

In the Matter of the Rehabilitation of:

**SEGREGATED ACCOUNT OF
AMBAC ASSURANCE CORPORATION**

**Case No. 10 CV 1576
Hon. Richard G. Niess**

**AMENDED DISCLOSURE STATEMENT ACCOMPANYING
THE SECOND AMENDED PLAN OF REHABILITATION**

Dated: September 22, 2017.

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TABLE OF CONTENTS

	Page
I. EXECUTIVE SUMMARY	1
II. DISCLAIMER	2
III. INTRODUCTION TO AMBAC AND THE SEGREGATED ACCOUNT	5
A. Ambac Assurance Corporation	5
B. Establishment of the Segregated Account and Commencement of the Rehabilitation Proceeding	5
C. Significant Rehabilitation Actions	6
1. Previous Plans	6
a. The First Plan	6
b. First Amended Plan	7
D. Certain Other Significant Actions Taken	9
1. Favorable Resolution of All Outstanding Appellate Litigation	9
2. Motion to Declare the Nature of the Segregated Account Rehabilitation Proceedings	10
3. Discovery Litigation	10
4. Interim Payment Percentage and Equalizing Payments	10
5. Bank Settlement Agreement	11
6. IRS Closing Agreement	12
7. RMBS Settlement Agreement	12
8. Secured Note and Reinsurance Agreement	13
9. Significant Commutations and Settlements	13
10. Other Developments	13
IV. SEGREGATED ACCOUNT PORTFOLIO – COMPARISON SINCE INCEPTION	13
V. INTRODUCTION TO THE EXIT TRANSACTIONS	14
A. OCI's Goal to Exit the Rehabilitation	14
B. Support for the Second Amended Plan: the Rehabilitation Exit Support Agreement	15
C. Executive Summary of the Plan	15
D. Amended Payment Guidelines	18
E. Executive Summary of the Exchange Offers, BSA Waiver and Amendment and Tier 2 Notes	19
VI. FINANCIAL REVIEW	20
A. General Account Assets	20
1. Investment Portfolio Holdings	20
2. Installment Premiums	22
3. Intercompany Loans	23

	a.	ACFI Intercompany Loans	23
	b.	AFS Intercompany Loans	23
	4.	Investment in Subsidiaries	24
	a.	Everspan Financial Guarantee Corp.	24
	b.	Ambac Assurance UK Limited	24
	5.	Miscellaneous	25
B.		Policy Liabilities of the General Account and the Segregated Account.....	25
	1.	Summary of Liabilities	25
	2.	General Account Exposures.....	25
	a.	Credit Profile.....	26
	b.	Loss Reserves.....	26
	c.	Claim Payments during Q1 2017 and since the Petition Date	27
	3.	Segregated Account Exposures.....	27
	a.	Overview.....	27
	b.	Credit Profile.....	27
	c.	Loss Reserves.....	28
	d.	Claims Presented during Q1 2017 and since the Petition Date	29
	e.	Claims Paid during Q1 2017 and since the Petition Date.....	30
VII.		THE REHABILITATOR’S FINANCIAL PROJECTIONS	30
VIII.		THE REHABILITATOR’S LOSS PROJECTIONS	32
	A.	Overview.....	32
IX.		DESCRIPTION OF REHABILITATOR’S FINANCIAL PROJECTIONS, SCENARIOS AND PROJECTED RECOVERIES.....	33
	A.	General.....	33
	B.	Effective Consideration Summary under the Proposed Transaction and Rehabilitator’s Financial Projections.....	33
	C.	Investment Portfolio Assumptions.....	34
	D.	Treatment of Surplus Notes	34
	E.	Scenario One.....	34
	F.	Scenario Two	35
	G.	Scenario Three	35
	H.	Scenario Four	35
X.		RECOVERY AND DURABILITY ANALYSIS.....	35
	A.	Overview.....	35
	B.	Summary Fairness Conclusion	36
	C.	Summary Durability Conclusion	36

XI.	RELATIVE MERITS OF THE PLAN	37
XII.	SUMMARY OF SENIOR SECURED NOTES	38
	A. Collateral.....	38
	B. Coupon.....	39
	C. Maturity.....	39
	D. Redemption.....	40
	E. Priority	40
	F. Registration.....	40
XIII.	SUMMARY OF RMBS LITIGATIONS COLLATERAL	41
	A. Ambac Assurance Corporation and The Segregated Account of Ambac Assurance Corporation v. First Franklin Financial Corporation, Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith Inc., Merrill Lynch Mortgage Lending, Inc., and Merrill Lynch Mortgage Investors, Inc., Index No. 651217/2012 (Supreme Court of the State of New York, County of New York, filed April 16, 2012)	41
	B. Ambac Assurance Corporation and The Segregated Account of Ambac Assurance Corporation v. Countrywide Home Loans, Inc., Countrywide Securities Corp., Countrywide Financial Corp., and Bank of America Corp., Index No. 651612/2010 (Supreme Court of the State of New York, County of New York, filed September 28, 2010).....	42
	C. Ambac Assurance Corporation and The Segregated Account of Ambac Assurance Corporation v. Nomura Credit & Capital, Inc. and Nomura Holding America Inc., Index No. 651359/2013 (Supreme Court of the State of New York, County of New York, filed April 15, 2013)	42
	D. The Segregated Account of Ambac Assurance Corporation and Ambac Assurance Corporation v. Countrywide Home Loans, Inc., No. 14 CV 3511 (Wisconsin Circuit Court for Dane County, filed December 30, 2014) (the “Wisconsin Action”)	43
	E. The Segregated Account of Ambac Assurance Corporation and Ambac Assurance Corporation v. Countrywide Home Loans, Inc., Index No. 652321/2015 (Supreme Court of the State of New York, County of New York, filed June 30, 2015) (the “2015 New York Action”).....	43
	F. Ambac Assurance Corporation and the Segregated Account of Ambac Assurance Corporation v. Countrywide Home Loans, Inc., Countrywide Securities Corp., Countrywide Financial Corp., and Bank of America Corp., Index No. 653979/2014 (Supreme Court of the State of New York, County of New York, filed December 30, 2014).....	44
XIV.	SUMMARY OF EXCHANGE OFFERS AND CONSENT SOLICITATION	44
	A. Summary of the DPO Exchange Offer	44
	B. Summary of the AAC Supporting Holder Exchange Offer	45
	C. Summary of the AAC Exchange Offer	45
	D. Summary of the Consent Solicitation	46

XV.	SUMMARY OF TIER 2 NOTES	46
A.	Maturity.....	46
B.	Collateral.....	47
C.	Condition Precedents	47
D.	Commitment Fee.....	47
E.	Ticking Fee	48
F.	Payments of Principal and Interest	48
G.	Call Protection; Collateral Account.....	49
H.	Early Termination.....	50
I.	Registration.....	50
XVI.	SUMMARY OF REHABILITATION EXIT SUPPORT AGREEMENT.....	51
A.	Agreement to Support the Plan.....	51
B.	Surplus Notes Held by AFG	52
C.	Transfers	52
D.	Termination by Supporting Holders	52
E.	Termination by AAC or AFG.....	53
F.	Termination by the Parties.....	53
G.	Amendment to the Rehabilitation Exit Support Agreement.....	54
XVII.	CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS	54
A.	Treatment of the Segregated Account.....	55
B.	Section 382.....	55
C.	Initial Exchange	56
D.	Deferred Amounts Consideration	56
1.	Tax Consequences to Deferred Amount Holders other than Supporting Holders Receiving Deferred Amounts in Initial Exchange.....	56
2.	Tax Consequences to Supporting Holders Receiving Deferred Amounts in Initial Exchange	57
3.	Tax Consequences to AAC.....	57
E.	Ownership and Disposition of GA SSNs Received in the Initial Exchange.....	57
1.	Characterization of GA SSNs	57
2.	Tax Consequences to GA SSN Holders.....	58
a.	Interest.....	58
b.	Sale, Exchange or Other Disposition of GA SSNs.....	59
F.	Ownership and Disposition of Senior Secured Notes.....	59
1.	Characterization of Senior Secured Notes	59
2.	Tax Consequences to Senior Secured Notes.....	60
a.	Interest.....	60
b.	Sale, Exchange or Other Disposition of Senior Secured Notes	60
G.	Information Reporting and Backup Withholding	60
H.	Medicare Tax	60

XVIII. CERTAIN RISK FACTORS TO BE CONSIDERED	61
A. Risks Relating to Plan Implementation.....	61
1. Risk of Non-Approval, Withdrawal or Modification of the Plan	61
2. Risk of Non-Occurrence of the Effective Date.....	61
3. Risks relating to the Character of Securities received under the Plan	62
4. Risks relating to the RESA	62
B. Risks Relating to Creditors’ Recoveries Under the Plan	62
1. Risks relating to the Durability of AAC following the Merger	62
2. Risks Relating to the GA SSNs Received in the Initial Exchange	63
3. Risks Relating to the Senior Secured Notes	65
C. Risks Relating to Tax.....	75
D. Other Considerations	75
1. No Duty to Update	75
2. Unanticipated Developments	75
XIX. CONCLUSION.....	76

LIST OF EXHIBITS

- Exhibit A: Corporate Organizational Chart
- Exhibit B: Second Amended Plan of Rehabilitation
- Exhibit C: Rehabilitation Exit Support Agreement and First Amendment to the Rehabilitation Support Agreement
- Exhibit D: Projected Financial and Operating Results Associated with Scenario 1
- Exhibit E: Projected Financial and Operating Results Associated with Scenario 2
- Exhibit F: Projected Financial and Operating Results Associated with Scenario 3
- Exhibit G: Projected Financial and Operating Results Associated with Scenario 4

KEY DOCUMENTS AVAILABLE ON THE WEBSITE

The following key documents, among other documents and pleadings from the Proceeding, are (or will be) available on the Website (www.ambacpolicyholders.com), as indicated:

1. Second Amended Plan of Rehabilitation Documents

- 1.1 Plan
- 1.2 Amended Payment Guidelines
- 1.3 Rehabilitation Exit Support Agreement
- 1.4 Senior Secured Notes Documentation
 - 1.4.1 Form of Senior Secured Notes Indenture
 - 1.4.2 Form of Credit Agreement
 - 1.4.3 Form of AAC Financial Guaranty Insurance Policy
 - 1.4.4 Form of Senior Secured Notes Collateral Agreement
 - 1.4.5 Form of Senior Secured Notes Issuer Organizational Documents
 - 1.4.6 Form of AAC Pledge Agreement

2. BSA Waiver and Amendment and Tier 2 Notes

- 2.1 Form of BSA Waiver and Amendment
- 2.2 Tier 2 Notes Documentation (collectively, the “Tier 2 Notes Documentation”).
 - 2.2.1 Form of Tier 2 Notes Indenture
 - 2.2.2 Form of Tier 2 Notes Collateral Agreement

3. First Amended Plan of Rehabilitation Documents

- 3.1 Notice of Effective Date, June 12, 2014;
- 3.2 Plan of Rehabilitation, as Amended, June 12, 2014;
- 3.3 Disclosure Statement (as filed October 8, 2010);
- 3.4 Amendment No. 1 to Disclosure Statement (as filed October 21, 2010);
- 3.5 Amendment No. 2 to Disclosure Statement (as filed November 12, 2010);
- 3.6 Payment Guidelines for Plan of Rehabilitation, as Amended, June 12, 2014;

- 3.7 LVM Payment Guidelines for Plan of Rehabilitation, as Amended, June 12, 2014;
- 3.8 Guidelines Governing Ceded Reinsurance Contracts Following the 2014 Amendments dated June 13, 2014;

4. Rehabilitators' Reports (collectively, the "Annual Reports")

- 4.1 Annual Report on the Rehabilitation of the Segregated Account of Ambac Assurance Corporation dated June 5, 2017 ("2017 Annual Report")
- 4.2 Supplement to Annual Report dated December 2016 ("Supplement to 2016 Annual Report");
- 4.3 Annual Report on the Rehabilitation of the Segregated Account of Ambac Assurance Corporation dated June 1, 2016 ("2016 Annual Report");
- 4.4 Corrected Annual Report on the Rehabilitation of the Segregated Account of Ambac Assurance Corporation effective June 1, 2015, Corrected September 24 2015 ("2015 Corrected Annual Report");
- 4.5 Annual Report on the Rehabilitation of the Segregated Account of Ambac Assurance Corporation dated June 1, 2016 ("2015 Annual Report");
- 4.6 Annual Report on the Rehabilitation of the Segregated Account of Ambac Assurance Corporation dated May 2, 2014 ("2014 Annual Report");
- 4.7 Annual Report on the Rehabilitation of the Segregated Account of Ambac Assurance Corporation dated June 1, 2013 ("2013 Annual Report");
- 4.8 Annual Report on the Rehabilitation of the Segregated Account of Ambac Assurance Corporation dated May 24, 2012 ("2012 Annual Report"); and
- 4.9 Annual Report on the Rehabilitation of the Segregated Account of Ambac Assurance Corporation dated June 1, 2011 ("2011 Annual Report").

I. EXECUTIVE SUMMARY

The duly appointed and confirmed Commissioner of Insurance of the State of Wisconsin (the “Commissioner”), in his capacity as the duly appointed Rehabilitator of the Segregated Account (the “Rehabilitator”), and Ambac Assurance Corporation (“AAC”) submits this Disclosure Statement, to accompany the Second Amended Plan of Rehabilitation (the “Second Amended Plan” or the “Plan”) for the Segregated Account (“Segregated Account”) of AAC. Unless defined herein, capitalized terms in this Disclosure Statement are as defined in the Second Amended Plan or as the context otherwise requires.

The Second Amended Plan is being filed with the Court simultaneously with this Disclosure Statement, is attached hereto as Exhibit B, and is available online at www.ambacpolicyholders.com (the “Website”). Any updates or revisions to the Second Amended Plan will be posted on the Website and filed with the Dane County Circuit Court in Wisconsin (the “Court”). Copies of other pleadings and papers filed in the Proceeding (as defined below) can also be found on the Website.

The Second Amended Plan provides for the exit of the Segregated Account from rehabilitation and the termination of the rehabilitation proceedings relating to the Segregated Account (the “Proceeding” or “Rehabilitation”). Immediately upon exit from Rehabilitation, the Segregated Account will merge (the “Merger”) with the General Account (the “General Account”) of AAC, and the Segregated Account will cease to exist. Should the Court approve the Second Amended Plan, upon the Effective Date, AAC will resume paying all future policy and other claims that had previously been allocated to the Segregated Account in cash in full in accordance with the terms of the various policies, contracts and the Second Amended Plan.

The Second Amended Plan is designed to facilitate a larger series of transactions that will allow for an exit of the Segregated Account from Rehabilitation and is the result of diligent arms-length negotiations between AAC and an ad hoc group (the “AHG”) of holders of beneficial interests in Deferred Amounts and GA SSNs (each as defined below). Members of the AHG are all sophisticated financial institutions who at the time of signing the RESA held in aggregate 34% of the beneficial interests in all Deferred Amounts (defined below). Together with AAC and its parent, Ambac Financial Group (“AFG” and, together with its consolidated subsidiaries, the “Company”), all members of the AHG entered into a Rehabilitation Exit Support Agreement (the “RESA”, as described more fully below). Pursuant to the RESA, the AHG (and holders that later become party to the RESA) have agreed to support the approval of the Second Amended Plan. The Rehabilitator understands that, inclusive of AAC and AFG, approximately 61% of the holders of beneficial interests in Deferred Amounts have agreed to support the Second Amended Plan and will not object to its terms.

Although the transactions underlying the Second Amended Plan were the product of negotiations between AAC and the AHG, they conform to parameters established by the Rehabilitator for a plan providing for a durable exit of the Segregated Account from the Rehabilitation. Since the Proceeding began, the Rehabilitator and his advisors have worked closely with AAC as management services provider to the Segregated Account to mitigate losses through multiple commutations, settlements and restructurings. As a result, actual and projected liabilities of the Segregated Account have been significantly reduced since 2010. In addition, the prudent

investment of the investment portfolio resulted in investment returns significantly above the Rehabilitator's 2010 expectations and projections. For these reasons, among others, and given the support from AFG and AAC, described below, the Rehabilitator believes that the Segregated Account can exit the Rehabilitation on the terms described below and merge with the General Account and, based on the financial analysis performed by the Rehabilitator's financial advisors, the Rehabilitator believes that, thereafter, AAC will be able to pay post-exit claims in full and in cash for both the General Account and merged Segregated Account post-exit liabilities.

In reaching the conclusion that AAC, post-Merger, should be durable and, therefore, in a position to pay its future claims in full in the ordinary course, the Rehabilitator considered various scenarios for exposures currently held in both the Segregated Account and the General Account (see the analysis herein). The financial analysis that the Rehabilitator relied upon is reprinted in part herein where noted, including Sections VII through IX; further, Section X includes a summary of conclusions and supporting projections which are attached as Exhibits D, E, F, and G. The Rehabilitator's complete financial analysis is an attachment to the Affidavit of Daniel J. Schwartzer available under the Court Filings tab of the Website.

The Second Amended Plan further provides that following the consummation of the Initial Exchange (as defined below) and receipt of the Deferred Amount Consideration (as defined below) all holders of Deferred Amounts arising on or prior to September 30, 2017 (the "Record Date") will receive an effective consideration package of \$0.935, for each dollar of accreted value of Deferred Amounts; such consideration to be comprised of \$0.40 in cash, \$0.41 in a senior secured note (as described herein), and \$0.125 in currently outstanding GA SSNs (as described herein). The balance of \$0.065 represents a discount to the total accreted Deferred Amount, which discount will be applied first to Accretion Amounts.

The Rehabilitator's comprehensive analysis (described herein) supports the conclusion that the net present value of the package of consideration that will be distributed to holders of Deferred Amounts upon the effectiveness of the Second Amended Plan surpasses the consideration that would have been distributed to such holders under the First Amended Plan.

Further, the Second Amended Plan enjoys the benefit of significant support from a group of large and sophisticated holders of beneficial interests in Deferred Amounts. The Rehabilitator believes that the Second Amended Plan provides greater value to holders of Deferred Amounts than they would otherwise receive under the status quo and allows for a durable AAC to immediately begin paying all future claims in full in cash. Accordingly, the Rehabilitator believes the Second Amended Plan is fair and equitable to holders of Deferred Amounts, and has filed a motion asking the Court to confirm the Second Amended Plan on that basis.

II. DISCLAIMER

This Disclosure Statement dated September 22, 2017 (including any exhibits hereto, the "Disclosure Statement"), the Plan, and the Proceeding pertain to the Segregated Account and to the policies, rights, and liabilities specifically allocated to the Segregated Account in accordance with Wis. Stat. § 611.24. Pursuant to Wis. Stat. § 611.24(3)(e), the Segregated Account is a separate insurer. Neither AAC nor the General Account is in rehabilitation as a part of the

Proceeding or otherwise. Neither this Disclosure Statement nor the Plan is intended, or will be deemed, to affect AAC or its General Account except as specifically stated herein or in the Plan.

Unlike a disclosure statement and plan of reorganization submitted to a bankruptcy court under title 11 of the United States Code (the “Bankruptcy Code”), chapter 645 of the Wisconsin Statutes does not require a disclosure statement or otherwise contemplate or permit voting on a plan of rehabilitation. Under Wis. Stat. § 645.33(5), the only approval required is that of the Court. Consequently, neither this Disclosure Statement nor the Plan is submitted for the purpose of facilitating voting, or for any purpose other than to provide information intended to promote a full understanding of the Plan and the Proceeding generally.

This Disclosure Statement summarizes and describes certain key components of the Plan and related documents, but is not a substitute for the Plan. The terms of the Plan will govern in case of any inconsistency between the Plan and this Disclosure Statement. A copy of the Plan is available on the Website and is attached hereto as Exhibit B.

Neither the Plan nor this Disclosure Statement is required to be prepared in accordance with federal or state securities laws or other applicable law. Neither the Securities and Exchange Commission (“SEC”), nor any state securities commission, or any similar public, governmental or regulatory authority has approved this Disclosure Statement or the Plan, or has passed on the accuracy or adequacy of the statements contained herein. Persons trading in or otherwise purchasing, selling or transferring securities of or insured by the Segregated Account should evaluate the Plan and this Disclosure Statement in light of the purpose for which it was prepared, and should also consider other publicly available information, including the materials on file with the SEC prepared by AFG.

No registration statement under the Securities Act of 1933, as amended (the “Securities Act”), or any other federal or state securities or “blue sky” laws has been filed with the SEC or any other agency by the Rehabilitator or the Segregated Account with respect to the Senior Secured Notes (as defined below) that will be distributed under the Plan and offered pursuant to the Exchange Offers. The Senior Secured Notes will be issued pursuant to the Plan in reliance on the exemption from registration provided by Section 3(a)(10) of the Securities Act and pursuant to the Exchange Offers (as defined below) in reliance on available exemption(s) from registration.

