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Supplement to Annual Report

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DANE COUNTY CIRCUIT COURT

I. Executive Summary

The Rehabilitator believes that it is appropriate to update the Court on recent developments that have occurred or are underway since the Annual Report on the Rehabilitation of the Segregated Account (the "Segregated Account") of Ambac Assurance Corporation ("AAC" or the "Company") was filed with the Rehabilitation Court on June 1, 2016. In particular, the Rehabilitator and the Special Deputy Commissioner (the "SDC") are pleased to report that progress has been made with respect to (i) increasing communications with policy beneficiaries and other stakeholders, (ii) restructuring the advisory team to meet the current challenges of the Rehabilitation, and (iii) the process of evaluating the policy, legal, and economic considerations of various hypothetical Rehabilitation exit structures.

The Rehabilitator has charged the SDC and his team with seeking a successful conclusion to the Rehabilitation proceedings, and believes that this effort is progressing as efficiently as practical given the complexity of the Rehabilitation. The SDC's goal is to provide additional directional guidance regarding the status of the Rehabilitation during the first quarter of 2017, barring any unforeseen developments that might impede this effort.

II. Communications with Policy Beneficiaries and Other Stakeholders

A. Listening Session

On July 12, 2016, the Special Deputy Commissioner held a listening session (the "Listening Session") in New York for policy beneficiaries and other stakeholders. The listening session was proposed under the Application of the Engagement of Daniel J. Schwartzer as a Consultant to Serve as the SDC of the Segregated Account dated May 12, 2016. Interested parties were notified by letters dated May 12, 2016 and June 22, 2016. Attendees had the opportunity to submit questions in advance of the session as well as pose questions to the SDC and his advisors during the session.

The objective of this session was to provide a forum for communication among the Rehabilitator, the policy beneficiaries and other stakeholders of both the Segregated Account and the General Account. During the session the SDC and his advisors addressed many issues that included, but were not limited to, (i) deferred payments and the interim payment percentage, (ii) RMBS litigation, (iii) loss reserves, (iv) investments and commutations, and (v) collateral.

During the session the SDC affirmed that the Rehabilitator has charged the SDC and his team with seeking a successful and durable conclusion to the Rehabilitation proceedings. While the Rehabilitator's preferred goal is to achieve a resolution through a consensual plan among AAC, policy beneficiaries and other stakeholders, the Rehabilitator will evaluate and consider all strategies available to accomplish a successful and durable exit that enhances AAC's long-term claims-paying ability.

A transcript of the SDC's prepared remarks at the listening session can be found at http://static1.1.sqspcdn.com/static/f/501515/27148247/1468330351713/SDC_Listening_Session_Prepared_Remarks_2016.07.12.pdf?token=BCrgTwt36OXM8aD59z3OSb2qGl0%3D

B. Security Interest in Segregated Account Collateral

One of the questions raised at the listening session was whether the Segregated Account has maintained a perfected security interest in the collateral granted to it. Following the Listening Session, the Rehabilitator received further inquiries with respect to this issue which the SDC and his advisors believe have been fully addressed.

Since the Plan of Rehabilitation was approved, the Rehabilitator has maintained regulatory oversight over the collateral and continues to have the regulatory tools to monitor the financial condition of Ambac; further, the Rehabilitator is not aware of any liens or encumbrances filed against the collateral or any actions by anyone to assert a superior interest in the collateral. At this time, the Rehabilitator, after considerable review of this issue, is confident the collateral position of the Segregated Account is perfected in accordance with the terms of the security interest granted to it and the Secured Note.

C. Other Communications with Policy Beneficiaries and Other Stakeholders

Following the Listening Session, and at the invitation of the Rehabilitator, some interested parties have provided input on considerations and proposed structuring alternatives that they wish to be considered as exit strategies are developed. The SDC and his advisors have found these ongoing dialogues to be very constructive in terms of understanding the priorities of such parties, and welcome the opportunity for further discussions with interested parties when appropriate.

As part of these discussions the SDC received a draft proposal from a group of Segregated Account stakeholders outlining certain hypothetical terms of a Rehabilitation exit. The Rehabilitator appreciates these parties' input and willingness to work towards a resolution. In order to maintain fairness among all stakeholders while directional guidance is being developed, the Rehabilitator will not engage in one-on-one conversations to provide feedback at this time. When the Rehabilitator reaches conclusions about appropriate exit parameters, he will communicate his views in an appropriate manner.

