA Group") reflect the group's weakened capital position due to incurred losses among mortgage-related exposures, including direct RMBS and ABS CDOs, which could experience significant additional losses under stress scenarios. The proximity of SG and SG Re to minimum regulatory capital requirements relative to our estimations of expected case losses heightens concerns related to capital adequacy. This development has also adversely impacted the company's franchise value, as SCA is not currently writing new business, as well as its profitability and financial flexibility. The company has not been able to raise new capital in recent months and its access to capital is currently impaired.

On July 28, 2008, SCA announced that it has reached an agreement with XL Capital Ltd ("XL") providing for the termination, elimination or commutation of certain reinsurance, guarantees and other agreements with XL and its affiliates in return for a payment by XL of $1.775 billion in cash and 8 million shares of XL Class A ordinary shares. SCA also announced it has reached an agreement with Merrill Lynch & Co., Inc. for the termination of eight credit default swaps on ABS CDOs written by SG in return for a $500 million cash payment to Merrill Lynch. Following the closing of these transactions on August 5, 2008, Moody's placed the insurance financial strength ratings of SG and SG Re on review for possible upgrade.

Syncora Holdings Ltd. (NYSE: SCA), based in Hamilton, Bermuda, is a holding company whose primary operating subsidiaries, SG and SG Re, provide credit enhancement and protection products to the public finance and structured finance markets throughout the United States and internationally. As of March 31, 2008, SCA Group had net par outstanding of approximately $155 billion.

Credit Strengths

Key credit strengths for SCA include:

- Recent agreement with XL Capital Ltd to terminate/commute various reinsurance arrangements and guarantees provides meaningful additional claims-paying resources.

- Recent agreement with Merrill Lynch to commute 8 CDS contracts on ABS CDOs eliminates significant tail loss contribution and improves capital adequacy position

- Excluding mortgage-related exposures, well-diversified insured portfolio with nominal liquidity needs

- Ability to pay claims over an extended period of time

Credit Challenges

Key credit challenges for SCA include:

- Weakened capital position resulting from losses among RMBS and ABS CDO exposures

- Proximity of SG and SG Re to minimum regulatory capital requirements

- Future strategic direction of the firm is uncertain

- Sensitivity of insurance portfolio to credit cycle and some large single-name exposures

- Current access to capital is impaired

Rating Outlook

On August 6, 2008, Moody's placed the B2 insurance financial strength ratings of SG and SG Re on review for possible upgrade. In the same rating action, Moody's confirmed the debt and preferred stock ratings of SCA with a negative outlook. The review for possible upgrade on the insurance financial strength ratings of SG and SG Re reflects the significant improvement to SCA's capital adequacy position and upward pressure on the ratings following the successful completion of the aforementioned transactions with XL and Merrill Lynch. However, Moody's stated that the insurance financial strength ratings are likely to remain non-investment grade at the conclusion of our rating review given the continued uncertainty with respect to SCA's remaining mortgage-related exposures and currently impaired franchise.

In the case of SCA's commutation agreement with Merrill, the negotiated settlement has some elements that are typically associated with a distressed exchange, though such a determination is ultimately a matter of judgment, and depends on the specific circumstances of the guarantor as well as the amount of the settlement compared to the economic value of the hedge.

What Could Change the Rating - Up

The following factors could result in an upgrade:

- The ability of the company to restructure certain mortgage-related ABS CDO exposures that results in the mitigation of modeled tail loss volatility

- Injection of capital from current or outside investors or through the commutation of certain reinsurance arrangements

What Could Change the Rating - Down

The following factors could result in a downgrade:

- Failure to remain in compliance with all regulatory capital requirements (minimum capital and single risk/aggregate risk limits)

- Hard and total capital ratios (measured at a confidence level consistent with a B2 rating) falling below 1.3x, without corrective action)

- Increased stress loss assumption parameters for mortgage-related risks

Recent Results and Developments

For the three months ended March 31, 2008, SCA recorded a net loss available to common shareholders of $97 million. As of March 31, 2008, SCA had shareholders' equity of approximately $348 million.

DETAILED RATING CONSIDERATIONS

Moody's rates SG and SG Re B2 for insurance financial strength, which is six notches below the Baa2 rating produced by Moody's unadjusted rating scorecard (for additional details, please refer to the "other credit considerations" section, below).