Except as specifically and expressly stated herein, this Disclosure Statement does not reflect any events that may occur subsequent to the date hereof. Such events may have a material impact on the information contained in this Disclosure Statement. The Rehabilitator disclaims any obligation to, and will not, update the financial projections prepared to aid him in the administration of the Rehabilitation (the “Rehabilitator’s Projections”), which are qualified by, and subject to, the assumptions set forth therein and the other information contained in this Disclosure Statement. The Rehabilitator’s Projections were not prepared with a view toward compliance with published guidelines of the SEC, the American Institute of Certified Public Accountants, Accounting Principles Generally Accepted in the United States of America (“GAAP”) or in accordance with U.S. statutory accounting principles (“SAP”) prescribed or permitted by the State of Wisconsin Office of the Commissioner of Insurance (“OCI”). The most recent SAP financial statements of AAC are available on AAC’s website.

This Disclosure Statement may not be relied upon for any purpose other than to obtain information about the Plan and the Proceeding generally. Nothing contained herein will constitute an admission of any fact or of any liability by any party with regard to any claim or litigation, including, but not limited to, any proceeding involving the Rehabilitator, the Segregated Account or any other party, or any proceeding with respect to any legal effect of the rehabilitation of the Segregated Account or the transactions contemplated by the Plan and this Disclosure Statement. Calculations, figures or amounts set out in this Disclosure Statement are subject to alteration or amendment depending on the facts, circumstances, and timing or scheduling of the Proceeding, the Rehabilitation Exit Transactions and the Effective Date.

The Rehabilitator consulted with and relied upon the input of the SDC, its advisors, and AAC in connection with the preparation of this Disclosure Statement. Without limiting the generality of the foregoing, (i) Sections XII through XVIII of this Disclosure Statement (the “AAC Supplemental Disclosures”) are being provided solely by AAC and its advisors, (ii) the Rehabilitator has not independently verified the information set forth in the AAC Supplemental Disclosures, and (iii) the Rehabilitator is assuming the accuracy and reasonableness thereof. The representations and disclosures herein of the Rehabilitator relate to the scope and substance of the Plan, as amended, the Rehabilitator’s Motion to Further Amend the Plan of Rehabilitation Confirmed on January 24, 2011 to Facilitate An Exit From Rehabilitation and supporting documentation, including the Affidavit of Daniel J. Schwartzer and exhibits thereto (together, the “Court Documents”), and in the event of any inconsistency between any provision of the Court Documents and the Rehabilitator Disclosures (as defined below), the Court Documents shall prevail. The Rehabilitator makes no representations other than in respect of the Rehabilitator Disclosures.

AAC has joined this Disclosure Statement solely for purposes of providing the AAC Supplemental Disclosures. Without limiting the generality of the foregoing, (i) Sections I through XI and XIX of this Disclosure Statement (the “Rehabilitator Disclosures”) are being provided solely by Rehabilitator and his advisors, (ii) AAC has not independently verified the information set forth in the Rehabilitator Disclosures except for AAC’s review and comment on financial data in Section VI, and (iii) AAC is assuming the accuracy and reasonableness thereof.

None of AAC, AFG, the General Account, the Segregated Account or the Rehabilitator makes any warranty, express or implied, as to the accuracy or completeness of the information contained herein. Without limiting the generality of the foregoing, events and forces beyond the control of such persons may alter the assumptions upon which the disclosures in this Disclosure Statement are based.

This Disclosure Statement may contain statements that are, or may be deemed to be, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include those regarding consummation of the transactions contemplated by the Plan. Although the Rehabilitator believes that any such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. Any such forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the actual results, performance or achievements of AAC or the Segregated Account to be different from any future results, performance and achievements expressed or implied by these statements.

This Disclosure Statement and the materials attached as exhibits hereto are not an offer to exchange or a solicitation or acceptance of an offer to exchange any securities, nor is this Disclosure Statement and the materials attached as exhibits hereto an offer to sell or a solicitation or acceptance of an offer to buy any securities. In addition, this Disclosure Statement and the materials attached as exhibits hereto are not a solicitation of any consents from holders of GA SSNs.

III. INTRODUCTION TO AMBAC AND THE SEGREGATED ACCOUNT

A. Ambac Assurance Corporation

AAC is a Wisconsin-domiciled insurance company. It was incorporated under the laws of Wisconsin as CMI Credit Insurance, Inc. on February 25, 1970, and its common stock is wholly-owned by AFG, a Delaware corporation. AFG's common stock is publicly traded on The NASDAQ Global Select Market under the symbol "AMBC". **NEITHER AAC NOR ITS GENERAL ACCOUNT, NOR ANY OF THE POLICIES, CONTRACTS, ASSETS, EQUITY OWNERSHIP INTERESTS AND RIGHTS OR LIABILITIES IN THE GENERAL ACCOUNT, ARE IN REHABILITATION AS PART OF THE PROCEEDING OR OTHERWISE.**

AAC and its subsidiaries provide financial guarantees to entities in both the public and private sectors around the world (AAC and its subsidiaries are collectively referred to herein as "Ambac"). However, AAC has not written a meaningful volume of financial guarantee business since November 2007 and no new business since mid-2008.

Previously, AAC offered financial guaranty insurance on investment-grade municipal debt and structured-finance debt obligations, such as municipal bonds and residential mortgage-backed securities ("RMBS"). Financial guaranty insurance provides a guarantee that protects the holder of a fixed-income obligation against non-payment of principal and interest when due. AAC also indirectly guaranteed certain structured-finance debt obligations by guarantying the financial obligations of Ambac Credit Products, LLC ("ACP"), a wholly-owned subsidiary of AAC, under credit-default swaps ("CDS") referencing certain structured finance obligations.

Attached as Exhibit A is a Corporate Organizational Chart for AAC depicting the relationships between it and its various subsidiaries and affiliates as of the date of this Disclosure Statement.

B. Establishment of the Segregated Account and Commencement of the Rehabilitation Proceeding

In early 2010, as a result of AAC's financial condition (as set forth in more detail in the First Disclosure Statement), the OCI requested that AAC form the Segregated Account and allocate to the Segregated Account only those policies, categories of policies or parts of its business for which a rehabilitation proceeding was necessary, to be followed immediately by the OCI's commencement of a rehabilitation proceeding limited to the Segregated Account. Accordingly, on March 24, 2010, AAC established the Segregated Account pursuant to section 611.24(2) of the Wisconsin Statutes (2007-08, as amended) (hereinafter, "Wis. Stat.") with the approval of the Commissioner and in accordance with the Plan of Operation for the Segregated Account (the "Plan of Operation"). Pursuant to the Plan of Operation, specified policies, rights, and liabilities,

together with the limited liability member interests held by AAC in ACP, Ambac Conduit Funding, LLC, Juneau Investments, LLC, and Aleutian Investments, LLC (collectively, the “Allocated Subsidiaries”), were allocated to the Segregated Account. Wisconsin law treats the Segregated Account as a separate insurer within the meaning of Wis. Stat. § 645.03(1)(f) for the purposes of an insurance delinquency proceeding such as the Proceeding.

Then, on March 24, 2010, pursuant to the OCI’s request, the Court entered the Rehabilitation Order and placed the Segregated Account into rehabilitation pursuant to Wis. Stat. § 645.32. The Court appointed the Commissioner as Rehabilitator of the Segregated Account, with full powers and authority granted to him pursuant to Wis. Stat. §§ 645.33 to 645.35 and all other applicable laws as are reasonable and necessary to fulfill his duties and responsibilities. Further, the Court appointed a Special Deputy Commissioner pursuant to Wis. Stat. § 645.33 for the purposes of carrying out the rehabilitation of the Segregated Account, with all of the powers of the Rehabilitator (the “SDC”). Pursuant to Wis. Stat. § 645.08(1), the Rehabilitator and SDC serve without bond.

Upon entry of the Rehabilitation Order, the Rehabilitator took control of the Segregated Account and began the rehabilitation in accordance with the Plan of Operation. The background and events leading to the Proceeding are further described in the First Disclosure Statement (as defined below) and the Rehabilitator’s Annual Reports on the Segregated Account (the “Annual Reports”), which are available on the Website and are incorporated herein by reference.

As detailed below, at the inception of the Segregated Account, it was allocated Policies with approximately \$47 billion in net par outstanding.

C. Significant Rehabilitation Actions

Following entry of the Rehabilitation Order, during the course of the Proceeding, numerous significant events have occurred, which are described in documents posted on the Website and in the Annual Reports. Below is an overview of certain of these key events.

1. Previous Plans

a. The First Plan

On October 8, 2010, the Rehabilitator filed a proposed plan of rehabilitation for the Segregated Account, pursuant to Wis. Stat. § 645.33(5) (as amended from time to time, the “First Plan”) together with a disclosure statement in support thereof (the “First Disclosure Statement”). The First Plan was confirmed by order of the Court on January 21, 2011 (the “Confirmation Order”). The First Plan provided for holders of permitted policy claims to receive 25% of their permitted claims in cash and 75% in surplus notes issued by the Segregated Account (“SA SSNs”), and that delivery of such cash and the SA SSNs would constitute satisfaction in full of the Segregated Account’s obligations in respect of each claim. Further details of the First Plan, its procedures, and treatment of classes are available on the Website.

The Confirmation Order and various other orders of the Circuit Court approving actions taken by OCI to rehabilitate the Segregated Account were appealed to the Wisconsin Court of Appeals by numerous holders of policies allocated to the Segregated Account. The Court of Appeals

affirmed the Court’s approval of the First Plan and its earlier orders with conclusions of law that have continued significance throughout the rehabilitation case. See *Nickel v. Wells Fargo Bank (In re Rehabilitation of Segregated Account of Ambac Assurance Corp.)*, 2013 WI App 129, ¶¶ 86-91, 351 Wis. 2d 539, 841 N.W.2d 482 (“*Nickel*”) (holding that a rehabilitation plan may be structured in a manner that harms individual interests in order to advance the interests of policy holders, the creditors, and the public as a whole).

The Wisconsin Court of Appeals held, inter alia:

- “[I]t is appropriate to afford great weight deference to the commissioner’s interpretation and application of the statutes governing the rehabilitation of an insurer and other related statutes the commissioner is charged with administering.” *Nickel*, 351 Wis. 2d 539, ¶¶ 20-21 (“each of the four criteria for granting great weight deference is met in this case”);
- the rules of civil procedure do not apply in a rehabilitation case and the Circuit Court did not err in concluding that the appellants (referred to by the appellate court as “interested parties”) were not entitled to, discovery in connection with their challenges to the First Plan and related OCI decisions. *Id.* ¶ 13 (“The rules of civil procedure, including the rules pertaining to discovery, do not apply to rehabilitation proceedings because ch. 645 prescribes its own rules of procedure in insurer delinquency proceedings. See Wis. Stat. § 645.33(5).”);
- “Wisconsin’s rehabilitation statutory scheme does not require that policyholders fare as well in rehabilitation as they would in liquidation. The rehabilitation statutory scheme provides the commissioner with minimal guidance as to how to structure a rehabilitation plan and certainly no requirement that each plan must provide policyholders the liquidation value of their claims[.]” *Id.* ¶ 69;
- “[I]t is axiomatic that the commissioner, in the reasonable exercise of the state’s police power, may structure a rehabilitation plan that has the potential to adversely affect the interests of individual policyholders when the plan advances the broader interests of the policyholders, the creditors, and the public as a whole.” *Id.* ¶ 91.

More information regarding the details and stages of the Federal Appellate Proceedings is available in the Annual Reports and on the Website. For the reasons outlined below, the First Plan did not become effective.

b. First Amended Plan

Following the Confirmation Order but before the First Plan became effective, a number of potential tax issues arose from the First Plan as originally confirmed, including: (i) the potential deconsolidation of AAC from the AFG consolidated tax group for U.S. federal income tax purposes would result if the SA SSNs that were to be issued were treated as equity rather than debt for U.S. federal income tax purposes; (ii) the imposition of original issue discount treatment on holders of those SA SSNs; and (iii) AAC’s recognition of significant ordinary income as a result of satisfying permitted policy claims with SA SSNs treated as issued with original issue discount. The Rehabilitator, AAC and AFG took three major actions to mitigate those tax issues

and to achieve more certainty regarding the tax consequences of the First Plan. First, OCI and the Rehabilitator reached an agreement with AAC, AFG and the Official Committee of Unsecured Creditors of Ambac Financial Group, Inc.¹ (the “AFG Settlement”), which resolved all outstanding tax and expense-related issues between AFG and AAC and which, among other things, allocated certain net operating losses (“NOLs”) generated by the AFG consolidated tax group prior to September 30, 2011 to AAC and provided for AAC to compensate AFG for use of such NOLs above a defined threshold. The AFG Settlement is described in more detail in the motion papers relating thereto available on the Website and in the 2012 Annual Report. Second, the Rehabilitator and AFG sought a private letter ruling (the “PLR”) from the Internal Revenue Service (the “IRS”) to the effect that: (i) neither the appointment of the Rehabilitator nor the First Amendments (as defined below) requiring the cash payments and establishing Deferred Amounts would result in a disaffiliation of AAC from AFG for federal tax purposes; (ii) policies allocated to the Segregated Account would continue to be treated as insurance contracts for federal tax purposes; and (iii) the obligations to pay both cash payments and Deferred Amounts are taken into account in computing “losses incurred” for federal tax purposes. On March 12, 2014, the IRS issued a favorable PLR with respect to all three issues.

Third, in resolution of various potential tax issues arising from the First Plan as originally confirmed, on April 21, 2014, the Rehabilitator filed proposed amendments to the First Plan, modifying the form of distribution to holders of permitted claims under the First Plan (the “First Amendments”). Instead of a combination of cash payments and SA SSNs, holders of permitted policy claims would receive cash payments for a portion of such claims (“Cash Payments”), and the Segregated Account would establish on its books deferred amounts equal to the remaining balance of such claims, reduced from time to time by recoveries and/or payments (“Deferred Loss Amounts”). With the exception of adjustments for certain under-collateralized transactions, Deferred Loss Amounts would accrete at an effective rate of 5.1% (such Deferred Loss Amounts, together with such accretion thereon, the “Deferred Amounts”). Pursuant to the First Amendments, payment of Deferred Amounts (each such payment a “Deferred Payment”) would be made at such time as the Rehabilitator deemed, in his sole discretion, based on an analysis of estimated liabilities, available claims-paying resources, and other considerations relevant to equitable treatment of claims and the best interests of policyholders. Additionally, the Segregated Account would, if required in satisfaction of any junior claims, establish on its books junior deferred amounts accruing at 5.1% per year, instead of issuing junior surplus notes bearing interest at 5.1% per year.

The First Amendments required proportionate payments to be applied on account of the SA SSNs (together with the GA SSNs previously issued separately from the First Plan (as defined below) and the SA JSNs, the “Surplus Notes”) as and when payments were made on Deferred Amounts, or junior deferred amounts, respectively including certain equalizing amounts paid to Policy Holders (as defined below) to maintain parity among Policy Holders. Pursuant to the Bank Settlement Agreement (as defined below), AAC was also required to make proportionate

¹ On November 8, 2010 AFG filed a petition for relief pursuant to the Bankruptcy Code (“AFG Bankruptcy Proceeding”). The Official Committee of Unsecured Creditors of Ambac Financial Group, Inc. (the “AFG Committee”) was appointed in the AFG Bankruptcy Proceeding. On May 1, 2013, AFG announced the effectiveness of its chapter 11 plan of reorganization, marking the completion of its restructuring efforts and emergence from the AFG Bankruptcy Proceeding.

payments to holders of the GA SSNs as and when the Segregated Account made a payment to holders of the SA SSNs.

After a hearing on June 11, 2014, the Court approved the First Amendments by entering an order dated June 11, 2014 (the “First Amendment Order”). Pursuant to Section 5.02 of the First Plan, the First Plan, as amended by the First Amendments (the “First Amended Plan”), became effective on June 12, 2014.²

Among other things, the First Amended Plan (which is currently in effect) provides for the operation of the Segregated Account, the classification and treatment of claims, and the settlement of disputes. Currently, pursuant to the First Plan, holders of Permitted Policy Claims receive 45% in cash and 55% in Deferred Amounts in satisfaction of their Permitted Policy Claims.

For the reasons outlined in this Disclosure Statement, the Rehabilitator has determined that it is in the best interests of the Segregated Account and its creditors to now effect the Second Amended Plan and related Rehabilitation Exit Transactions (as defined below), including the termination of the Proceeding and consummation of the Merger contemplated thereby.

D. Certain Other Significant Actions Taken

During the course of the Proceeding, the SDC and his advisors continued to evaluate all aspects of the Rehabilitation. Such responsibilities included (but were not limited to): (i) maintaining an in-depth knowledge of the Segregated Account’s liabilities and financial position, (ii) reviewing AAC’s loss development profile and corresponding liquidity requirements, and (iii) assessing significant economic and legal matters pertaining to the Segregated Account. A number of other significant outcomes were achieved during the course of the Rehabilitation, some of which are summarized below. A more complete explanation of the significant actions taken or events which occurred during the Proceeding is set out in the Annual Reports and on the Website.

1. Favorable Resolution of All Outstanding Appellate Litigation

By Order dated March 19, 2014, the Wisconsin Supreme Court denied the petitions for review filed by certain of the appellants seeking review of the published decision of the Wisconsin Court of Appeals entered on October 24, 2013. That decision by the Wisconsin Court of Appeals affirmed all of the orders entered by the Court in favor of the Rehabilitator that were the subject of Appeal Nos. 2010AP1291, 2010AP2022, 2010AP2835 and 2011AP561. The Court’s

² Pursuant to the terms of the First Plan, the Rehabilitator could seek the approval of the Court to alter, amend, or modify the First Plan with such notice and hearing as the Court prescribes pursuant to Wis. Stat. § 645.33(5). Further, amendment and modification of the Payment Guidelines could be effected by written notice by the Rehabilitator or his counsel to all parties included on the Court-approved electronic service list and a posting on the Website. In addition, the Payment Guidelines could be supplemented, modified, altered or withdrawn in the Rehabilitator’s discretion.

confirmation order was among the orders of the Court that were affirmed by the Wisconsin Court of Appeals.³

2. Motion to Declare the Nature of the Segregated Account Rehabilitation Proceedings

On July 15, 2016, the Rehabilitator filed a motion to confirm and declare the nature of the Proceedings to avoid misunderstandings that may arise in litigations involving AAC concerning certain military housing projects. Certain parties to these military housing litigations opposed the Rehabilitator's motion. On October 11, 2016 the Court held a hearing on the motion and, on October 24, 2016, entered an order granting the Rehabilitator's *Motion to Confirm and Declare the Nature of These Proceedings*. On November 7, 2016, the interested parties that had opposed the Rehabilitator's motion filed a notice of appeal from the October 24 order, and that appeal is now fully briefed before the Wisconsin Court of Appeals. Based on a review and comparison of other unrelated appeals in the Wisconsin Court of Appeals, the Rehabilitator expects that a decision will be rendered sometime by late fall/early winter of 2017 and remains confident that he will prevail in that proceeding.

3. Discovery Litigation

On November 21, 2016, the Rehabilitator filed a motion to quash a subpoena served on the Wisconsin Commissioner of Insurance by certain parties to the military housing litigations. The Court granted the Rehabilitator's motion to quash, and denied a subsequent motion to reconsider. In doing so, the Court reaffirmed that discovery is not permitted in a rehabilitation proceeding and set forth specific procedures for the Rehabilitator, interested parties, court personnel and others to follow when addressing requests for information directed to the Rehabilitator or OCI. A copy of the Court's order dated January 20, 2017 is posted on the Website.

4. Interim Payment Percentage and Equalizing Payments

After the Effective Date of the First Amended Plan, as described above, the Rehabilitator increased the portion of Permitted Policy Claims to be paid in cash from 25% to 45% (the "Interim Payment Percentage") effective July 21, 2014. Accordingly, on and after July 21, 2014, (i) holders of Permitted Policy Claims receive Cash Payments equal to 45% of their claims, and (ii) the Segregated Account records Deferred Amounts on its books in favor of the respective holders in an amount equal to 55% of such claims, which accretes in accordance with the Payment Guidelines at an effective annual rate of 5.1%.⁴ In order to maintain parity among all policyholders, including those whose Permitted Policy Claims were accepted and paid prior to July 21, 2014, a Deferred Payment (the "Equalizing Deferred Payment") was made on December

³ See *Nickel v. Wells Fargo Bank, N.A. (In re Rehabilitation of Segregated Account of Ambac Assurance Corp.)*, 2013 WI App 129, 351 Wis. 2d 539, 841 N.W.2d 482, review denied, 2014 WI 22, 353 Wis. 2d 448, 846 N.W.2d 14 (the "Court of Appeals Decision"). Following the Wisconsin Supreme Court's denial of the appellant's petitions for review, the Court of Appeals Decision is now the controlling law of the case in the Rehabilitation.