III. Change in Legal Counsel

On November 2, 2016, the Rehabilitation Court approved the prior retention of Michael Best & Friedrich LLP ("Michael Best") to replace Foley & Lardner LLP as counsel to the Commissioner of Insurance of the State of Wisconsin as Rehabilitator for the Segregated Account of Ambac Assurance Corporation. Michael Best has been representing and advising the Rehabilitator on all legal matters pertaining to the Rehabilitation since its retention, including (i) taking over as counsel on existing litigation involving the Segregated Account, most notably with respect to actions related to certain military housing exposures, and (ii) the evaluation of various alternatives to conclude the Rehabilitation. Notwithstanding the scope and complexity of the Rehabilitation, this transition has been smooth and the entire team continues its on-going evaluation of legal, financial and practical considerations associated with a Rehabilitation exit.

IV. Oversight of the Segregated Account's Financial Position

The SDC and his advisors continue to evaluate all aspects of the Rehabilitation. Such responsibilities include (but are not limited to) (i) maintaining an in-depth knowledge of the Segregated Account's financial position, (ii) reviewing the Company's loss development profile and corresponding liquidity requirements, and (iii) assessing significant economic and legal matters pertaining to the Segregated Account.

A. Claims Paying Resources and Prospective Losses

The Rehabilitator's current estimate of claims-paying resources has not changed materially since the Annual Report was published, although views of potential claim development have evolved during 2016. In general, the Rehabilitator's estimate of prospective Segregated Account losses has declined since the Annual Report was published. This is largely attributable to reduced expectations of RMBS losses and successes from ongoing loss mitigation efforts.

Such positive developments with respect to Segregated Account policies have been offset by the inherent uncertainty, and potential for increase, in General Account risk – both in terms of prospective loss development and the variance of potential outcomes. In addition to the Company's exposure to certain Puerto Rico credits, the Rehabilitator remains concerned about various public finance, military housing, and equipment-related exposures.

B. Claim Payments

Segregated Account: Excluding commutation payments, aggregate gross claims of approximately $200 million (representing an average of $22 million per month) against Segregated Account policies were presented during the first nine months of 2016, compared to $216 million (representing an average of $24 million per month) during the comparable nine-month period in 2015. From the Petition Date to September 30, 2016, aggregate claims of approximately $6.1 billion have been presented against Segregated Account policies, representing an average of $78 million per month.

General Account: Excluding commutations and terminations, AAC paid $72 million in gross claims resulting from General Account policies (including $64 million related to Puerto Rico insured exposures) during the nine month period ended September 30, 2016, compared with $15 million (with no Puerto Rico claim payments) in the prior-year period. From the Petition Date to September 30, 2016, aggregate claims of approximately $261 million have been presented against General Account policies.

V. Rehabilitation Objectives and Timing

Consistent with the Rehabilitator's objectives, the SDC and his advisors continue to work to develop legal, financial and temporal parameters for a durable exit from Rehabilitation. This process entails, among other things, a comprehensive review of (i) the Company's current financial and tax position, (ii) the Company's prospective business and financial performance after giving effect to hypothetical exit structures, (iii) legal and regulatory tools and strategies at the Rehabilitator's disposal to effectuate a Rehabilitation, and (iv) other practical and economic consequences of certain Rehabilitation exit scenarios.

At the present time, absent further actions, AAC has insufficient capital to demonstrate that a "durable" exit can be achieved to the satisfaction of the Rehabilitator. The Rehabilitator defines a durable exit as a transaction that would leave post-rehabilitation AAC with sufficient financial resources to meet policy obligations, as projected by the Rehabilitator (in its sole discretion) under a varying range of base and stress case scenarios. Given such requirements, any such transaction will need to provide for an increase in AAC's existing surplus capital. The Rehabilitator and its advisors continue to explore alternatives to accomplish such a durable exit from Rehabilitation. The time required to assess an appropriate exit structure is necessitated by the Rehabilitator's duty to diligently perform its statutory obligations, rather than the time frames of third parties. The SDC's goal is to provide additional directional guidance regarding the status of the Rehabilitation during the first quarter of 2017, barring any unforeseen developments that might impede this effort.