Insurance Financial Strength Rating

The key factors currently influencing the rating and outlook are:

Factor 1 - Franchise Value and Strategy: < Baa

Moody's adjusts SCA's scorecard rating for this factor downward to < Baa from Aa. Prior to the onset of the US residential mortgage crisis, SCA had made significant strides in improving its market position in the industry, but the company's weakened capital position has resulted in the company not writing new business, which adversely impacts its franchise value. The company's significant losses arising from ABS CDOs indicates that risk management controls failed to fully identify and avoid potential risks in this segment of the portfolio, resulting in a qualitative assessment relating to management, governance and risk management oversight indicative of a Baa-rated company.

Factor 2 - Portfolio Characteristics: Baa

Moody's adjusts SCA's scorecard rating for this factor downward to Baa from A. SCA's 1Q2008 credit risk and tail risk ratios of 165 basis points and 370 basis points, respectively, are now much higher than more typical levels in the past due to increased modeled losses among mortgage-related exposures. As calculated by Moody's, SCA's non-investment grade insured portfolio exposures approximated 9% at year-end 2007, largely due to significant downward credit rating migration among RMBS and ABS CDO exposures.

Factor 3 - Capital Adequacy: < Baa

SCA Group's estimated 1Q2008 Aaa total capital ratio, at 0.53x, is consistent with a target 1.3x capital adequacy ratio in the single-B category. The company's capital adequacy ratios could be volatile over the near to intermediate term if mortgage-related exposures deteriorate beyond current stress case expectations. Moody's notes that the company also has significant exposure to the Jefferson Country Alabama Sewer system, which is currently facing financial stress, and could result in losses for SCA during 2008. SCA's reinsurance utilization was 10.2% at year-end 2007.

Factor 4 - Profitability: < Baa

During 2007, SCA posted an operating ROE of approximately -48.7% due to significant incurred losses among mortgage-related exposures, primarily second lien RMBS and ABS CDOs. This figure excludes after-tax unrealized mark to market losses on the company's credit derivative portfolio, since such losses do not necessarily indicate economic losses (though they may be indicative of credit deterioration among certain CDS exposures). Here, Moody's expects continued volatility in reported GAAP net income due to unrealized mark to market losses on CDS.

Factor 5 - Financial Flexibility: < Baa

Moody's adjusts SCA's financial flexibility in the scorecard downward to non-investment grade, reflecting the company's impaired access to the capital markets and prospective earnings and fixed charge coverage metrics that have been adversely impacted by incurred losses among mortgage-related exposures. SCA has elected to omit dividends on its holding company preference shares.

Other Considerations

The B2 insurance financial strength ratings of SG and SG Re are six notches below the Baa2 rating produced for SCA Group by Moody's unadjusted rating scorecard. The difference is primarily due to the downward adjustments made due to the group's greatly diminished franchise value and its impaired financial flexibility.

Rating Factors

Syncora Holdings Ltd.

Financial Strength Rating Scorecard [1]	**Aaa**	**Aa**	**A**	**Baa**	**< Baa**	**Score**	[2]**Adjusted Score**
Strategy & Franchise Value (25%)						**Aa**	**< Baa**
% of Industry Net Par Outstanding		**6.3%**					
% of Industry Gross Par Written [3]	**10.6%**						
Moody's Adjusted Book Value/Book Value	**1.90x**						
Client Concentration	**x**						
Management, Governance & Risk Management Oversight				**x**			
Portfolio Characteristics (20%)						**A**	**Baa**
Credit Risk Ratio [4]				**165.0**			
Tail Risk Ratio [4]			**370.0**				
% Below Investment Grade			**9.0%**				
S (WCL > 10% of HC) / HC	**16%**						
Capital Adequacy (30%)						**< Baa**	**< Baa**
Hard Capital Ratio [4]					**x**		
Total Capital Ratio [4]					**x**		
Par Reinsured		**10.2%**					
Profitability (15%)						**< Baa**	**< Baa**
Return on Equity - 3 year average					**-9.2%**		
Loss Ratio (SAP) - 3-year average					**119.8%**		

Expense Ratio (SAP) - 3-year average		**31.8%**					
Financial Flexibility (10%)						**A**	**< Baa**
Earnings Coverage					**0.0x**		
Cash Flow Coverage	**6.6x**						
Double Leverage	**98.0%**						
Ease of Access to Capital					**x**		
Aggregate Profile						**Baa2**	**B2**

[1] Metrics as of December 31, 2007 (unless noted) [2] The scorecard rating is an important component of the company's published rating, reflecting the stand-alone financial strength before other considerations (discussed above) are incorporated into the analysis [3] Primary Gross Par Written Only [4] Metrics as of March 31, 2008