⁴ There are certain limited situations involving under-collateralized obligations where Deferred Amounts may not accrete at an effective annual rate 5.1%, as set forth in more detail in the First Amended Plan.

22, 2014 to policyholders that received Interim Claim Payments.⁵ The amount of the Equalizing Deferred Payment was 26.67% of such holder's Deferred Amounts, including the value of accretion, in each case, as at July 20, 2014. This Equalizing Deferred Payment constituted the amount necessary to provide policyholders who received Interim Claim Payments with a total payment of 45% of their Permitted Policy Claim amounts, the amount which is now paid as Cash Payments to policyholders Permitted Policy Claims under the Payment Guidelines. This resulted in equal treatment of those Policy Holders whose Permitted Policy Claims were processed under the Interim Rules prior to July 21, 2014 and policyholders whose policy claims are processed under the Plan and the Payment Guidelines.

The Rehabilitator provided notice of the Equalizing Deferred Payment and the increase in Interim Payment Percentage, as required by the Plan, on June 20, 2014.

With the Rehabilitator's permission, the proportionate Surplus Note redemption payments required by the First Amended Plan and the Bank Settlement Agreement to be made in conjunction with any Deferred Payment were made on November 20, 2014, rather than on December 22, 2014 when the Equalizing Deferred Payment was made. This early payment date for Surplus Notes resulted in interest savings to AAC that benefit all policyholders, and facilitated the orderly processing and disbursement of all payments to policyholders.

5. Bank Settlement Agreement

In the fall of 2009, AAC became aware that several large financial institutions that were parties to credit default swaps with ACP in respect of collateralized debt obligations backed primarily by RMBS ("ABS CDOs"), collateralized loan obligations ("CLOs"), and other collateralized debt obligations ("CDOs") were forming a group to negotiate with AAC regarding a global commutation of those exposures (the "Bank Group"). The obligations of ACP under the ABS CDOs, CLOs and CDOs were guaranteed by AAC pursuant to financial guaranty policies. Those policies represented the greatest concentration of projected losses to AAC as well as the largest potential source of collateral damage through the possibility of "mark-to-market" damages. On June 7, 2010, AAC, AFG, ACP and the Bank Group entered into a settlement agreement that effected the commutation of all of ACP's outstanding credit default swaps in respect of ABS CDOs with respect to the Bank Group, and all of AAC's related financial guaranteed exposure (the "Bank Settlement Agreement"). In exchange for AAC and ACP commuting \$16.5 billion of net par exposure, AAC transferred to the Bank Group, in the aggregate, \$2.6 billion in cash and \$2 billion of surplus notes newly issued by AAC (being the GA SSNs). AAC also paid \$96.5 million to the Bank Group to commute certain other obligations, including non-ABS CDO obligations, with par amounting to \$1.4 billion, in full satisfaction, but partial payment, of such obligations. Averaging the valuations of AAC's independent appraiser, the Bank Group Settlement ultimately paid the Bank Group 43.3% of the present value of expected losses, with 24.5% in cash and 18.8% in GA SSNs.

⁵ Starting on September 20, 2012 but before June 12, 2014, the Rehabilitator made interim cash payments equal to 25% of the permitted amount of each policy claim, as approved for payment by the Rehabilitator (the "Interim Claim Payments").

6. IRS Closing Agreement

On November 3, 2010, the Rehabilitator learned that AFG had received an “Information Document Request” from the IRS asking AFG to describe its legal basis for claiming approximately \$700 million of federal income tax refunds that were subsequently paid by AFG to AAC pursuant to a tax sharing agreement between AFG and AAC (the “Tax Refund Payments”). Out of concern that the IRS might attempt to impose a levy on the proceeds of the Tax Refund Payments, an action which could have had severe consequences for AAC and the Segregated Account, the AAC board of directors voted to allocate to the Segregated Account: (i) any liabilities that AAC may have to AFG in regard to tax refunds including, but not limited to, any preference claim or fraudulent transfer claim pertaining to such subjects brought by, or on behalf of, AFG in any bankruptcy proceeding involving AFG; and (ii) any liabilities that AAC may have to the IRS in regard to certain taxes or tax refunds.

Ultimately, on April 30, 2013, the Rehabilitator, OCI, the Segregated Account, AFG, AAC, the AFG Committee, and the IRS settled the lawsuit brought by AFG against the IRS seeking: (i) to enjoin the IRS from attempting to levy AFG’s assets in connection with the Tax Refund Payments, and (ii) to determine the amount, if any, of AFG’s tax liability (the “IRS Dispute”). The terms of this settlement (the “IRS Settlement”) included: (a) a payment to the IRS by the Segregated Account of \$100 million; (b) a payment to the IRS by AFG of \$1.9 million; and (c) AFG’s consolidated tax group, including AAC and the Segregated Account, relinquishing its claims to loss carry-forwards resulting from losses on credit default swap contracts arising on or before December 31, 2010, to the extent that such carry-forwards exceeded \$3.4 billion. On April 30, 2013, AFG and the IRS executed a closing agreement reflecting the IRS Settlement. As a result, the IRS Settlement has been consummated and the IRS Dispute has been resolved.

7. RMBS Settlement Agreement

In a February 13, 2014 order (“RMBS Settlement Proceeds Order”) the Court approved the *Rehabilitator’s Motion for Approval to Disburse Proceeds and Make Permitted Policy Claim Payments as He Deems Appropriate from Settlement of RMBS Remediation Claims, Including Those Proceeds Received, and to be Received, from a Settlement Memorialized in a Stipulated Order of the Bankruptcy Court Handling the Residential Capital, LLC Cases*. The RMBS Settlement Proceeds Order: (i) authorized the Rehabilitator to allocate and distribute cash and other forms of consideration generated by settlements of remediation claims related to certain residential mortgage backed securities (“RMBS Remediation Claims”); and (ii) approved the Rehabilitator’s approach for disbursing certain settlement proceeds and making Permitted Policy Claims payments to specific Policy Holders in the Proceeding in accordance with the stipulated order (the “Stipulated Order”) of the United States Bankruptcy Court for the Southern District of New York in *In re Residential Capital, LLC*, No. 1:12-bk-12020 (Bankr. S.D.N.Y.). The Stipulated Order reflects the settlement achieved by AAC and the Segregated Account with Residential Capital LLC and certain of its affiliates with respect to certain RMBS Remediation Claims.

8. Secured Note and Reinsurance Agreement

In May 2014, the Segregated Account drew down the last of the principal amount available under the secured notes issued by AAC to the Segregated Account on March 24, 2010, as a result of ongoing claims payments and expenses. The Segregated Account now makes periodic demands to AAC under the Reinsurance Agreement⁶ in order to make claims and certain Surplus Note payments.

9. Significant Commutations and Settlements

During the course of the Proceeding, the Rehabilitator, working with AAC's management, has effected numerous significant commutations. The details of all significant policy commutations achieved over the course of the Rehabilitation are set forth in the Annual Reports available on the Website. In summary, the Segregated Account has benefitted from an approximately \$6.7 billion decrease in insured portfolio exposure as a result of commutations, which represent a reduction of approximately 14% of the total insured portfolio exposure of AAC and its subsidiaries for policies allocated to the Segregated Account. Much of this exposure is attributable to commutations effectuated in connection with the Segregated Account's exposure to bonds backed by student loans.

In addition, in January 2016, AAC settled its RMBS litigation against JP Morgan Chase & Co. (including various affiliates). See *Ambac Assurance Corp. v. EMC Mortg. LLC*, Index No. 651013/2012 (N.Y. Sup. Ct.). Pursuant to the settlement agreement, JP Morgan paid AAC \$995 million in cash in exchange for AAC's release of certain claims against JP Morgan arising from RMBS transactions insured by AAC.

10. Other Developments

Throughout the pendency of the Proceeding, the Rehabilitator has pursued various efforts and strategies directed at reducing risks and remediating losses of the Segregated Account. Those efforts have been consistent with the Rehabilitator's overall effort to improve outcomes for Policy Holders through prompt, efficacious management and administrative strategies, and have included, among other things, replacing mortgage loans servicers, either through voluntary agreements or through the exercise of control rights provided in the transactional documents governing the insured securities.

A more complete explanation of the significant actions taken during the Proceeding is set out in the Annual Reports and on the Website.

IV. SEGREGATED ACCOUNT PORTFOLIO – COMPARISON SINCE INCEPTION

The Rehabilitator has made considerable strides to improve the condition of the Segregated Account portfolio since the inception of the Rehabilitation. Commutations, policy terminations, policy amortization, and claims payments have significantly de-levered the risk profile and

⁶ “Reinsurance Agreement” means an Aggregate Excess of Loss Reinsurance Agreement between the Segregated Account and AAC dated as of March 24, 2010.

overall net par outstanding of the Segregated Account. As of March 31, 2017, Segregated Account net par outstanding, adjusted for the Augusta Commutation, totaled \$11.1 billion, down 77% from inception. Set out below is a table comparing the Segregated Account portfolio at inception to adjusted March 31, 2017.

Insured Exposure Portfolio - Comparison Over Time
March 31, 2017 vs June 30, 2010
(\$ in millions)

Segregated Account Portfolio	Policies				Net Par Outstanding			
	As of March 31, 2017		As of June 30, 2010 ⁽¹⁾		As of March 31, 2017		As of June 30, 2010 ⁽¹⁾⁽²⁾	
	Count	%	Count	%	Amount	%	Amount	%
Direct:								
RMBS	222	70%	301	45%	\$ 8,807	79%	\$ 29,670	63%
US Public Finance	61	19%	171	25%	232	2%	1,342	3%
Student Loans	23	7%	126	19%	1368	12%	11,378	24%
Structured Finance (excl STL and RMBS)	7	2%	35	5%	60	1%	649	1%
International ⁽³⁾	1	0%	21	3%	0	0%	1,227	3%
ACP	5	2%	19	3%	382	3%	2,500	5%
Total Direct	319	100%	673	100%	\$ 10,849	98%	\$ 46,766	99%
Assumed ⁽⁴⁾	-	0%	-	0%	241	2%	459	1%
Total Segregated Account	319	100%	673	100%	\$ 11,089	100%	\$ 47,225	100%

(1) June 30, 2010 information excluded policies that matured, terminated or were otherwise extinguishable between June 30, 2010 and the Disclosure Statement Filing Statement Accompanying Plan of Rehabilitation filed on October 8, 2010.

(2) Net Par Outstanding reflects (i) June 30, 2010 amounts for all exposures other than student loans, and (ii) September 20, 2010 amounts for student loans.

(3) March 2017 Segregated Account net par outstanding is reduced by \$185 million for the Augusta Commutation, which was executed post March 31, 2017.

(4) March 2017 policy count for Assumed differs from charts in the Financial Overview, since in the Disclosure Filing Statement Accompanying the Plan of Rehabilitation filed on October 8, 2010, and for consistency here, policies are defined to include the underlying policy, which for assumed contracts were not allocated to the Segregated Account. The assumed reinsurance contract was allocated to the Segregated Account. Such allocations are reflected in the Financial Overview exposure charts. Net par is consistent between the charts.

V. INTRODUCTION TO THE EXIT TRANSACTIONS

A. OCI's Goal to Exit the Rehabilitation

With the financial condition of the Segregated Account significantly improved since 2010, the Rehabilitator turned his attention to the goal of a durable exit by the Segregated Account from Rehabilitation. The Rehabilitator explored other various options to exit the Proceeding, but also stated that, if possible, a broadly consensual arrangement among interested parties would be preferred. In doing so, however, the SDC set various deadlines and required AAC to achieve certain benchmarks. AAC requested that it be provided with additional time to meet and negotiate with the AHG and other creditor constituencies to formulate a consensual exit strategy. The Rehabilitator and the SDC, noting AAC's forward progress toward achieving the SDC's benchmarks, allowed AAC additional time. The Rehabilitator sought to ensure that any termination of the Proceedings had the sufficient support of key stakeholders, including AAC and creditors of the Segregated Account.

With the consent of the Rehabilitator and the SDC, AAC and its advisors diligently sought to reach an agreement with certain key stakeholders on a plan that will: (i) enable the Segregated Account to exit from Rehabilitation and consummate the Merger; (ii) provide more immediate

recoveries to Holders of Policy Claims against the Segregated Account (“Policy Holders”) than would otherwise be the case; and (iii) save significant costs and other resources presently devoted to administering the Proceeding. The Rehabilitator and the SDC closely monitored this process. The Plan (as described in further detail below) resulted from this collective work. Concurrently, the SDC and his advisors worked to develop legal, financial, regulatory, and temporal parameters for the Segregated Account to exit the Rehabilitation in a manner that renders AAC durable as a whole, meaning that AAC will have adequate capital to continue operations and pay in full Post-Effective Date Policy Claims and that the causes of the Proceeding will have been resolved. This process entailed, among other things, a comprehensive review of: (a) AAC’s current financial and tax position; (b) AAC’s prospective business and financial performance after giving effect to hypothetical exit structures; (c) legal and regulatory tools and strategies at the Rehabilitator’s disposal to effectuate a rehabilitation; and (d) other practical and economic consequences of certain Rehabilitation exit scenarios.

B. Support for the Second Amended Plan: the Rehabilitation Exit Support Agreement⁷

While no voting of creditors is contemplated or permitted on a plan of rehabilitation (as noted above in the Disclaimer), the Rehabilitator believed that obtaining the support of creditors beneficially owning a significant portion of the interests that would be affected by the Plan and the Rehabilitation Exit Transactions was in the best interests of the Segregated Account. Such support was formally obtained on July 19, 2017 through execution of the RESA. Since the date the RESA was executed, certain beneficial holders of GA SSNs and Deferred Amounts have joined the AHG as parties to the RESA (collectively, the “Supporting Holders”). As of September 2017, the Supporting Holders beneficially own approximately 52% by principal amount of GA SSNs and approximately 34% of Deferred Amounts (including accretion). A copy of the RESA is attached to this Disclosure Statement as Exhibit C.

Pursuant to the RESA, each of the parties thereto have agreed, among other things: (i) on the terms and conditions of the Rehabilitation Exit Transactions; (ii) to cooperate with each other in good faith in connection with the pursuit, approval, implementation, and consummation of the Rehabilitation Exit Transactions; (iii) to negotiate in good faith definitive agreements and documents to implement and consummate the Rehabilitation Exit Transactions; and (iv) not to object to, delay, impede, or commence any proceeding pertaining to, or take any other action to interfere, directly or indirectly, in any material respect with the acceptance of, the Rehabilitation Exit Transactions, or encourage or support any person or entity to do any of the foregoing.

The RESA, including provisions as to its termination, is described in further detail herein.

⁷ Unless otherwise defined in this Disclosure Statement, capitalized terms in this Subsection V.B have the same meaning given to them in the RESA.

C. Executive Summary of the Plan⁸

Pursuant to the RESA, the parties agreed upon the terms of the Plan to be proposed by the Rehabilitator. The Plan provides for the: (i) satisfaction and discharge of all Deferred Amounts and related Policy Claims; (ii) termination of the Proceeding; (iii) discharge of duties of the Rehabilitator and the Management Services Provider; (iv) termination of the Operational Documents; and (v) the Merger. The foregoing will occur concurrently on the Effective Date, such that: (a) full ownership and control over all assets and liabilities of the Segregated Account will merge by operation of law into the General Account; (b) all Policies, contracts, other assets (including the Segregated Account's equity ownership interests in the Allocated Subsidiaries and liabilities that were previously allocated to the Segregated Account in accordance with Wis. Stat. § 611.24) will be reallocated, returned and/or restored to the possession of the General Account pursuant to Wis. Stat. § 645.35(2); (c) all liens and security interests arising under the Operational Documents will be terminated and AAC and AFG will be released from any and all obligations, including liens and security interests; (d) the Rehabilitator will no longer be in possession of any assets of the Segregated Account under Wis. Stat. § 645.33(2); and (e) the separate existence of the Segregated Account will cease. From and after the Effective Date, any references to either the Segregated Account or the General Account will instead be deemed to refer to AAC.

The Plan provides for, among other things, the following:

- On the Effective Date,⁹ an aggregate of approximately \$282 million¹⁰ in beneficial interests in respect of Deferred Amounts established by the Rehabilitator based on Permitted Policy Claims arising from a right to payment occurring prior to the Record Date (“Pre-Record Date Deferred Amounts”) will be transferred pro rata from all holders of Pre-Record Date Deferred Amounts (other than AAC or AFG) to AFG and the Supporting Holders in exchange for AFG's and the Supporting Holders' transfer of approximately \$129¹¹ million and \$153 million¹² (of principal plus accrued and unpaid interest), respectively, of GA SSNs, which AFG and the Supporting Holders will have

⁸ Set forth below is an executive summary of the Plan, which is qualified in its entirety by reference to the provisions of the Plan itself.

⁹ This Disclosure Statement assumes an Effective Date of December 31, 2017, including accretion up to that date. All amounts set forth in the summary of the Plan are estimates based on an Effective Date of December 31, 2017. All amounts related to the Exchange Offer assume 100% participation by holders of GA SSNs.

¹⁰ This amount is approximate (and includes accretion up to December 31, 2017) and is subject to change, however, it will be equal to 12.5% of all Pre-Record Date Deferred Amounts not held by AFG or AAC (the “Third Party Deferred Amounts”).

¹¹ This amount is approximate (and includes accretion up to December 31, 2017) and is subject to change, however, it will be an amount equal to (i) all GA SSNs and SA SSNs held by AFG as of the Record Date less (ii) \$100 million, less (iii) unpaid interest on \$100 million of SSNs accrued between June 30, 2017 and the Effective Date (the “Transfer Amount”).

¹² This amount is approximate and is subject to change, however, it will be an amount equal to 12.5% of all Third Party Deferred Amounts less the Transfer Amount on a pro rata basis.

placed into an escrow account (the “Escrow Account”) pursuant to the RESA (the “Initial Exchange”);

- Immediately after the Initial Exchange, pursuant to Section 4.2 of the Plan each holder (other than AFG) of the Pre-Record Date Deferred Amounts will receive the following consideration in full satisfaction of such Pre-Record Date Deferred Amounts:
 - 45.7% in Cash; and
 - 46.9% in Senior Secured Notes (described in more detail below).

For the avoidance of doubt, taking into account the Initial Exchange and the Exchange Offers and the Distribution of the Pre-Record Date Deferred Amount Consideration, each Holder of a Pre-Record Date Deferred Amount (other than AFG) shall receive (or Beneficial Holders of the relevant underlying Insured Obligations receiving) an effective consideration package of (a) 40% Cash, (b) 41% Senior Secured Notes, (c) 12.5% GA SSNs, and (d) a 6.5% discount.

AFG will receive in full satisfaction of the Pre-Record Date Deferred Amounts held by AFG (including Pre-Record Date Deferred Amounts received by AFG in the Initial Exchange) additional Senior Secured Notes in lieu of Cash, such that AFG’s Pre-Record Date Deferred Amount Consideration will consist exclusively of 91.3% in Senior Secured Notes (as explained in more detail below).

The remaining 7.4% of all Pre-Record Date Deferred Amounts not held by AFG, and the remaining 8.7% of all Pre-Record Date Deferred Amounts held by AFG, will be discharged without further consideration (collectively, the “Pre-Record Date Discharged Deferred Amounts”). These Pre-Record Date Discharged Deferred Amounts will serve to discharge any related Accretion Amounts and, to the extent such Accretion Amounts are insufficient to satisfy the Pre-Record Date Deferred Amount Discount, if the Pre-Record Date Deferred Amount relates to an Insured Obligation that is Undercollateralized, the remainder of such Pre-Record Date Deferred Amount Discount (if any) shall be applied against the Deferred Loss Amount portion of such Pre-Record Date Deferred Amount. If such Pre-Record Date Deferred Amount relates to an Insured Obligation that is not Undercollateralized, the remainder of such Pre-Record Date Deferred Amount Discount (if any) shall not be applied against the Deferred Loss Amount portion of such Pre-Record Date Deferred Amount and instead shall be waived.

On the Effective Date, and after the consummation of the Initial Exchange and the Exchange Offers, the Pre-Record Date Deferred Amount Consideration shall be transferred by AAC, at the request of the Segregated Account and in satisfaction of its obligations under the Reinsurance Agreement, to the Beneficial Holders, as of the Pre-Record Date Deferred Amount Consideration Record Date, of the Insured Obligations related to the Pre-Record Date Deferred Amounts, pursuant to the procedures set forth in the Amended Payment Guidelines (as defined below). Where such underlying securities related to such Pre-Record Date Deferred Amounts are held through the Depository Trust Company (“DTC”), AAC shall transfer the Pre-Record Date Deferred Amount

Consideration to DTC for further transfer by DTC to its participants. AAC, in its capacity as Claims Administrator, and/or its agents, and after reconciliation with the Holders shall provide to DTC the rates and other information required by DTC to effect such transfers, and DTC shall be authorized to take instructions solely from AAC with respect to such transfers. Holders acting in their capacity as Trustees shall permit, and provide any authorization or direction (but not indemnification) needed for AAC, any Paying Agent and/or DTC to make, process and/or accept any Distributions as contemplated by the Plan and the Amended Payment Guidelines. For the avoidance of doubt, all Pre-Record Date Deferred Amount Consideration to be distributed pursuant to Section 2.2(a) of the Plan shall not be transferred to the applicable Trustees but shall be deemed to be transferred to such Trustees. With respect to any transfers of GA SSNs to be effected under the Initial Exchange, AFG and the Supporting Holders will effect such transfers pursuant to an applicable escrow agreement.

Each Holder of a Permitted Post-Record Date Policy Claim shall be entitled to receive, in full and final satisfaction of such Post-Record Date Policy Claim, Cash equal to the amount of such Permitted Post-Record Date Policy Claim. Such payment of Cash, as provided herein, shall constitute full and complete payment and settlement of such Permitted Post-Record Date Policy Claim. Payments made on account of Permitted Post-Record Date Policy Claims will be paid in accordance with the Amended Payment Guidelines, and any disputes with respect to Post-Record Date Claims will be administered according to the procedures set forth in the Amended Payment Guidelines.

- Other claimants will be treated as follows:
 - Administrative Claims: all Permitted Administrative Claims will be satisfied or otherwise paid in the ordinary course as they come due;
 - Holders of SA SSNs and SA JSNs:
 - Holders of SA SSNs and SA JSNs will not be entitled to any payment or other consideration arising out of, as a result of, or related to the Plan, including any portion of the Deferred Amount Consideration;
 - SA SSNs and SA JSNs will continue to remain outstanding after the Effective Date, with AAC as the obligor thereunder as a result of the Merger.
- Upon the closing of the above-referenced transactions (together with the Exchange Offers, the Tier 2 Notes, and BSA Waiver and Amendment (each as defined and described below), the “Rehabilitation Exit Transactions”), the Merger will occur and any remaining unsatisfied obligations of the Segregated Account that have not already been discharged pursuant to the Plan will become obligations of the General Account; and
- By the terms of the anticipated Approval Order of the Court, all injunctions, releases, exculpations, and certain other operational provisions implementing or relating to the Plan will permanently remain in force following termination of the Proceeding.

D. Amended Payment Guidelines

DURING THE PENDENCY OF THE FIRST AMENDED PLAN, POLICY CLAIMS HAVE BEEN ADMINISTERED, AND DEFERRED AMOUNTS HAVE BEEN ESTABLISHED, PURSUANT TO PROCEDURES SET FORTH IN THOSE PAYMENT GUIDELINES ISSUED BY THE REHABILITATOR ON JUNE 12, 2014. THE REHABILITATOR WILL BE ISSUING REVISED PAYMENT GUIDELINES (THE “AMENDED PAYMENT GUIDELINES”) SHORTLY AFTER THE FILING OF THE SECOND AMENDED PLAN. THE AMENDED PAYMENT GUIDELINES WILL APPLY TO ALL POLICY CLAIMS AND WILL CONTAIN (AMONG OTHER THINGS) REVISED DEADLINES REGARDING THE PROCESS FOR PERMITTING POLICY CLAIMS, SUBMISSION OF POLICY CLAIMS, THE RECONCILIATION OF DEFERRED AMOUNTS, AND DISPUTE RESOLUTION OF POLICY CLAIMS. IN PARTICULAR, IT IS ANTICIPATED THAT THE AMENDED PAYMENT GUIDELINES WILL PROVIDE FOR A NOVEMBER 30, 2017 DEADLINE TO SUBMIT PRE-RECORD DATE POLICY CLAIMS WHICH, IF NOT COMPLIED WITH, MAY RESULT IN SUCH POLICY CLAIMS BEING DISALLOWED. FROM THE ISSUANCE DATE, THE AMENDED PAYMENT GUIDELINES WILL SUPERSEDE ALL PREVIOUS PAYMENT GUIDELINES AND ALL POLICY CLAIMS WILL THEN BE ADMINISTERED PURSUANT TO THE AMENDED PAYMENT GUIDELINES.

E. Executive Summary of the Exchange Offers, BSA Waiver and Amendment and Tier 2 Notes¹³

In conjunction with the Plan and the Segregated Account’s exit from rehabilitation, AAC will launch a series of interrelated transactions involving the exchange of certain GA SSNs (collectively, the “Exchange Offers”), pursuant to which, for each \$1.00 of principal amount outstanding and accrued and unpaid interest thereon, Holders who participate in the Exchange Offers effectively will (i) receive \$0.40 in Cash, (ii) receive \$0.41 in principal amount of Senior Secured Notes, (iii) retain \$0.125 in principal amount and accrued and unpaid interest thereon of GA SSNs, and (iv) provide a discount of \$0.065 in principal amount and accrued and unpaid interest thereon. AFG will not participate in the Exchange Offers and will retain surplus notes issued by the Segregated Account and AAC, which as of June 30, 2017 had an aggregate of \$100 million of principal amount and accrued and unpaid interest outstanding. Holders of GA SSNs that choose not to participate in the Exchange Offer will continue to hold their GA SSNs, which will become subordinated to policy claims by operation of the Second Amended Plan.

As part of the Rehabilitation Exit Transactions, AFG, AAC and ACP (collectively, the “Ambac BSA Parties”) will seek consents (“Consents”) from holders of GA SSNs to a waiver and amendment (the “BSA Waiver and Amendment”) of certain provisions of the Bank Settlement Agreement, such consents to be executed by holders of more than 50% in aggregate principal amount of the GA SSNs. The Supporting Holders have agreed to deliver consents to the BSA

¹³ Set forth in this subsection is an executive summary of the Rehabilitation Exit Transactions and the Tier 2 Notes, which is qualified in its entirety by reference to the provisions of the definitive documents relating thereto. For a detailed summary of the Rehabilitation Exit Transactions and Tier 2 Notes, see Sections XII to XV of this Disclosure Statement.

Waiver and Amendment, and collectively the Supporting Holders hold more than a majority of the GA SSNs, which would be sufficient to amend the Bank Settlement Agreement pursuant to the BSA Waiver and Amendment even if all other holders of GA SSNs did not deliver their Consents. OCI will also consent to the BSA Waiver and Amendment.

In addition, upon consummation of the Rehabilitation Exit Transactions, and subject to the conditions specified in the Tier 2 Notes Documentation, AAC will issue \$240 million of new notes (the “Tier 2 Notes”, described below) secured by recoveries from the RMBS Litigations (after reinsurance) in excess of \$1.6 billion.

VI. FINANCIAL REVIEW¹⁴

With the assistance of his financial advisors, the Rehabilitator provides the following update on the financial condition of the General Account and Segregated Account.

A. General Account Assets

Total claims-paying resources are estimated at approximately \$6.0 billion as of March 31, 2017, compared to estimated claims-paying resources of \$6.0 billion as of December 31, 2016. The primary components of estimated claims-paying resources as of March 31, 2017 are (i) \$5.1 billion of investment portfolio assets at statutory carrying value, (ii) \$0.6 billion associated with AAC’s investments in, and transactions with, subsidiaries, and (iii) \$0.2 billion associated with the net present value of future installment premiums and (iv) \$0.1 billion associated with certain miscellaneous financial assets. The foregoing estimate of claims-paying resources includes certain assumptions and judgments made by the Rehabilitator regarding future events that are described more fully below.

1. Investment Portfolio Holdings

As of March 31, 2017, AAC held fixed income investment securities with a fair value of approximately \$5.3 billion, statutory carrying value of approximately \$5.1 billion and par value of approximately \$5.7 billion. Certain information regarding AAC’s portfolio holdings is summarized below:

¹⁴ Totals in charts may not foot due to rounding.

AAC Investment Portfolio by Asset Class as of March 31, 2017^{15, 16}

Dollars in Millions	Fair Value	Carrying Value	Par Value	YTM	WAL
Municipal Obligations.....	\$362	\$341	\$1,136	5.90%	14.3
RMBS.....	2,295	2,236	2,081	9.35%	5.4
Corporate Obligations.....	1,824	1,816	1,648	2.70%	4.4
Short-Term.....	78	77	78	0.08%	0.0
U.S. Government, Agency, and GSE Obligations.....	113	113	113	1.07%	0.6
Military Housing.....	232	203	261	9.08%	14.1
ABS, CDO, and Structured Insurance.....	353	347	378	4.15%	8.9
Total	\$5,258	\$5,134	\$5,696	6.08%	6.1

Percentage of Total	Fair Value	Carrying Value	Par Value
Municipal Obligations.....	7%	7%	20%
RMBS.....	44%	44%	37%
Corporate Obligations.....	35%	35%	29%
Short-Term.....	1%	2%	1%
U.S. Government, Agency, and GSE Obligations.....	2%	2%	2%
Military Housing.....	4%	4%	5%
ABS, CDO, and Structured Insurance.....	7%	7%	7%
Total	100%	100%	100%

The statutory carrying value and fair value of AAC's investment portfolio assets was largely unchanged from December 31, 2016 levels. RMBS and corporate obligations still account for the bulk of portfolio holdings, representing 79% of portfolio holdings on a fair value basis and 79% on a carrying value basis. Municipal obligations represent 7% on a fair value and carrying value basis, compared with 5% of fair value as of December 2016. The weighted average life of municipal obligations increased from 3.6 to 14.3 due to the purchase of certain AAC-insured Puerto Rico obligations during the first quarter of 2017.

As of March 31, 2017, investment portfolio holdings representing approximately 46% of aggregate portfolio carrying value had an investment grade rating or may otherwise be considered investment-grade, versus 49% three months prior and 69% as of December 2013.

¹⁵ Approximately 99% of AAC's non-agency RMBS holdings, as measured by statutory carrying value, are AAC-insured instruments. Accordingly, the yield to maturity and weighted-average life associated with AAC's non-agency RMBS holdings are necessarily linked to AAC's assumptions regarding the amount and timing of claim payments such holdings will receive under the Rehabilitation Plan.

¹⁶ On July 24, 2015, AAC borrowed \$146 million by contributing RMBS guaranteed by AAC with a statutory carrying value of \$388 million as of December 31, 2015 to a third party trust. As of March 31, 2017, the statutory carrying value of the borrowed funds relating to the trust was approximately \$93 million. The contributed RMBS, which possessed a statutory carrying value of \$368 million as of March 31, 2017, remain reported in AAC's investment portfolio. See Note 11 to AAC's Q1 2017 statutory financial statements for further information on this transaction.

Investments in AAC-insured securities account for approximately 90% of all non-investment grade holdings, compared with 91% three months earlier.

The market liquidity profile of AAC's investment portfolio as of March 31, 2017 is summarized as follows:

AAC Investment Portfolio by Market Liquidity Classification as of March 31, 2017

	Fair Value	Carrying Value	Par Value	Fair Value	Carrying Value	Par Value
		(In millions)			(Percentage of Total)	
Highly Liquid	\$376	\$374	\$373	7%	7%	7%
Medium	2,048	2,016	1,866	39%	39%	33%
Low	208	175	186	4%	3%	3%
Illiquid	2,625	2,569	3,270	50%	50%	57%
Total	\$5,258	\$5,134	\$5,696	100%	100%	100%

1. **Highly Liquid:** Includes widely-held securities with tight bid/ask spreads and transparent markets. Asset classes represented in this category include money market holdings, certain municipal bonds and U.S. agencies and treasuries.
2. **Medium Liquid:** Incorporates widely-held securities with broader bid/ask spreads in actively-traded markets. Asset classes represented in this category include certain asset-backed securities, residential mortgage-backed securities, corporate obligations and municipal bonds.
3. **Low Liquid:** Incorporates closely-held securities with wide bid/ask spreads. Price changes are primarily credit-driven. Asset classes represented in this category include residential mortgage-backed securities and corporate obligations. Certain of these securities may generate periodic principal distributions.
4. **Illiquid:** Includes distressed and/or complex securities in specialty asset classes such as CDO/CLOs, certain corporate obligations, structured insurance, and certain municipal bonds, as well as securities insured by AAC including residential mortgage-backed securities. Certain of these securities may generate periodic principal distributions.

The liquidity profile of AAC's holdings has decreased over the last three months. Portfolio holdings classified as highly liquid or medium liquid represent 46% of total portfolio carrying value as of March 31, 2017, versus 49% as of December 31, 2016. Conversely, portfolio holdings classified as low liquid or illiquid represent 53% of aggregate carrying value as of March 31, 2017, compared to 51% as of December 31, 2016.

The weighted-average book yield for securities classified as either highly liquid or medium liquid was 2.9% as of March 31, 2017, compared with 2.8% three months prior. In comparison, the weighted-average book yield for securities classified as either low liquid or illiquid was 8.9%, compared with 8.7% as of December 31, 2016. AAC-insured instruments account for 91% of the carrying value of all securities classified as low liquid or illiquid, compared with 90% three months earlier.

2. Installment Premiums

Many insurance policies issued by AAC provide for premiums to be paid to AAC over the life of the corresponding exposure. Pursuant to the Plan of Operation, installment premiums related to

Segregated Account policies are to be paid to the General Account, but are available for payment under the Reinsurance Agreement.

The value attributable to future installment premium receipts is subject to uncertainty. Events such as early contract termination, commutation, faster than expected principal amortization, prepayment of the underlying obligation, and payment default may cause actual installment premium receipts to be lower than projected amounts. In light of these factors, the Rehabilitator's estimate of future installment premium receipts is less than the aggregate amount of installment premiums receivable if all existing policies remain in force until contractual maturity.

After giving effect to such adjustments, the Rehabilitator's estimate of the present value of future installment premiums (net of reinsurance) for General Account and Segregated Account policies is \$0.2 billion as of March 31, 2017 using a 5.1% discount rate.

3. Intercompany Loans

As of March 31, 2017, AAC had \$371 million in loans receivable from its affiliates, representing a \$604 million decrease from the \$975 million of intercompany loans outstanding as of December 31, 2016. Loans to affiliates comprised \$65 million in unsecured loans of securities and \$306 million in unsecured cash loans to Ambac Financial Services, LLC ("AFS"). The decrease in intercompany loans over the past three months is attributable to (i) AFS, which had \$400 million of debt previously deemed uncollectable canceled pursuant to a Debt Forgiveness Agreement dated March 13, 2017 between AAC and AFS and reduced collateral posting requirements due to beneficial interest rate movements and (ii) full repayment of \$196 million in unsecured loans to Ambac Capital Funding, Inc. ("ACFI") during Q1 2017.

A portion of the AFS obligation is comprised of \$65 million of loans in the form of marketable securities. In accordance with Statutory Accounting Practices ("SAP"), the statutory carrying value of the loaned securities is included in the investment portfolio totals summarized in Section VI.A.(1) above; accordingly, \$65 million is excluded from the intercompany loan component of claims-paying resources, and the net inter-company loan receivable, before impairments, is \$306 million. After impairments, the intercompany loans have no statutory value at March 31, 2017. As a result of the Augusta Commutation (as defined below), intercompany loans had a statutory value of \$49 million at June 30, 2017.

a. ACFI Intercompany Loans

The guaranteed investment contract ("GIC") business operated through ACFI had no GICs outstanding as of March 31, 2017, compared to approximately \$82 million as of December 31, 2016. The last remaining GIC matured in March 2017.

b. AFS Intercompany Loans

As of March 31, 2017, AFS maintained derivative positions with gross notional exposure of approximately \$3.3 billion, compared to \$3.0 billion as of December 31, 2016. These derivative obligations are primarily floating-for-fixed interest rate swaps with financial institutions as counter-parties. AAC has fully impaired the \$306 million unsecured cash loan to AFS, indicating that no residual value will be available to policyholders from this intercompany loan. The

decrease in the balance of this loan since December 31, 2016 was largely the result of the Debt Forgiveness Agreement and beneficial interest rate movements. In addition to the foregoing factors, this impairment is based upon various assumptions, including but not limited to, forward interest rates, the ability of counterparties to pay when due, and early contract terminations. Accordingly, the ultimate impairment realized in respect of this obligation may change, perhaps materially, to the extent future performance differs from such assumptions. Furthermore, the interest rate swap portfolio acts as a hedge relative to prospective policy claims on certain insured exposures that are sensitive to interest rates. A sustained increase in the term structure of interest rates would reduce the estimated impairment of the AFS intercompany loan. In contrast, a sustained decline in the term structure of interest rates could lead to a greater impairment estimate and/or recognition of a further loss on AAC's guarantee of AFS' obligations.

During June 2017, and therefore not reflected in Q1 2017 loan balances set forth above, AAC made a \$94.4 million capital contribution to AFS, which was used to commute the majority of AFS's remaining interest rate swaps with financial guarantee customer counterparties related to Augusta Funding Limited IV ("Augusta") at a discount, as part of a transaction in which Augusta redeemed its outstanding AAC-insured debt (the "Augusta Commutation").¹⁷ Subsequent to the Augusta Commutation, the AFS loan had a statutory carrying value of \$49 million.

4. Investment in Subsidiaries

a. Everspan Financial Guarantee Corp.

As of March 31, 2017, AAC's investment in its indirect, wholly-owned subsidiary Everspan Financial Guarantee Corp. ("Everspan") is valued at \$229 million, compared to \$228 million as of December 31, 2016. Everspan's only insured obligation represents approximately \$4 million of net par outstanding as of March 31, 2017. The exposure is healthcare-related and adversely-classified, although no statutory loss reserves have been established. The Rehabilitator believes that AAC's investment in Everspan will ultimately be available to AAC to fund policy obligations.

b. Ambac Assurance UK Limited

AAC's investment in its wholly-owned subsidiary Ambac Assurance UK Limited ("AUK") is a non-admitted asset for statutory accounting purposes. AAC is currently unable to repatriate funds from AUK due to local regulatory capital requirements. In addition, AUK's license was amended in 2010 to require regulatory approval of any transfer of value and/or assets from AUK to AAC. Accordingly, we do not anticipate that AAC will receive dividends from AUK until it has paid or fully remediated its policies with losses, which may not occur until 2036 (which represents the contractual end of AUK's most significant currently-identified policy with losses) or perhaps later (in the event that additional policies with losses develop).

As of March 31, 2017, AUK has approximately \$15.3 billion in net par outstanding, of which \$1.7 billion was adversely classified. Based upon our review of AUK's investment portfolio,

¹⁷ See Note 1, Background and Business Description in AFG's Q2 2017 10Q for further information on the Augusta Commutation.

policy obligations (including a recent legal settlement in respect of Ballantyne Re Plc which serves to materially reduce prospective losses on the AUK-insured debt issued by such entity), operating expenses, prospective tax liability, and other factors (including exchange rates), we estimate the present value of AAC's interest in AUK, employing the statutory discount rate of 5.1%, to be between \$300 million and \$350 million.

5. Miscellaneous

Other claims-paying resources include (i) investment income due and accrued, (ii) cash and cash equivalents and (iii) receivables for securities, none of which are incorporated in the investment portfolio totals summarized above. AAC had \$121 million of such assets as of March 31, 2017, compared with \$66 million three months prior. AAC's miscellaneous financial assets as of March 2017 comprise (i) \$22 million of investment income due and accrued and (ii) \$99 million in cash and cash equivalents.

B. Policy Liabilities of the General Account and the Segregated Account

1. Summary of Liabilities

The Segregated Account is primarily exposed to RMBS and student loan-related credit risk. While the General Account is primarily exposed to the U.S. public finance sector, it retains exposure to Segregated Account policies under the terms of the Reinsurance Agreement. Further information on this subject is contained in AFG's annual reports on Form 10-K and quarterly reports on Form 10-Q.

2. General Account Exposures

As of March 31, 2017, the General Account had approximately 3,100 policies in force, representing \$49 billion in net par outstanding, compared to approximately 3,300 policies, representing \$53 billion in net par outstanding, as of December 31, 2016.¹⁸ The decline of 7.9%, or \$4 billion, in General Account net par outstanding is a function of scheduled terminations (such as maturity of a specific obligation), unscheduled terminations (such as refinancing transactions), and de-risking initiatives.

U.S. public finance exposures represent \$41 billion, or 82%, of aggregate net par outstanding in the General Account, as well as 94% of total number of General Account policies.¹⁹ See below for a summary of policies and net par outstanding by exposure category.

¹⁸ Included in the General Account net par outstanding as of March 31, 2017 and December 31, 2016 is approximately \$1 billion in second-to-pay insured exposures related to obligations where AUK is the primary insurer.

¹⁹ Net par exposures within the U.S. public finance market include capital appreciation bonds which are reported at the par amount at the time of issuance of the insurance policy as opposed to the current accreted value of the bonds.

General Account Policies and Net Par Outstanding as of March 31, 2017

Dollars in Millions	Policies		Net Par Outstanding	
	Count	Percentage	Amount	
			(In millions)	Percentage
U.S. Public Finance.....	2,894	94%	\$40,585	82%
Other Structured Finance.....	143	5%	5,180	11%
CLOs and other CDOs.....	1	0%	9	0%
International.....	29	1%	3,462	7%
Total.....	3,067	100%	\$49,236	100%

a. Credit Profile

Approximately \$4.7 billion, or 9.5%, of General Account exposure is adversely classified, compared to \$5.5 billion, or 10.2%, of General Account net par outstanding as of December 31, 2016. Approximately \$2.3 billion of all adversely classified General Account exposures are currently classified in the more severe III (Doubtful with Clear Potential for Loss), IV (Imminent Default or Defaulted), and V (Fully Reserved) classifications, compared to \$1.5 billion as of December 31, 2016.

Net Par Outstanding Associated with Adversely Classified General Account Policies

Dollars in Millions	Adversely Classified NPO	Credit Classification				
		I-A	II	III	IV	V
		(In millions)				
U.S. Public Finance.....	\$3,765	\$582	\$955	\$1,497	\$682	\$49
Other Structured Finance.....	201	170	0	0	31	0
CLOs and Other CDOs.....	0	0	0	0	0	0
International.....	719	322	391	6	0	0
Total.....	\$4,685	\$1,074	\$1,346	\$1,503	\$713	\$49

b. Loss Reserves

Statutory loss reserves, net of reinsurance, reflect AAC management's best estimate of the present value of future loss payments (net of projected subrogation recoveries) for policies that have already defaulted, discounted at the applicable statutory rate (currently 5.1%). As of March 31, 2017, total statutory reserves associated with General Account policies were \$126 million including loss expenses, compared to statutory reserves of \$72 million in December 31, 2016.

Pursuant to GAAP accounting requirements, AAC develops estimates of gross claim liability²⁰ for all policies, regardless of whether claims have been presented. The aggregate gross claim liability, net of reinsurance, associated with all General Account policies was \$714 million as of March 31, 2017, versus \$581 million, as of December 31, 2016.

As the calculation of gross claim liabilities under GAAP is different from that of statutory loss reserves, readers should consult AFG's annual reports on Form 10-K and quarterly reports on Form 10-Q for a detailed description of GAAP loss calculations.

²⁰ For purposes of this Report, gross claim liability for General Account exposures is defined as the present value of projected losses minus the present value of projected subrogation recoveries.

c. Claim Payments during Q1 2017 and since the Petition Date²¹

AAC paid \$15 million in claims resulting from General Account policies and received \$4 million in General Account policy recoveries during the first three months of 2017, compared to paid claims of \$14 million and negligible recoveries in the three months ended March 31, 2016. 94% of gross General Account claims paid in 2017 was related to Puerto Rico exposures. AAC has paid \$283 million in aggregate General Account policy payments from the Petition Date through March 31, 2017 and received \$110 million in recoveries.

3. Segregated Account Exposures

a. Overview

Aggregate Segregated Account net par outstanding declined by \$0.66 billion, or 6.7%, from \$11.9 billion as of December 31, 2016 to \$11.1 billion as of March 31, 2017²². RMBS and student loan exposures accounted for 92% of aggregate Segregated Account net par outstanding as of March 31, 2017. See below for a summary of Segregated Account policies and net par outstanding.

Segregated Account Policies and Net Par Outstanding as of March 31, 2017

Dollars in Millions	Policies		Net Par Outstanding	
	Count	Percentage	Amount (In millions)	Percentage
<u>Direct</u>				
RMBS.....	222	69%	\$8,807	79%
U.S. Public Finance.....	61	19%	232	2%
Structured Finance.....	7	2%	60	1%
Student Loans.....	23	7%	1,368	12%
International.....	1	0%	0	0%
CDS.....	5	2%	382	3%
Subtotal.....	319	98%	\$10,849	98%
Assumed.....	5	2%	241	2%
Total.....	324	100%	\$11,089	100%

b. Credit Profile

Approximately \$9.5 billion, or 86%, of aggregate Segregated Account net par outstanding is adversely classified²³, compared to \$10.2 billion, or 86%, as of December 31, 2016. Approximately \$7.1 billion or 64% of aggregate Segregated Account net par outstanding was allocated to the more severe III, IV, and V risk classifications, compared to \$7.4 billion, or 63%,

²¹ All claim payment information is presented gross of realized recoveries.

²² March 2017 Segregated Account net par outstanding reduced by \$185 million for Augusta Commutation which was executed post March 31, 2017.

²³ March 2017 Segregated Account net par outstanding reduced by \$185 million for Augusta Commutation which was executed post March 31, 2017.

as of December 31, 2016. A summary of adversely classified Segregated Account net par outstanding is presented below.

Net Par Outstanding Associated with Adversely Classified Segregated Account Policies

Dollars in Millions	Adversely Classified NPO	Credit Classification				
		I-A	II	III	IV	V
		(In millions)				
<i>Direct</i>						
RMBS.....	\$8,400	\$23	\$1,976	\$454	\$5,947	\$0
U.S. Public Finance.....	30	0	0	0	30	0
Structured Finance.....	0	0	0	0	0	0
Student Loans.....	879	0	182	697	0	0
International.....	0	0	0	0	0	0
CDS.....	72	72	0	0	0	0
Subtotal.....	\$9,381	\$95	\$2,158	\$1,151	\$5,977	\$0
Assumed.....	137	137	0	0	0	0
Total.....	\$9,518	\$232	\$2,158	\$1,151	\$5,977	\$0

c. Loss Reserves

As of March 31, 2017, total statutory loss and loss expense reserves, net of reinsurance, associated with defaulted Segregated Account policies amounted to approximately \$2.4 billion, unchanged from December 31, 2016 levels. As mentioned above, statutory loss reserves reflect AAC management’s best estimate of the present value of future loss payments. For Segregated Account exposures such loss reserves include Deferred Amounts. Specifically, statutory loss and loss expense reserves as of March 31, 2017, include \$3.7 billion of unpaid permitted policy claims, inclusive of deferred interest accrued, and \$0.5 billion of loss and loss expense reserves for future claims net of projected subrogation other than projected remediation recoveries associated with alleged representation and warranty breaches (“R&W Recoveries”) related to certain RMBS transactions. Statutory loss and loss expense reserves are also net of approximately \$1.8 billion of projected R&W Recoveries.²⁴

If all R&W Recoveries are excluded from the reserve calculation, aggregate statutory reserves for Segregated Account policies are \$4.2 billion as of March 31, 2017, again unchanged from December 31, 2016 levels.²⁵

Statutory loss reserves associated with Segregated Account policies are maintained in the General Account for reporting purposes, in accordance with accounting principles prescribed or permitted by OCI, and exclude the effect of the allocation of the policies to the Segregated Account. The allocation of the liabilities to the Segregated Account is reflected on the balance sheet of the General Account, prepared in accordance with SAP as “Liabilities Allocated to the

²⁴ Readers should consult AFG’s annual reports on Form 10-K and quarterly reports on Form 10-Q for additional disclosure regarding R&W Recoveries.

²⁵ R&W Recoveries associated with defaulted RMBS policies and discounted at the statutory discount rate were \$1.8 billion as of March 31, 2017 and December 31, 2016.

Ambac Assurance Corporation Segregated Account.” See below for a summary of statutory reserves associated with Segregated Account policies by category.

Statutory Reserves Associated with Segregated Account Policies as of March 31, 2017

Dollars in Millions	<u>Statutory Reserves</u>	<u>Statutory Reserves Excluding R&W Remediation Recoveries</u>
RMBS.....	\$2,339	\$4,140
US Public Finance.....	54	54
Student Loans.....	(33)	(33)
Loss Adjustment Expense.....	50	50
Total	<u>\$2,409</u>	<u>\$4,210</u>

As noted above, statutory reserves reflect prospective losses for defaulted policies. As part of GAAP accounting requirements, AAC develops estimates of gross claim liability²⁶ for all policies, regardless of whether claims have been presented. The aggregate gross claim liability, net of reinsurance, associated with Segregated Account policies was approximately \$2.8 billion as of March 31, 2017, unchanged from December 31, 2016 levels. Such estimates are net of R&W Recoveries (as estimated in accordance with GAAP) of \$1.9 billion as of both March 2017 and December 2016, respectively. Accordingly, if all R&W Recoveries are excluded from these calculations, aggregate gross claim liabilities associated with Segregated Account policies would be \$4.7 billion as of March 31, 2017, compared with \$4.6 billion as of December 31, 2016.

As the calculation of gross claim liabilities, including R&W Recoveries, under GAAP is different than that of statutory loss reserves, readers should consult AFG’s annual reports on Form 10-K and quarterly reports on Form 10-Q for further descriptions of GAAP loss calculations.

d. Claims Presented during Q1 2017 and since the Petition Date

Excluding commutation payments, aggregate claims of approximately \$45 million (representing an average of \$15 million per month) against Segregated Account policies were presented during 2017, compared to \$62 million (representing an average of \$21 million per month) in the first three months of 2016. Total claims presented decreased by 27% on a year-over-year basis.

From the Petition Date to March 31, 2017, aggregate claims of approximately \$6.2 billion have been presented against Segregated Account policies, representing an average of \$74 million per month. Such claims are summarized by category as follows:

²⁶ For purposes of this Report, gross claim liability for Segregated Account exposures is defined as the present value of projected losses plus unpaid claims, including Deferred Amounts, minus the present value of projected subrogation recoveries. The present value is discounted at the respective periods risk free rate.

Segregated Account Claims Presented Since Petition Date

Dollars in Millions	From Petition Date to December 31, 2016	January 1, 2017 to March 31, 2017	Total
1st Lien RMBS	\$4,352	\$37	\$4,389
2nd Lien RMBS	1,759	8	1,767
Other SA Exposures	67	1	68
Total	\$6,178	\$45	\$6,223

e. Claims Paid during Q1 2017 and since the Petition Date

Exclusive of commutation payments AAC paid \$51 million in Interim and Supplemental Payment Amounts in respect of Segregated Account policy claims during 2017. In comparison, AAC paid \$45 million in Interim and Supplemental Payment Amounts in respect of Segregated Account policy claims during the first three months of 2016.

From the Petition Date to March 31, 2017, AAC paid approximately \$3.2 billion in Interim and Supplemental Payments in respect of Segregated Account policy claims. Such claim payments are summarized by category as follows:

Segregated Account Claims Presented, Claims Paid, and Claims Outstanding^{27,28}

Dollars in Millions	Cumulative Claims Presented	Cumulative Claims Paid	Accrued but Unpaid Claims
1st Lien RMBS	\$4,389	\$2,339	\$2,050
2nd Lien RMBS	1,767	841	926
Other SA Exposures	68	55	13
Total	\$6,223	\$3,235	\$2,988

In Q1 2017 AAC received \$63 million in reimbursements in connection with previously-paid claims, compared to \$1.057 billion in the first three months of 2016 (comprised of \$1.0 billion associated with the JPM Settlement and \$57 million in other reimbursements), AAC has received \$3.1 billion in such reimbursements since the Petition Date.

VII. THE REHABILITATOR'S FINANCIAL PROJECTIONS

The Rehabilitator and his financial advisors have developed detailed financial projections (the “**Rehabilitator’s Financial Projections**”) to aid in the administration of the Rehabilitation and,

²⁷ Differences between cumulative claims presented and claims paid at the Interim Payment Percentage rate are primarily attributable to the Supplemental Payment Program.

²⁸ Accrued but unpaid claim totals exclude accretion.

in this instance, assist in the evaluation of the Proposed Transaction.²⁹ The Rehabilitator's Financial Projections were initially developed prior to the Petition Date and have been periodically updated and revised since that time. These Projections have served as both (i) a decision-making tool for the Rehabilitator and his advisors and (ii) a mechanism by which the Rehabilitator can apprise Holders of Policy Claims of potential recoveries available under certain financial and operating scenarios under the Proposed Transaction.

The Rehabilitator's Financial Projections reflect the analysis and assessment of the Rehabilitator and his advisors in respect of a range of financial and operating factors that affect AAC's performance and recoveries that may be available to Holders of Policy Claims. The Rehabilitator's Financial Projections are derived from direct involvement in and/or on-going review of these critical factors, including the following:

1. Detailed reviews of adversely classified exposures;
2. Periodic sector reviews addressing both performing and adversely classified exposures;
3. Detailed analysis of commutation strategies and specific transactions;
4. Periodic reviews of investment portfolio strategies, criteria and performance;
5. Detailed reviews of AAC's RMBS litigation strategy and activity; and
6. Detailed analysis and review of the Mediation Agreement and the Private Letter Ruling, which collectively affect AAC's and the Segregated Account's prospective tax liability.

In addition to adjustments related to the Proposed Transaction, the Rehabilitator's Financial Projections reflect material changes that have occurred in AAC's financial condition since the 2017 Annual Report on the Rehabilitation of the Segregated Account dated June 5, 2017 (the "June 5 Report"), including:

1. Incorporating the Augusta Commutation;
2. Revising R&W Recovery assumptions to reflect data from the market test embodied by the Tier 2 Note process;
3. Incorporating realized gains associated with the sale of certain investment portfolio holdings;
4. Adjusting loss assumptions associated with specific single risks due to changed credit circumstances; and

²⁹ The Proposed Transaction is defined to include (i) a reallocation of existing GA SSNs through an exchange of GA SSNs by certain holders of GA SSNs for Deferred Amounts held by Deferred Amount beneficiaries, (ii) the distribution of cash and Senior Secured Notes to Deferred Amount beneficiaries and GA SSN holders, and (iii) the Merger.

5. Incorporating AAC's purchase of certain AAC-insured securities.

VIII. THE REHABILITATOR'S LOSS PROJECTIONS

A. Overview

A central element of the Rehabilitator's Financial Projections are estimates of future losses developed by the Rehabilitator and his financial advisors for both the General Account and Segregated Account, using financial information provided by AAC, including information that may have been prepared for Statutory or GAAP financial statements or at the request of the Rehabilitator. Such loss estimates do not purport to reflect the views of AAC, AFG or their management.

Two distinct sets of loss estimates, a "base case" and a "stress case," have been developed, based on financial data for the period ending March 31, 2017, as adjusted for certain subsequent events. Present value calculations, including the loss estimates described herein, employ the prescribed statutory discount rate of 5.1%. These loss estimates are presented herein on a "gross" basis, meaning that these estimates do not reflect the effect of AAC's ownership of AAC-insured securities, and thus are comparable to the estimate of claims-paying resources detailed above. Actual losses attributable to General Account and/or Segregated Account policies may exceed these base case and stress case loss estimates, perhaps materially, and such estimates do not represent a cap on prospective losses.

Base and stress case loss projections are often developed by aggregating AAC's second-worst and worst-case loss estimates, respectively, for each exposure for which a loss is projected, although this methodology has been adjusted in respect of certain policies where the Rehabilitator determined that the second-worst and worst-case loss estimates should be revised. In addition, certain adjustments have been made to exposure-level loss estimates to reflect (i) evolving risk assessments and (ii) material events subsequent to March 31, 2017. In light of such adjustments (as well as other factors), we do not believe that the estimates contained herein would differ materially if more recent data were incorporated.

The base case losses for the General Account and the Segregated Account, before any R&W Recoveries, as of March 31, 2017, are estimated to be \$1.3 billion and \$4.5 billion, respectively. The base case Segregated Account loss estimate includes (i) \$3.7 billion in accrued but unpaid claims (including accretion), (ii) \$0.5 billion in projected RMBS losses, and (iii) \$0.3 billion in projected losses associated with student loan credits and other Segregated Account exposures.

The stress case losses for the General Account and the Segregated Account, before any R&W Recoveries, as of March 31, 2017, are estimated to be \$1.8 billion and \$4.6 billion, respectively. The stress case Segregated Account loss estimate includes (i) \$3.7 billion in gross accrued but unpaid claims (including accretion), (ii) \$0.6 billion in projected RMBS losses, and (iii) \$0.3 billion in projected losses associated with student loan credits and other Segregated Account exposures.

Excluding AAC's holdings of Surplus Notes, AAC had \$1.3 billion of Surplus Notes outstanding (including accrued and unpaid interest) as of March 31, 2017.³⁰ The Surplus Notes are not included in the base case and stress case losses detailed above. AAC's Surplus Note obligations (including accrued but unpaid interest) affect both the financial condition of the Segregated Account and prospective recoveries for Segregated Account policy beneficiaries.

It is important to note that AAC's financial condition remains subject to many uncertainties that cannot be definitively incorporated in a projection model. For example, the Rehabilitator remains concerned about the possibility of further adverse credit developments with respect to (i) Puerto Rico and other troubled public finance exposures and (ii) the military housing and equipment-leasing sectors, as well as other segments of AAC's insured book. In addition, losses associated with the Segregated Account's remaining student loan and RMBS exposures are correlated with interest rates, meaning that losses may ultimately exceed the estimates contained herein in the event of a prolonged upward shift in the term structure of interest rates. As such, actual losses attributable to General Account and/or Segregated Account policies may exceed the base case and stress case loss estimates summarized above, perhaps materially. The Rehabilitator and his advisors have taken these uncertainties into account to the extent possible in their review of the Proposed Transaction.

IX. DESCRIPTION OF REHABILITATOR'S FINANCIAL PROJECTIONS, SCENARIOS AND PROJECTED RECOVERIES

A. General

Four iterations, or scenarios, of the Rehabilitator's Financial Projections were prepared to demonstrate the financial implications of the Proposed Transaction for various stakeholders under various operating assumptions. These projected financial statements are found in Exhibits D, E, F, and G. These scenarios have generally been developed to highlight a range of outcomes in relation to a relevant range of three primary factors, i.e., future loss development, RMBS Litigation proceeds, and the prospective realization of AUK's residual value by AAC. Given the risks inherent in AAC's insured portfolio and other matters facing the company, the range of actual outcomes may differ from those highlighted below materially.

B. Effective Consideration Summary under the Proposed Transaction and Rehabilitator's Financial Projections

Holders of Permitted Policy Claims currently receive a combination of Cash and the right to Deferred Amounts to satisfy their Policy Claims under the Plan. This cash to Deferred Amount ratio of 45:55 is assumed to remain unchanged until December 31, 2017, when the Proposed Transaction is assumed to be implemented. At that time, the Projections contemplate that the Holders of Deferred Amounts as of the Record Date will receive the following distribution in full satisfaction of their claim:

³⁰ This total includes GA SSNs and SA SSNs but excludes JA SSNs.

Effective Consideration Summary, per \$100 Outstanding

	<u>Third Parties</u>	<u>AFG</u>
Cash	\$40.0	\$0.0
Senior Secured Notes	\$41.0	\$52.0
Surplus Notes	<u>\$12.5</u>	<u>\$43.1</u>
Total	\$93.5	\$95.0

Note: Numbers may not sum to total due to rounding.

The foregoing effective consideration summary reflects the assumption of the SA SSNs (held by AFG) following the Merger.³¹

C. Investment Portfolio Assumptions

The reinvestment rate is assumed to be 4.4% in 2017, and is expected to rise gradually to 5.1% in 2020, and remain at that level until the end of the Projection Period. The majority of funds available for reinvestment are assumed to be invested in the high liquid or medium-liquid asset classifications.

D. Treatment of Surplus Notes

For purposes of this analysis, the Rehabilitator's Financial Projections do not contemplate any future payments in respect of the Surplus Notes outstanding after the Effective Date other than the initial interest payment contemplated under the RESA, as any future distributions on the Surplus Notes will be based upon OCI's review of the facts and circumstances existing at the time of any future distribution request. Instead, recovery projections for the Surplus Notes (and, in Scenarios Two and Four, the Tier 2 Notes) are based on the level of residual claims-paying resources available to satisfy such obligations at the end of the Projection Period. Furthermore, to the extent that any claims-paying resources are available after distributions are made in respect of Surplus Notes, such funds would be available to the Junior Surplus Notes.

E. Scenario One

Scenario One contemplates (i) the Rehabilitator's base case loss estimates for both the General and Segregated Accounts, (ii) realization of RMBS Litigation proceeds equal to 100% of the nominal cash flows employed in Ambac's GAAP financial statements as of March 31, 2017, and (iii) the high end of our valuation range for AUK (\$350 million assuming a 5.1% discount rate), with dividends from AUK to AAC assumed to commence in 2036. Under Scenario One, all post-transaction Policy Claims would be paid in full, the new Senior Secured Notes would be paid in

³¹ The discount incorporated in the effective consideration package is the same for non-affiliated third parties and AFG provided that AFG's retention of the SA SSNs is excluded from this calculation.

full, the Tier 2 Notes would be paid in full, and holders of Surplus Notes and Junior Surplus Notes would be paid in full. See Exhibit D.

F. Scenario Two

Scenario Two contemplates (i) the Rehabilitator's base case loss estimates for both the General and Segregated Accounts, (ii) realization of R&W Recoveries equal to 84% of the nominal cash flows employed in Ambac's GAAP financial statements as of March 31, 2017, and (iii) the low end of our valuation range for AUK (\$300 million assuming a 5.1% discount rate), with dividends from AUK to AAC assumed to commence in 2036. Under Scenario Two, all post-transaction Policy Claims would be paid in full, the new Senior Secured Notes would be paid in full, the Tier 2 Notes would be paid in full, and the Surplus Notes would receive a 78.2% nominal recovery. The Junior Surplus Notes would receive no recovery. See Exhibit E.

G. Scenario Three

Scenario Three contemplates (i) the Rehabilitator's stress case loss estimates for both the General and Segregated Accounts, (ii) realization of R&W Recoveries equal to 100% of the nominal cash flows employed in Ambac's GAAP financial statements as of March 31, 2017, and (iii) the high end of our valuation range for AUK (\$350 million assuming a 5.1% discount rate), with dividends from AUK to AAC assumed to commence in 2036. Under Scenario Three, all post-transaction Policy Claims would be paid in full, the new Senior Secured Notes would be paid in full, the Tier 2 Notes would be paid in full, and holders of Surplus Notes would be paid in full. Holders of Junior Surplus Notes would receive a 43.4% recovery (in nominal terms) of their then-outstanding claim. See Exhibit F.

H. Scenario Four

Scenario Four contemplates (i) the Rehabilitator's stress case loss estimates for both the General and Segregated Accounts, (ii) realization of R&W Recoveries equal to 84% of the nominal cash flows employed in Ambac's GAAP financial statements as of March 31, 2017, and (iii) the low end of our valuation range for AUK (\$300 million assuming a 5.1% discount rate), with dividends from AUK to AAC assumed to commence in 2036. Under Scenario Four, all post-transaction Policy Claims would be paid in full, the new Senior Secured Notes would be paid in full, the Tier 2 Notes would receive an 81.7% recovery, and the Surplus Notes and Junior Surplus Notes would receive no recovery. See Exhibit G.

X. RECOVERY AND DURABILITY ANALYSIS

A. Overview

As part of his analysis, the Rehabilitator requested that Mr. Dennis McGettigan, a member of Gordian Group, LLC ("Gordian"), prepare a comprehensive analysis (the "Expert Report") regarding the Proposed Transaction. Gordian is an investment banking firm specializing in advising companies and their constituencies in financial restructurings, merger and acquisition ("M&A") transactions, financings and related corporate finance topics, particularly as it relates to distress and bankruptcy. Mr. McGettigan has provided financial advisory services in respect of AAC to the OCI since February 2008 and to the Rehabilitator of the Segregated Account since

March 2010. His Expert Report addresses (i) the fairness of the Proposed Transaction to non-affiliate third party beneficiaries of Deferred Amounts and holders of GA SSNs and (ii) the durability of AAC following the consummation of the Proposed Transaction. The Expert Report can be found as an attachment to the Affidavit of Daniel J. Schwartz, being filed concurrently with this Disclosure Statement.

The opinions and resulting conclusions contained in the Expert Report are based upon the assumptions, qualifications, and limitations contained therein. Readers are advised to consult the Expert Report to ensure a complete understanding of the opinions, assumptions, qualifications, and limitations associated with such Report.

B. Summary Fairness Conclusion

As detailed in the Expert Report, the consideration distributed to non-affiliate third party beneficiaries of Deferred Amounts and holders of the GA SSNs under the Proposed Transaction is fair and equitable to such beneficiaries and holders. This conclusion is based on the following findings:

- The present value of the consideration to be distributed to non-affiliate third party Deferred Amount beneficiaries and GA SSNs under the Proposed Transaction as of the Effective Date is greater than the present value of the prospective recovery available to such parties assuming (i) the continuation of the Segregated Account Rehabilitation (the “Status Quo”) and (ii) an aggressive but hypothetical IPP progression and market discount rates;
- The consideration provided to non-affiliate third parties under the Proposed Transaction is superior to the instruments currently held by such parties, as the Proposed Transaction provides non-affiliate third parties with cash and Senior Secured Notes that, unlike the existing Deferred Amounts and GA SSNs, are almost entirely insulated from further potential adverse developments in AAC’s insured portfolio; and
- The Proposed Transaction provides for a transition to cash payment in full in respect of Segregated Account claims presented after the Record Date, which represents a material benefit for policies currently allocated to the Segregated Account (including many with Deferred Amounts outstanding) which would not be possible under the Status Quo.

C. Summary Durability Conclusion

As detailed in the Expert Report, the Proposed Transaction provides for a durable exit. In a durable exit, AAC is able to pay all prospective policy claims in full and in cash under all four Scenarios described above, while also maintaining a sufficient buffer, or margin of safety, so that AAC will be able to maintain payment in full even if adverse developments occur over the course of the Projection Period. This analysis includes the loss estimates described in Section VIII, the other assumptions summarized in Section IX, as well as the prospective payments owed pursuant to the tax sharing agreement between AAC and AFG.

The opinions found in the Expert Report regarding AAC's durability under the Proposed Transaction reflect the author's informed judgment given the facts and circumstances as they exist on the date hereof, and do not guarantee that further regulatory actions will not be necessary in the future in the event of unforeseen catastrophic loss and/or litigation developments over the course of the next 37 years. Further, retaining the Status Quo structure may not eliminate the need for further regulatory action either in the event of such unforeseen catastrophic loss and/or litigation developments over the course of the next 37 years.

XI. RELATIVE MERITS OF THE PLAN

Based on the foregoing Sections VI through X, which have been prepared by the Rehabilitator, the SDC, and its advisors, the Rehabilitator has determined that the Plan presents the best approach to treating policy holders in a fair and equitable manner, while removing the causes and conditions that made the Proceeding necessary. Such determination is supported by the Rehabilitator's review of alternatives to and variations of the Plan and extensive legal, financial, and strategic input from the Rehabilitator's advisors, AAC, the Supporting Holders, and other stakeholders. The Rehabilitator's determination is further supported by the following features of the Plan.

- **Superior to Alternatives.** The present value of payments made in respect of Deferred Amounts and GA SSNs under the Plan are greater than would be the case should the Segregated Account continue on pursuant to the First Amended Plan;
- **Expeditious Payments.** The Plan provides for payment of all Pre-Record Date Deferred Amounts either at or shortly after the Effective Date with the Deferred Amount Compensation. In addition, the Plan provides for payment in full in Cash of all Post-Record Date Permitted Policy Claims as they become due and payable;
- **No Prejudice to Holders of Future Policy Claims.** Given the extended period of time (approximately 37 years) over which Policy Claims against AAC are expected to arise and the significant amount of such Policy Claims that are not expected to arise until near the end of that period, the Plan is based on assumptions intended to ensure that Policy Holders whose Policy Claims may not arise for some time are not prejudiced;
- **Continuation of Insurance Coverage.** Policy Holders will receive continuing durable coverage as the Plan provides that coverage under AAC's Policies (including with respect to Policies under which Policy Claims have not arisen and are not expected to arise for a long period of time); and
- **Exit from Rehabilitation and Merger.** The Plan minimizes administrative costs and expenses at AAC, and thus promotes the durability requirements desired by the Rehabilitator which in turn increases recoveries for Policy Holders by allowing the Segregated Account to emerge from the Proceeding and merge with the General Account.

XII. SUMMARY OF SENIOR SECURED NOTES³²

Pursuant to the Plan and the AAC Exchange Offers (described below), holders of GA SSNs and Deferred Amounts will receive the Senior Secured Notes in an initial principal amount of up to \$2,146,000,000,³³ issued by a newly formed special purpose entity which is expected to be a liquidating entity (the “Senior Secured Notes Issuer”) and wholly owned by an affiliate of AFG.

A. Collateral

The Senior Secured Notes will be secured by all assets of the Senior Secured Notes Issuer, including the Ambac Note (described below) and a collateral account into which proceeds received from the Ambac Note (as defined below) shall be deposited. The Senior Secured Notes Issuer will establish an account that will be pledged to the Note Collateral Agent for the benefit of holders of Senior Secured Notes into which the Senior Secured Notes Issuer will deposit any proceeds from the Ambac Note that it receives. AAC will pledge to the Trustee for the benefit of the holders of Senior Secured Notes (other than AAC) the proceeds of any Senior Secured Notes that AAC may from time to time hold (the “AAC Secured Notes”) in order to secure the Senior Secured Notes Issuer’s obligations to the holders of Senior Secured Notes (other than AAC). AAC will establish an account (the “Principal Proceeds Collateral Account”) that will be pledged to the Trustee for the benefit of the holders of Senior Secured Notes (other than AAC) into which AAC will deposit any proceeds of any AAC Secured Notes that it receives. On the Effective Date, AAC will hold \$647,000,000 of Senior Secured Notes, and non-affiliate third parties and AFG, together, will hold \$1,499,000,000 of Senior Secured Notes.

Further, AAC will issue a financial guaranty insurance policy to the Trustee for the Senior Secured Notes irrevocably guaranteeing all scheduled principal and interest payments (including mandatory redemptions) in respect of the Senior Secured Notes as and when such payments become due and owing (the “Secured Notes Policy”).

AAC will issue a note to the Senior Secured Notes Issuer in an initial principal amount equal to the initial principal amount of the AAC Secured Notes (the “Ambac Note”). The Senior Secured Notes Issuer will then deliver the Senior Secured Notes to AAC in consideration for the Ambac Note and AAC will distribute the Senior Secured Notes as part of the consideration in the Exchange Offers and the Plan. The Ambac Note will be secured by a pledge of (i) AAC’s right, title and interest in the cash and non-cash proceeds received by, or on behalf of, AAC pursuant to the RMBS Litigations (as defined and further described below), pursuant to any final and non-appellable judgment, settlement or other arrangement, minus all amounts paid or payable to

³² The following is a summary of certain provisions of the Senior Secured Notes. The summary does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all the provisions of the Senior Notes Indenture, the Secured Notes Policy, the Ambac Note and the Note Security Documents (as defined in the Senior Notes Indenture) (collectively, the “Senior Secured Note Documents”), including the definitions therein of certain terms. If there is any inconsistency between the description set forth herein and the terms of the Senior Secured Note Documents, the terms of the Senior Secured Note Documents will prevail. Documents relating to the Senior Secured Notes are or will be available on the Website.

³³ Amount subject to change. Estimated based on a calculation of 41.0% of the estimated amount of Pre-Record Date Deferred Amounts and GAS SSNs outstanding as of December 31, 2017, with a slight adjustment for AFG.

reimburse reinsurers for the amounts paid by reinsurers in connection with the receipt of such proceeds (but not the amount of any cost or fee (including legal fees) incurred in connection with the RMBS Litigation) in an amount up to, but not in excess of \$1.4 billion (the “RMBS Proceeds”), (ii) RMBS securities having a market value of not less than \$350 million on the date that is not more than 5 business days prior to the Effective Date, and (iii) a collateral account into which the proceeds and securities referred to in clauses (i) and (ii), shall be deposited (clauses (i), (ii) and (iii), together, the “Ambac Note Collateral”); *provided* that any principal or interest received on the RMBS securities described in clause (ii) will either be pledged in favor of the holder of the Ambac Note or be used to make payments on (or redemptions of) the Ambac Note, and may be reinvested in securities which are also pledged in favor of the holder of the Ambac Note; *provided further* that at all times, AAC and the Segregated Account will control the RMBS Litigations in all respects (including, without limitation, all decisions as to strategy, settlement, and pursuit). For the avoidance of doubt, AAC will not transfer its right to receive the proceeds of the RMBS Litigations (except in connection with the Tier 2 Notes or any refinancing thereof, or in connection with contingency fee arrangements with counsel) or relinquish its control of the RMBS Litigations (including granting any consent rights) to any third party. If the Senior Secured Notes Issuer liquidates or winds up as described above in “Maturity”, the Ambac Note shall automatically be assigned to the Note Collateral Agent under the Senior Secured Notes.

B. Coupon

The Senior Secured Notes and the Ambac Note will accrue interest at a per annum rate of three-month U.S. dollar London inter-bank offered rate, or “LIBOR”, not less than 1.00% plus an applicable margin of 5.00%. Accrued and unpaid interest will be paid in cash on each payment date with respect to the Senior Secured Notes and Ambac Note.

C. Maturity

The maturity date (the “Maturity Date”) for the Senior Secured Notes and the Ambac Note will be the fifth anniversary of the Effective Date; provided that if (i) Senior Secured Notes remain outstanding and (ii) the OCI approves payment of the outstanding principal amount of the GA SSNs, the maturity date for the Senior Secured Notes will spring to the fifth business day immediately preceding the date approved for such payment. All outstanding principal and accrued but unpaid interest in respect of the Senior Secured Notes and the Ambac Note will be due and payable on the maturity date. The Senior Secured Notes Issuer will liquidate on or after a date that is at least 12 months after the earlier of (a) the satisfaction of all of the Senior Secured Notes Issuer’s obligations under the Senior Secured Notes (other than contingent indemnification obligations) and (b) the Maturity Date; provided that (i) prior to the satisfaction of all of the Senior Secured Notes Issuer’s obligations under the Senior Secured Notes (other than contingent indemnification obligations), holders of the Senior Secured Notes shall retain their rights to the Senior Secured Notes collateral and the Secured Notes Policy and any liquidation of the Senior Secured Notes Issuer prior to such satisfaction shall result in the Note Collateral Agent becoming the “Holder” of the Ambac Note and retaining all rights and powers of the “Holder” thereunder (subject to the transfer restrictions for the Ambac Note) and (ii) such liquidation shall, in any event, be completed no later than the date that is 18 months after the earlier of (x) the satisfaction of all of the Senior Secured Notes Issuer’s obligations under the Senior Secured Notes (other than contingent indemnification obligations) and (y) the Maturity Date.

D. Redemption

The Senior Secured Notes Issuer shall apply any proceeds received on the Ambac Note as a result of a payment of RMBS Proceeds to redeem the Senior Secured Notes. Promptly, after RMBS Proceeds are received by AAC or indirect proceeds are paid for the benefit, in whole or in part, of AAC, AAC will apply cash in an amount equal to the lower of (i) the remaining outstanding amount of the Ambac Note and (ii) the cash value of such RMBS Proceeds received by or for the benefit of AAC, to redeem the Ambac Note in an amount equal to the maximum amount of principal that can be repaid with such RMBS Proceeds along with accrued and unpaid interest on such Senior Secured Notes to, but not including, the redemption date for the Senior Secured Notes. Non-cash RMBS Proceeds are deemed to be received after the receipt of a third party appraisal as to the fair market value of the non-cash RMBS Proceeds.

The Ambac Note (including any accrued unpaid interest thereon) may be redeemed in whole, or in part, at the option of AAC on any Payment Date (an “Optional Payment Date”), without penalty or premium. On the Optional Payment Date, the Senior Secured Notes Issuer will apply the proceeds of such optional redemption in repayment of the Senior Secured Notes (including any accrued unpaid interest thereon) without penalty or premium.

E. Priority

The Ambac Note will rank senior to all AAC surplus notes. Claims under the Senior Secured Notes Policy will rank pari passu with other Policy Claims.

F. Registration

The Senior Secured Notes will be issued only pursuant to an exemption from the registration requirements under the Securities Act and will not be registered under the Securities Act, or any other applicable securities laws, and, unless so registered, such Senior Secured Notes may not be offered, sold, pledged or otherwise transferred within the United States or to or for the account of any U.S. person, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and any other applicable securities laws.

Subsequent transferees of the Senior Secured Notes will be required to be (i) (a) in the United States, “qualified institutional buyers” (as defined in Rule 144A under the Securities Act) (QIBs) or (b) outside the United States, non-“U.S. persons” (as defined in Rule 902 under the Securities Act) in reliance on Regulation S of the Securities Act and (ii) also “qualified purchasers” within the meaning of Section 2(a)(51) of the Investment Company Act of 1940, as amended. Please refer to the transfer restrictions contained in the Senior Secured Notes Indenture.

The Senior Secured Notes Issuer is not expected to be required to register as an investment company under the Investment Company Act of 1940, as amended.

The foregoing description is for informational purposes only and is not an offer to sell or purchase nor the solicitation of an offer to sell or purchase Senior Secured Notes and will not constitute an offer, solicitation or sale in any state or jurisdiction in which, or to any person to whom such an offer, solicitation or sale would be unlawful.

XIII. SUMMARY OF RMBS LITIGATIONS COLLATERAL

In connection with AAC's efforts to seek redress for breaches of representations and warranties and/or fraud related to the information provided by the underwriters, the sponsors and mortgage loan originators in various transactions and for failure to comply with the obligation by the sponsors to repurchase ineligible loans, AAC and the Segregated Account have filed various lawsuits listed below (collectively with any successor proceeding against the same parties (or any of their successors) with respect to substantially the same claims, the "RMBS Litigations").

As of June 30, 2017, AAC had estimated recoveries of \$1,857.0 million (net of reinsurance) in respect of the RMBS Litigations included in its financial statements. While the estimated recoveries are subject to significant uncertainty, including risks inherent in litigation, collectability of such amounts from counterparties and/or their respective successors, parents and affiliates, timing of receipt of any recoveries, intervention by OCI and uncertainties inherent in the assumptions used in estimating any recoveries, AAC believes that its methodology for extrapolating estimated recoveries, based on its review procedures of the underlying securitized loans and the assessment of the claims asserted in the RMBS Litigations by the law firms representing AAC in the litigation, is appropriate for evaluating the amount of potential recoveries and that its currently estimated recoveries fairly represent a probability-weighted estimate of amounts AAC expects to recover under various possible scenarios.

A description of the status of each of the RMBS Litigations as of the date of this Disclosure Statement is set forth below.

A. Ambac Assurance Corporation and The Segregated Account of Ambac Assurance Corporation v. First Franklin Financial Corporation, Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith Inc., Merrill Lynch Mortgage Lending, Inc., and Merrill Lynch Mortgage Investors, Inc., Index No. 651217/2012 (Supreme Court of the State of New York, County of New York, filed April 16, 2012).

AAC alleged breach of contract, fraudulent inducement, indemnification, and reimbursement, and requested the repurchase of loans that breach representations and warranties as required under the contracts, as well as damages. Defendants filed a motion to dismiss on July 13, 2012, which AAC opposed on September 21, 2012. Oral argument was held on May 6, 2013. On July 18, 2013 the court dismissed AAC's claims for indemnification and limited AAC's claim for breach of loan-level warranties to the repurchase protocol, but did not dismiss AAC's other contractual claims or fraudulent inducement claim. On August 21, 2013, defendants filed a notice of appeal, and on August 30, 2013, AAC filed a notice of cross-appeal. On April 22, 2014, the parties filed a stipulation withdrawing defendants' appeal and AAC's cross-appeal of the court's July 18, 2013 decision. Discovery is ongoing.

B. Ambac Assurance Corporation and The Segregated Account of Ambac Assurance Corporation v. Countrywide Home Loans, Inc., Countrywide Securities Corp., Countrywide Financial Corp., and Bank of America Corp., Index No. 651612/2010 (Supreme Court of the State of New York, County of New York, filed September 28, 2010).

AAC filed an Amended Complaint on September 8, 2011. AAC alleged breach of contract, fraudulent inducement, indemnification and reimbursement, and breach of representations and warranties, requested the repurchase of loans that breach representations and warranties as required under the contracts, as well as damages, and asserted a successor liability claim against Bank of America. On May 28, 2013, AAC filed a Second Amended Complaint adding an alter ego claim against Bank of America alleging that, because Bank of America and Countrywide are alter egos of one another, Bank of America is responsible for Countrywide's liabilities to Ambac. The defendants served their answers on July 31, 2013. Fact and expert discovery has ended. On May 1, 2015, AAC filed motions for partial summary judgment, which defendants opposed. Defendants also each filed motions for summary judgment, which AAC opposed. On October 27, 2015, the court issued a decision dated October 22, 2015 granting in part and denying in part the parties' respective summary judgment motions regarding AAC's claims against Countrywide (primary-liability claims), and issued a second decision granting AAC's partial motion for summary judgment and denying Bank of America's motion for summary judgment regarding AAC's secondary-liability claims against Bank of America. AAC and Countrywide filed notices of appeal of the October 22, 2015 decision relating to primary liability and Bank of America filed a notice of appeal of the October 27, 2015 decision relating to its secondary-liability to the New York Appellate Division, First Department. On May 16, 2017, the First Department issued rulings in both appeals, reversing a number of rulings that the trial court had made and affirming other rulings. On June 15, 2017, AAC filed a motion with the First Department for leave to appeal certain rulings in the May 16, 2017 decision to the Court of Appeals. Countrywide opposed the motion. On July 25, 2017, the First Department granted AAC's motion for leave to appeal. The briefing for this appeal is expected to be complete by November 24, 2017, with oral argument expected in 2018.

C. Ambac Assurance Corporation and The Segregated Account of Ambac Assurance Corporation v. Nomura Credit & Capital, Inc. and Nomura Holding America Inc., Index No. 651359/2013 (Supreme Court of the State of New York, County of New York, filed April 15, 2013).

AAC alleged claims for material breach of contract and for the repurchase of loans that breach representations and warranties under the contracts, as well as damages. AAC also asserted alter ego claims against Nomura Holding America, Inc. Defendants filed a motion to dismiss on July 12, 2013, which AAC opposed. The court held oral argument on November 13, 2013. On September 22, 2014, plaintiffs filed an amended complaint alleging claims for fraudulent inducement, material breach of contract and for the repurchase of loans that breach representations and warranties under the contracts, as well as damages. On October 31, 2014 defendants filed a motion to strike the amended complaint. AAC opposed that motion and at the court's recommendation also filed a cross motion for leave to amend the complaint on November 14, 2014, which the defendants opposed. Defendants filed a motion to dismiss the fraudulent inducement claim, which AAC opposed. The court heard oral argument on the

defendants' motion to dismiss the fraudulent inducement claim on April 14, 2015. On June 3, 2015, the court denied defendants' July 2013 motion to dismiss AAC's claim for breaches of representations and warranties, but granted the defendants' motion to dismiss AAC's claims for breach of the repurchase protocol and for alter ego liability against Nomura Holding. On December 29, 2016, the court denied defendants' motion to strike AAC's amended complaint and its motion to dismiss the fraudulent inducement claim. On January 30, 2017, defendants filed a notice of appeal from that decision. On March 27, 2017, Nomura appealed the June 2015 decision to the extent it denied its motion to dismiss and filed its opening appellate brief. AAC filed its opening brief on June 23, 2017. Discovery is ongoing.

D. The Segregated Account of Ambac Assurance Corporation and Ambac Assurance Corporation v. Countrywide Home Loans, Inc., No. 14 CV 3511 (Wisconsin Circuit Court for Dane County, filed December 30, 2014) (the "Wisconsin Action").

AAC alleged a claim for fraudulent inducement in connection with AAC's issuance of insurance policies relating to five residential mortgage-backed securitizations that are not the subject of AAC's previously filed lawsuit against the same defendant. Defendant filed a motion to dismiss the complaint on February 20, 2015, which AAC opposed. The court heard oral argument on two of Countrywide's grounds for dismissal on June 23, 2015, and indicated that it would dismiss the Wisconsin Action without prejudice for lack of personal jurisdiction. The court issued an order to that effect on July 2, 2015. AAC appealed the July 2, 2015 order. On June 23, 2016, the Wisconsin Court of Appeals reversed the dismissal of the complaint, finding that the Court had general jurisdiction over Countrywide, and on October 11, 2016, the Wisconsin Supreme Court granted Countrywide's petition for review of the June 23 decision by the Wisconsin Court of Appeals. On June 30, 2017, the Wisconsin Supreme Court reversed the decision of the Wisconsin Court of Appeals and remanded the case to the Wisconsin Court of Appeals for further proceedings.

E. The Segregated Account of Ambac Assurance Corporation and Ambac Assurance Corporation v. Countrywide Home Loans, Inc., Index No. 652321/2015 (Supreme Court of the State of New York, County of New York, Case No. 652321/2015, filed June 30, 2015) (the "2015 New York Action").

Ambac alleged claims identical to the Wisconsin Action. On July 21, 2015, plaintiffs filed a complaint in the 2015 New York Action and a motion to stay the 2015 New York Action pending appeal and litigation of the Wisconsin Action. On August 5, 2015, Countrywide filed its opposition to plaintiffs' motion to stay and on August 10, 2015, Countrywide filed a motion to dismiss the complaint, which AAC opposed. The court held oral argument in November 2015 and on September 20, 2016 granted AAC's motion to stay. Countrywide's motion to dismiss the complaint is held in abeyance pending resolution of the Wisconsin Action.

F. Ambac Assurance Corporation and the Segregated Account of Ambac Assurance Corporation v. Countrywide Home Loans, Inc., Countrywide Securities Corp., Countrywide Financial Corp., and Bank of America Corp., Index No. 653979/2014 (Supreme Court of the State of New York, County of New York, filed December 30, 2014).

AAC alleged a claim for fraudulent inducement in connection with AAC's issuance of insurance policies relating to eight residential mortgage-backed securitizations that are not the subject of AAC's previously filed lawsuits against the same defendants. On February 20, 2015, the Countrywide defendants filed a motion to dismiss the complaint, which Bank of America joined on February 23, 2015. AAC opposed the motion. On December 20, 2016, the court issued a decision denying the defendants' motion to dismiss. Discovery is ongoing.

XIV. SUMMARY OF EXCHANGE OFFERS AND CONSENT SOLICITATION

The Rehabilitation Exit Transactions contemplate a series of three proposed exchange offers: (i) the DPO Exchange Offer, (ii) the AAC Supporting Holder Exchange Offer and (iii) the AAC Exchange Offer (as each is defined below, and together, the "Exchange Offers"). The Exchange Offers are conditions precedent to the effectiveness of the Plan, and will, subject to satisfaction or waiver of conditions precedent set forth therein, including effectiveness of the Plan, be closed concurrently with the effectiveness of the Plan. Set out below is an executive summary of the Exchange Offers. For each \$1.00 of principal amount outstanding and accrued and unpaid interest thereon, holders of GA SSNs that participate in the Exchange Offers effectively will (i) receive \$0.40 in cash, (ii) receive \$0.41 in principal amount of Senior Secured Notes, (iii) retain \$0.125 in principal amount and accrued and unpaid interest thereon of Senior Surplus Notes and (iv) provide a discount of \$0.065 in principal amount and accrued and unpaid interest thereon.³⁴ As a result, the holders of GA SSNs that participate in the Exchange Offers will receive the same consideration that holders of beneficial interests in Deferred Amounts effectively will receive in the Plan. The purpose of the DPO Exchange Offer is to effect the same economics for holders of Deferred Amounts, including AAC, and holders of GA SSNs. As a result of the DPO Exchange Offer, AAC will receive substantially the same consideration as to the other Deferred Amount holders in the Plan.

A. Summary of the DPO Exchange Offer

Pursuant to the DPO Exchange Offer, AAC, as "Offeror" is offering to Supporting Holders, and only the Supporting Holders, in exchange for each \$1.00 of principal amount of its outstanding GA SSNs validly tendered, and not validly withdrawn at or prior to the expiration of the Exchange Offers, which is expected to be 11:59 p.m., New York City time, on the day immediately preceding the Effective Date (the "Expiration Time"), subject to an exchange cap of \$197 million³⁵ of principal plus accrued and unpaid interest, \$1.00 of Deferred Amounts

³⁴ Certain amounts, including the amounts of each component of exchange consideration, presented herein are approximations that have been rounded for purposes of presentation in this summary of the Exchange Offers.

³⁵ This amount will be equal to 12.5% of the principal amount of DPOs, plus accretion thereon, held by AAC as of the Record Date (the "AAC Held DPO Amount").

evidenced by RMBS Securities where the remaining recourse of payment is to Deferred Amounts.

B. Summary of the AAC Supporting Holder Exchange Offer

Pursuant to the AAC Supporting Holder Exchange Offer, AAC as, “Offeror” is offering to the Supporting Holders, and only the Supporting Holders, in exchange for each \$1.00 of principal amount of GA SSNs validly tendered, and not validly withdrawn at or prior to the Expiration Time, subject to each Supporting Holders participation in the DPO Exchange Offer and an exchange cap of \$132 million³⁶ of principal plus accrued and unpaid interest, (i) \$0.666 in cash and (ii) \$0.683 in principal amount of Senior Secured Notes, which represents (if expressed as an amount of consideration per \$1.00 of obligations that include accrued and unpaid interest) \$0.457 in cash and (ii) \$0.469 in principal amount of Senior Secured Notes for each \$1.00 of the sum of (A) principal amount and (B) accrued and unpaid interest thereon (up to, but not including, the settlement date for the Exchange Offers, which will be promptly after the Expiration Time). The amounts described in this Section XIV.B, when combined with the Supporting Holders’ participation in the Initial Exchange, results in each Supporting Holder effectively (i) receiving \$0.40 in cash, (ii) receiving \$0.41 in principal amount of Senior Secured Notes, (iii) retaining \$0.125 in principal amount and accrued and unpaid interest thereon of Senior Surplus Notes and (iv) providing a discount of \$0.065 in principal amount and accrued and unpaid interest thereon.

C. Summary of the AAC Exchange Offer

Pursuant to the AAC Exchange Offer, AAC as, “Offeror” is offering to the holders of GA SSNs (other GA SSNs held by Supporting Holders, AAC or AFG) in exchange for each \$1.00 of principal amount of GA SSNs validly tendered, and not validly withdrawn at or prior to the Expiration Time, subject to an exchange cap of \$480 million³⁷ of principal plus accrued and unpaid interest, (i) \$0.666 in cash and (ii) \$0.683 in principal amount of Senior Secured Notes, which represents (if expressed as an amount of consideration per \$1.00 of obligations that include accrued and unpaid interest) \$0.457 in cash and (ii) \$0.469 in principal amount of Senior Secured Notes for each \$1.00 of the sum of (A) principal amount and (B) accrued and unpaid interest thereon (up to, but not including, the settlement date for the Exchange Offers, which will be promptly after the Expiration Time). The amounts described in this Section XIV.C, when combined with the applicable exchange cap, results in each Holder of GA SSNs that participates in the AAC Exchange Offer effectively (i) receiving \$0.40 in cash, (ii) receiving \$0.41 in

³⁶ Each Supporting Holder shall be capped at an amount of GA SSNs with an aggregate principal amount outstanding, which when taken together with accrued and unpaid interest thereon (the “Total Value”) equal to the percentage to be determined of the Total Value of GA SSNs owned by such Supporting Holder that are tendered in the AAC Supporting Holder Exchange Offer, based on the following formula: $1 - (12.5\% * \text{amount of Supporting Holder owned existing GA SSNs}) / (\text{amount of Supporting Holder owned existing GA SSNs less the existing GA SSNs deposited into the Escrow Account by the Supporting Holders less } 12.5\% \text{ of the AAC held DPO amount})$.

³⁷ Each holder shall be capped at an amount of GA SSNs with a Total Value equal to approximately 87.5% of the Total Value of the existing GA SSNs owned by such holder (excluding the existing GA SSNs deposited into the Escrow Account by the Supporting Holders and existing GA SSNs held by AAC and AFG) that are tendered in the AAC Exchange Offer.

principal amount of Senior Secured Notes, (iii) retaining \$0.125 in principal amount and accrued and unpaid interest thereon of Senior Surplus Notes and (iv) providing a discount of \$0.065 in principal amount and accrued and unpaid interest thereon.

D. Summary of the Consent Solicitation

In conjunction with the Exchange Offers, the Ambac BSA Parties will solicit Consents from the holders of the GA SSNs to the BSA Waiver and Amendment (the “Consent Solicitation”). A holder cannot deliver a Consent to the BSA Waiver and Amendment in the Exchange Offers without tendering its GA SSNs, or tender its GA SSNs without delivering a Consent. The Supporting Holders have agreed to deliver consents to the BSA Waiver and Amendment, and collectively the Supporting Holders hold more than a majority in aggregate principal amount of the GA SSNs, which would be sufficient to amend the Bank Settlement Agreement pursuant to the BSA Waiver and Amendment even if all other holders of GA SSNs were to not deliver their Consents. OCI will also consent to the BSA Waiver and Amendment. The proposed amendments to the Bank Settlement Agreement include eliminating the unaffiliated qualified directors requirement; eliminating the prohibition on writing new business; refining the incurrence of material obligations restriction to allow for up to \$400 million of additional permitted indebtedness; allowing liens securing permitted indebtedness; providing for additional flexibility to issue junior surplus notes; and providing for additional flexibility for the merger of AAC subsidiaries.

XV. SUMMARY OF TIER 2 NOTES³⁸

In connection with the consummation of the Rehabilitation Exit Transactions, on the Effective Date, AAC will issue and sell Tier 2 Notes in an aggregate principal amount of \$240,000,000 (the “Principal Amount”) to funds affiliated with or managed by certain investors (each an “Investor”, and collectively the “Investors”) who have committed to purchase them pursuant to, and subject to the terms and conditions in a commitment letter, by and among AAC and the Investors, dated as of July 19, 2017 (the “Commitment Letter”).

A. Maturity

The Tier 2 Notes will mature in 2055 and interest will accrue from but excluding the Effective Date at 8.5% per annum. Interest payments will be paid-in-kind and compounded on the last day of each calendar quarter.

³⁸ The following is a summary of the provisions of the Tier 2 Notes. The summary does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the provisions of the Tier 2 Notes Indenture and the Note Security Documents (as defined in the Tier 2 Notes Indenture), including the definitions therein of certain terms. If there is any inconsistency between the description set forth herein and the terms of the Tier 2 Notes Indenture or Note Security Documents, the terms of the Tier 2 Notes, the Tier 2 Notes Indenture and Note Security Documents will prevail. Documents relating to the Tier 2 Notes (other than the Commitment Letter) are or will be available on the Website.

B. Collateral

The Tier 2 Notes will be secured by a pledge of (i) AAC's right, title and interest in the cash and non-cash proceeds received by, or on behalf of, AAC pursuant to the RMBS Litigations (as defined and further described in Section XIII), pursuant to any final and non-appealable judgment, settlement or other arrangement, minus all amounts paid or payable to reimburse reinsurers for the amounts paid by reinsurers in connection with the receipt of such proceeds (but not the amount of any cost or fee (including legal fees) incurred in connection with the RMBS Litigation) in excess of \$1,600,000,000 (the "Tier 2 Net Proceeds") and (ii) the Account (as defined below).

At all times, after issuance of the Tier 2 Notes, AAC will control the RMBS Litigations in all respects (including, without limitation, all decisions as to strategy, settlement, pursuit and abandonment), and the holders of the Tier 2 Notes will have no right to join or participate in the RMBS Litigations in any way.

No holder of the Tier 2 Notes or of any beneficial interest in the Tier 2 Notes will have any third party beneficiary rights under, relating to or in respect of the RMBS Litigations. Each such holder will agree not to, and will procure that none of its affiliates, representatives, employees, directors, shareholders or agents will, take any action, whether direct or indirect, that is intended to, or could be reasonably expected to, interfere with, or influence the value, settlement discussions, legal arguments, timing of, the prosecution or resolution, in any way whatsoever, any RMBS Litigations or other litigation to which AAC or the Segregated Account is a party. For the term of the Tier 2 Notes, AAC will covenant not to sell or otherwise transfer to any third party any of its ownership of the Tier 2 Net Proceeds in excess of \$1,600,000,000 (other than in connection with contingency fee arrangements with counsel).

C. Condition Precedents

The issuance of the Tier 2 Notes is subject to a number of conditions precedent including, among others:

- Satisfaction or waiver of the conditions to effectiveness set forth in the Plan;
- Execution of final documentation relating to the Tier 2 Notes;
- Payment of reasonable and documented legal fees of the Investors subject to a cap; and
- Delivery of customary corporate predicate, enforceability, and registration exemption opinions.

D. Commitment Fee

The Investors received a commitment fee of 2.5% of the Principal Amount that was paid in cash upon execution of the Commitment Letter.

E. Ticking Fee

The Investors are entitled to a ticking fee of 3.5% of the Principal Amount per annum, payable monthly in cash from 60 days after the execution of the Commitment Letter (the “Ticking Date”) until the earliest of (i) the Effective Date, (ii) the rejection of the Plan by the applicable insurance regulator and (iii) termination of the Commitment Letter following the resolution of *Ambac Assurance Corp. v. Countrywide Home Loans, Inc.*, Index No. 651612/2010 (N.Y. Sup. Ct. N.Y. Cty.) (Bransten, J.) or the termination of the RESA; provided that, in the event of a termination pursuant to (ii) or (iii) above, the minimum number of months of ticking fee payable shall be 3 months.

F. Payments of Principal and Interest

Promptly, after receipt of any Tier 2 Net Proceeds by AAC and provided that the Initial Call Date has occurred, AAC shall be obliged to redeem the Tier 2 Notes with such Tier 2 Net Proceeds. Non-cash Tier 2 Net Proceeds are deemed to be received after the receipt of a third party appraisal as to the fair market of the non-cash Tier 2 Net Proceeds.

In addition, in the event that a payment (other than payments in connection with closing of the Rehabilitation Exit Transactions) is made on the GA SSNs (a “SSN Payment Date”) and provided that the Initial Call Date (as defined below) has occurred, AAC shall be obliged to redeem the Tier 2 Notes in an amount (the “SSN Payment”) equal to (a) the then outstanding accrued and unpaid interest and principal balance of the Tier 2 Notes, multiplied by (b) the Surplus Note Distribution Percentage, (as defined below) and by applying such proceeds to redeem the Tier 2 Notes in an amount equal to the maximum amount of principal that can be repaid with such SSN Payment, along with accrued and unpaid interest on such Tier 2 Notes to, but not including, the redemption date for such Tier 2 Notes. For the avoidance of doubt, it is contemplated that there can be multiple such distributions (in the event of multiple regulator approved payments to the GA SSNs).

In the event of a SSN Payment Date prior to the scheduled maturity of GA SSNs that includes a principal payment on such GA SSNs, occurring prior to the one year anniversary of a payment of principal on the Tier 2 Notes (a “Recent Principal Payment”) and provided that the Initial Call Date has occurred, in lieu of making a SSN Payment as calculated in the prior paragraph, AAC shall be obliged to make a SSN Payment equal to: (a) the outstanding accrued and unpaid interest and principal balance of the Tier 2 Notes immediately prior to the Recent Principal Payment, multiplied by (b) the Surplus Note Distribution Percentage, (as defined below) and by applying such proceeds to redeem the Tier 2 Notes in an amount equal to the maximum amount of principal that can be repaid with such SSN Payment, along with accrued and unpaid interest on such Tier 2 Notes to, but not including, the redemption date for such Tier 2 Notes. For the avoidance of doubt, it is contemplated that there can be multiple such distributions (in the event of multiple regulator approved payments to the GA SSNs).

At the maturity date, or on any date on which the Tier 2 Notes are to be redeemed in whole, AAC will make a payment of the then outstanding interest and principal balance of the Tier 2 Notes, in full. On any date on which the Tier 2 Notes are to be redeemed in part, AAC will make

a payment of the interest and principal outstanding on the Tier 2 Notes to be redeemed and any applicable make-whole premium.

The “Surplus Note Distribution Percentage” is equal to the percentage calculated as: (i) the amount of payments to be made on the GA SSNs on such SSN Payment Date, as the numerator, over (ii) the outstanding unpaid interest and principal balance of the GA SSNs immediately prior to such distribution, as the denominator.

Note that, for the purpose of determining the Surplus Note Distribution Percentage, any payments to the GA SSNs made in connection with the transactions relating to the exit of the Segregated Account from rehabilitation are excluded (i.e., the GA SSN balance is considered to be 100% following any payments made on or before or in connection with the date of issuance of the Tier 2 Notes).

G. Call Protection; Collateral Account

Prior to the Initial Call Date, AAC may at its option (including, for the avoidance of doubt, through the use of Tier 2 Net Proceeds or SSN Payments as an alternative to funding the Account (as defined below), or any other source of available cash) redeem the Tier 2 Notes in whole or in part, on one or more occasions, at a redemption price equal to 100% of the aggregate principal amount to be redeemed plus accrued and unpaid interest thereon, if any, plus the applicable make-whole premium.

To the extent there is an SSN Payment Date or receipt of Tier 2 Net Proceeds in advance of the Initial Call Date, a separate account (the “Account”) will be funded with amounts equal to any Tier 2 Net Proceeds and/or SSN Payments which would have been applied in redemption of the Tier 2 Notes but for the application of this Call Protection provision (including the applicable make-whole premium). Except as described herein, the Tier 2 Notes may not be redeemed or repaid prior to the Initial Call Date. Thereafter, the Tier 2 Notes may be redeemed, in whole or in part, at the option of AAC, at a price equal to 100% of the aggregate principal amount redeemed, plus accrued and unpaid interest, if any.

The Account, which can be funded with cash or certain specified assets, will be pledged to secure the Tier 2 Notes and will be subject to an account control agreement in favor of the noteholders. The Tier 2 Notes will constitute secured debt to the extent of the value of the Account, and any unsecured portion of the Tier 2 Notes in a liquidation of AAC will constitute class 5 claims under Wisconsin insurance law.

AAC’s obligation to pre-fund such amounts will be subject to a maximum amount equal to the sum of the aggregate principal amount of all outstanding Tier 2 Notes and the applicable make-whole premium on all such Tier 2 Notes (the “Maximum Amount”). If the Maximum Amount has been funded in the Account, (i) any Tier 2 Net Proceeds in excess of such Maximum Amount shall be exclusively for the account of AAC and the lien over such excess Tier 2 Net Proceeds shall be, immediately and without further action, released; and (ii) there shall be no further obligation to redeem any of the Tier 2 Notes, or fund the Account, as a consequence of any payment on the GA SSNs any further receipt of Tier 2 Net Proceeds or any diminution of value of the Account (though, for the avoidance of doubt, such diminution shall in no event reduce the

amount owed in respect of the Tier 2 Notes). If and only if the Account has been funded in excess of the Maximum Amount, AAC may, in its sole discretion, withdraw such excess from the Account for its general use, free and clear of any liens for the benefit of the noteholders.

At any time and from time to time AAC may also, in its sole discretion, collateralize any amount of Tier 2 Notes by funding the Account with any source of cash or certain specified assets in an amount equal to the principal amount of such Tier 2 Notes, all accrued and unpaid interest thereon, and the applicable make-whole premium that would have been payable if such Tier 2 Notes were redeemed on the date of such funding; provided, that all such collateralized Tier 2 Notes shall be redeemed (without premium or penalty) on or about the Initial Call Date, together with accrued and unpaid interest thereon to the date of such redemption, if they are not redeemed prior to such Initial Call Date with their applicable make-whole premium in respect thereof (and accrued and unpaid interest thereon) on such prior date.

The “Initial Call Date” shall be the 39th month anniversary of the Ticking Date, which such date shall be automatically extended on each month anniversary of the Effective Date after the one year anniversary of the Effective Date, on a ratable basis, to (i) the 48th month anniversary of the Ticking Date by the second year anniversary of the Effective Date and (ii) the 54th month anniversary of the Ticking Date by the third year anniversary of the Effective Date; provided that for any given redemption or repayment of principal on the Notes (in whole or in part), the Initial Call Date for such principal to be redeemed or repaid shall be determined as of the earlier of the date of such redemption or repayment and the date that an amount equal to the amount of principal to be redeemed or repaid was funded into the Account.

H. Early Termination

AAC may voluntarily redeem the Tier 2 Notes, in whole or in part, (i) on the Initial Call Date or thereafter without penalty or (ii) prior to the Initial Call Date, pursuant to the provisions described above under the heading “Call Protection; Collateral Account”.

I. Registration

The Tier 2 Notes will be issued only pursuant to an exemption from the registration requirements under the Securities Act and will not be registered under the Securities Act, or any other applicable securities laws, and, unless so registered, such Tier 2 Notes may not be offered, sold, pledged or otherwise transferred within the United States or to or for the account of any U.S. person, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and any other applicable securities laws.

The foregoing description is for informational purposes only and is not an offer to sell or purchase nor the solicitation of an offer to sell or purchase Tier 2 Notes and will not constitute an offer, solicitation or sale in any state or jurisdiction in which, or to any person to whom such an offer, solicitation or sale would be unlawful.

XVI. SUMMARY OF REHABILITATION EXIT SUPPORT AGREEMENT³⁹

While no voting of creditors is contemplated or permitted on a plan of rehabilitation (as noted above in the Disclaimer), the Rehabilitator believed that obtaining the support of creditors beneficially owning a significant portion of the interests that would be affected by the Plan and the Rehabilitation Exit Transactions was in the best interests of the Segregated Account. Such support was formally obtained on July 19, 2017 through execution of the Rehabilitation Exit Support Agreement with AAC and AFG. Copies of the RESA and the First Amendment to the RESA (as defined and described below) are attached to this Disclosure Statement as Exhibit C.

A. Agreement to Support the Plan

Pursuant to the RESA, each of the parties thereto have agreed, among other things: (i) on the terms and conditions of the Rehabilitation Exit Transactions; (ii) to cooperate with each other in good faith in connection with the pursuit, approval, implementation, and consummation of the Rehabilitation Exit Transactions; (iii) to negotiate in good faith definitive agreements and documents to implement and consummate the Rehabilitation Exit Transactions; and (iv) not to object to, delay, impede, or commence any proceeding pertaining to, or take any other action to interfere, directly or indirectly, in any material respect with the acceptance of, the Rehabilitation Exit Transactions, or encourage or support any person or entity to do any of the foregoing. Each Supporting Holder acknowledged and agreed that AFG, AAC, and the Segregated Account will continue their ongoing remediation, bond purchase, and deleveraging efforts, including, but not limited to, separate transactions with any of the Supporting Holders, including without limitation, those that have occurred since January 1, 2017 that are listed on Schedule A attached to the RESA.

Pursuant to the RESA, the Supporting Holders have further agreed, among other things, to: (i) deposit into the Escrow Account their pro rata share of GA SSNs required for the Initial Exchange; (ii) tender and not withdraw their GA SSNs in the Exchange Offers; (iii) deliver their Consent in the Consent Solicitation (as defined below); (iv) accept the consideration offered pursuant to the Plan in full satisfaction of the Deferred Amounts held by each holder; (v) not vote for, consent to, provide any support for, participate in the formulation of, or solicit or encourage others to formulate any alternative transaction for or involving the GA SSNs and Deferred Amounts (other than the Exchange Offers and the Plan); (vi) authorize the Supporting Holders' counsel to provide (A) an affidavit of such counsel describing the support of the Supporting Holders for the Plan or (B) a statement of the Supporting Holders' support for the Plan; (vii) deliver, with respect to all Deferred Amounts beneficially owned by the Supporting Holders, a letter of support to the trustees of the trusts holding such Deferred Amounts; and (viii) not object to, nor otherwise commence any proceeding to oppose, the Rehabilitation Exit Transactions.

³⁹ Unless otherwise defined in this Disclosure Statement, capitalized terms in this Section XVI have the same meaning given to them in the RESA.

B. Surplus Notes Held by AFG

Following the consummation of the Rehabilitation Exit Transactions and until the earlier of: (i) June 8, 2020; and (ii) the date on which at least 25% of the principal amount of Remaining Senior Surplus Notes (as defined the RESA) are no longer outstanding, AFG will hold and not sell Remaining Senior Surplus Notes which, as of June 30, 2017, have an aggregate of \$60 million of principal amount and accrued and unpaid interest outstanding.

C. Transfers

Pursuant to the terms of the RESA, any GA SSNs or Deferred Amounts acquired by Supporting Holders will be subject to the terms of the RESA and may not be transferred other than pursuant to the terms thereof. Subject to certain exclusions, Supporting Holders may transfer GA SSNs or Deferred Amounts, provided that any transferee of such GA SSNs or Deferred Amounts signs a joinder agreement to the RESA. The RESA also includes provisions allowing for acquisitions or transfers through market makers; provided that any transferee or, in certain circumstances, the market maker signs a joinder agreement to the RESA.

D. Termination by Supporting Holders

The RESA may be terminated by Supporting Holders that, in the aggregate, beneficially own at least 66 2/3% of the principal amount outstanding under the GA SSNs and 66 2/3% of the principal amount of the Deferred Amounts subject to the terms of the RESA, held by the Supporting Holders as a whole (the “Supermajority Consenting Holders”), upon the occurrence of any of the following events (each a “Group Termination Event”), by delivering written notice of the occurrence of such event in accordance with the notices provision of the RESA: (a) (i) the Rehabilitator has not filed a motion in the Rehabilitation Court seeking entry of an order by the Rehabilitation Court, which order is not subject to a stay of execution, approving the Rehabilitation Plan Amendment, by October 2, 2017; (ii) the confirmation hearing has not commenced by January 15, 2018; (iii) the Rehabilitation Exit Transactions have not been consummated by April 15, 2018; or (iv) the Parties have not satisfied the requirements of Section 3(b) of the RESA; *provided* that if the Rehabilitation Exit Transactions have not been consummated by July 19, 2018, each Holder will have the right to terminate the Agreement with respect to itself; or (b) the Rehabilitation Exit Transactions or the final definitive documents with respect to the Rehabilitation Plan Amendment, Exchange Offers or the Senior Secured Notes do not conform in all material respects to the term sheets attached to the RESA with respect to the Plan, Exchange Offers and the Senior Secured Notes (the “Term Sheets”), except as approved pursuant to the RESA; or (c) the Rehabilitator seeks an order or other relief from the Rehabilitation Court or other court of competent jurisdiction (including approval of an amendment to the First Amended Plan) inconsistent in any material respect with the Term Sheets, or the Rehabilitation Court or other court of competent jurisdiction issues an order or grants relief (including approval of an amendment to the Original Plan) inconsistent in any material respect with the Term Sheets; or (d) a material breach of any of the undertakings, representations, warranties, or covenants set forth in the RESA by AAC and AFG that is not, by its terms, curable or that is, by its terms, curable and is not cured by the 25th day after notice of such breach. Notwithstanding anything therein to the contrary, a Supporting Holder may not seek

to terminate the RESA based upon a Group Termination Event arising out of its own actions or omissions in violation of the RESA.

E. Termination by AAC or AFG

AFG and AAC will have the right to terminate the RESA on the occurrence of any of the following events (each a “Company Termination Event”) by giving written notice in accordance with the notices provision of the RESA to the other parties to the agreement: (a) the Rehabilitation Exit Transactions have not been consummated by July 19, 2018; (b) the Rehabilitator seeks an order or other relief from the Rehabilitation Court or other court of competent jurisdiction (including approval of an amendment to the Amended Plan) inconsistent in any material respect with the Term Sheets, or the Rehabilitation Court or other court of competent jurisdiction issues an order or grants relief (including approval of an amendment to the Amended Plan) inconsistent in any material respect with the Term Sheets; or (c) a material breach of any of the undertakings, representations, warranties, or covenants set forth in the RESA by any Supporting Holder that is not, by its terms, curable or that is, by its terms, curable and is not cured by the 25th day after notice of such breach.

F. Termination by the Parties

Each party to the RESA will have the right to terminate the agreement on the occurrence of any of the following events by giving written notice in accordance with the notices provision of the RESA to the other parties to the agreement: (a) any court of competent jurisdiction has entered a final, non-appealable judgment or order (i) declaring the RESA or any material portion hereof to be illegal or unenforceable; or (ii) restricting, preventing or prohibiting in any material respect the Rehabilitation Exit Transactions in a way that cannot reasonably be remedied by the parties within the time periods set forth in the prior two paragraphs above; or (b) the parties to the agreement mutually agree to do so. Notwithstanding anything to the contrary in the RESA, the Term Sheets, or any other agreement, the RESA will terminate on the earlier of: (x) the election of the Supporting Holders to terminate the RESA upon the occurrence of a Group Termination Event after expiration of any cure periods and satisfaction of any conditions set forth in the paragraph above with respect to termination by the Supporting Holders; (y) the election of AAC or AFG to terminate the RESA upon the occurrence of a Company Termination Event after expiration of any cure periods and satisfaction of any conditions set forth in the paragraph above with respect to termination by AAC and AFG; and (z) the consummation of the Rehabilitation Exit Transactions.

On the delivery of the written notice therein referred to in connection with the valid termination of the RESA, the obligations of each of the parties to the agreement will thereupon terminate and be of no further force and effect (subject to the last sentence of this paragraph). Prior to the delivery of such notice the Supporting Holders may waive the occurrence of a Group Termination Event and AAC may waive the occurrence of a Company Termination Event. No such waiver will affect any subsequent termination event or impair any right consequent thereon. Upon termination of the RESA, no party to the agreement will have any continuing liability or obligation to the other parties to the agreement thereunder; provided, however, that no such termination will relieve any party from liability for its breach or non-performance of its obligations hereunder prior to the date of such termination.

G. Amendment to the Rehabilitation Exit Support Agreement

On September 21, 2017, AFG, AAC and the Supporting Holders entered into the First Amendment to the RESA (the “First Amendment to the RESA”). Pursuant to the RESA, the parties thereto agreed to negotiate in good faith definitive agreements and documents to implement and consummate the Rehabilitation Exit Transactions (the “Definitive Documents”). Pursuant to the First Amendment to the RESA, the parties thereto agreed, among other things, to amend certain provisions of the RESA, including the Term Sheets attached thereto, to reflect the terms of the Definitive Documents to which the parties had agreed to during the course of this negotiation.

XVII. CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of certain material U.S. federal income tax consequences to AAC and the Segregated Account, and to U.S. Holders (as defined below) of beneficial interests in Deferred Amounts if the Second Amended Plan is confirmed, including a summary of certain U.S. federal income tax consequences relevant to the receipt, ownership and disposition of the GA SSNs and the Senior Secured Notes (collectively, the “Notes”) by U.S. Holders that receive Notes in the Initial Exchange or as Deferred Amount Consideration. This summary is based upon the U.S. Internal Revenue Code of 1986, as amended (the “Code”), Treasury Regulations promulgated thereunder, rulings and decisions now in effect, all of which are subject to change (including changes in effective dates and retroactive changes as well as legislative amendments to existing tax law) or possible differing interpretations. AAC will not seek a ruling from the IRS with regard to the U.S. federal income tax treatment of the Second Amended Plan to U.S. Holders and, therefore, there can be no assurance that the IRS or the courts will agree with the tax consequences set forth below. This summary deals only with U.S. Holders that hold the Notes and Deferred Amounts as capital assets and does not apply to holders that are subject to special rules, such as financial institutions, insurance companies, regulated investment companies, dealers in securities or currencies, traders in securities that elect to use the mark-to-market method of accounting, persons holding Notes or beneficial interests in Deferred Amounts as a part of a “straddle,” “hedge,” “conversion” or other integrated transaction for tax purposes, tax-exempt organizations, or persons whose functional currency is not the U.S. dollar. The discussion addressing the Notes does not deal with holders other than the initial holders of the Notes received in Initial Exchange or a Deferred Amount Consideration. In addition, this summary does not address any aspects of state, local or foreign tax laws or any U.S. federal tax considerations applicable to holders other than U.S. Holders. Non-U.S. Holders of beneficial interests in Deferred Amounts should consult their own tax advisors concerning the application of the U.S. federal income tax laws, including any possible U.S. withholding tax, to their particular situations.

As used herein, the term “U.S. Holder” means a beneficial owner of a Deferred Amount that receives Notes in the Initial Exchange or as Deferred Amount Consideration and that is for U.S. federal income tax purposes (i) a citizen or resident of the United States, (ii) a corporation (including an entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate, the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust if a court within the United States is able to exercise primary supervision

over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust. If a partnership (including for this purpose any entity treated as a partnership for U.S. federal income tax purposes) is the beneficial owner of any Note or Deferred Amount, the treatment of a partner in that partnership will generally depend upon the status of such partner and the activities of such partnership.

THERE CAN BE NO ASSURANCE THAT THE IRS OR THE COURTS WILL AGREE WITH THE TAX CONSEQUENCES SET FORTH BELOW.

HOLDERS OF BENEFICIAL INTERESTS IN DEFERRED AMOUNTS SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE APPLICATION OF U.S. FEDERAL INCOME TAX LAWS, AS WELL AS THE TAX LAWS OF ANY OTHER TAXING JURISDICTION, TO THEIR PARTICIPATION IN, AND RECEIPT OF CONSIDERATION IN ACCORDANCE WITH, THE SECOND AMENDED PLAN AND TO THE OWNERSHIP AND DISPOSITION OF THE NOTES IN THEIR PARTICULAR SITUATIONS.

A. Treatment of the Segregated Account

The U.S. federal income tax treatment of the Segregated Account is uncertain. AAC intends to take the position that the assets and liabilities of the Segregated Account are treated as the assets and liabilities of AAC for U.S. federal income tax purposes. No assurance can be given, however, that the IRS would agree with this position. The remainder of this summary assumes that the assets and liabilities of the Segregated Account will be treated as the assets and liabilities of AAC for U.S. federal income tax purposes.

B. Section 382

AAC has a substantial amount of NOLs and other tax attributes, for U.S. federal income tax purposes, available to offset taxable income and gains. If a corporation experiences an “ownership change” within the meaning of Section 382 of the Code, then Section 382 generally limits the corporation’s ability to use its NOL and other tax attributes to an amount equal to the equity value of the corporation at the time of the ownership change multiplied by the federal long-term tax-exempt rate. In general terms, an ownership change would result from transactions that result in aggregate increases in the percentage stock ownership in AAC by certain stockholders in excess of 50 percentage points over a testing period (generally three years). If an ownership change were to occur, the annual limitation imposed by Section 382 could result in a significant limitation on AAC’s ability to use its NOL, which could result in AAC having a substantially higher tax liability and a material amount of AAC’s NOL expiring unused. This would significantly impair the value of AAC’s NOL and, as a result, have a negative impact on its financial results. Because, as discussed below, AAC expects the GA SSNs, the Senior Secured Notes and the Tier 2 Notes to be treated as debt for U.S. federal income tax purposes, it does not expect the Second Amended Plan, the Exchange Offers or the issuance of the Tier 2 Notes to result in an ownership change. Accordingly, the NOLs are expected to be available to offset any net income recognized by AAC, including as described below under “*Deferred Amount Consideration – Tax Consequences to AAC*”. However, pursuant to the Amended and Restated Tax Sharing Agreement, dated March 14, 2012, AAC is

required to make certain payments to AFG for the use of certain portions of the NOL, which could be significant.

C. Initial Exchange

AAC expects that the exchange by AFG and the Supporting Holders of GA SSNs for Deferred Amounts in the Initial Exchange pursuant to the Plan will be treated as a sale or exchange of the right to receive insurance proceeds represented by the Deferred Amounts by the exchanging Deferred Amount holders for U.S. federal income tax purposes, although there can be no assurance that the IRS or a court will agree with such treatment. The rest of this Disclosure Statement assumes that this sale or exchange treatment will be respected. Accordingly, upon the exchange, a U.S. Holder generally will recognize taxable gain or loss equal to the difference between the fair market value of the GA SSNs received in the Initial Exchange and such U.S. Holder's adjusted tax basis in the Deferred Amount. For any U.S. Holder that owns its beneficial interest in a Deferred Amount through a "real estate mortgage investment conduit", as defined in the Code (a "REMIC"), the Initial Exchange is intended to have no adverse effect on such entity's qualification as a REMIC. A U.S. Holder should consult its own tax advisors concerning the character of its gain or loss on the exchange and its adjusted tax basis in the Deferred Amount, the continued qualification of the entity as a REMIC, and the application of U.S. federal income tax laws to its particular circumstances.

D. Deferred Amounts Consideration

1. Tax Consequences to Deferred Amount Holders other than Supporting Holders Receiving Deferred Amounts in Initial Exchange

For U.S. federal income tax purposes, AAC intends to treat its issuance of Senior Secured Notes, together with the payment of cash consideration, in satisfaction of the Deferred Amounts (other than those acquired by the Supporting Holders in the Initial Exchange) first as a payment in satisfaction of the Policy Claim that resulted in the Deferred Amount and then as a payment of accretion on the Deferred Amount. The amount of the Deferred Amount Consideration will equal the amount of the cash consideration plus an amount equal to the fair market value of the Senior Secured Notes received in respect of the Deferred Amount. The rest of this Disclosure Statement assumes that this treatment will be respected. Based on this treatment, to the extent that the amount of the Deferred Amount Consideration does not exceed the amount of the Policy Claim that gave rise to the Deferred Amount, it is expected to have the same character for U.S. federal income tax purposes as the unpaid item that gave rise to the Policy Claim. Accordingly, the portion of the Deferred Amount Consideration attributable to a Policy Claim for unpaid principal on the underlying insured bond is expected to be characterized as a payment of principal on such bond and the portion of the amount realized attributable to a Policy Claim for unpaid interest on the underlying insured bond is expected to be characterized as ordinary interest income. To the extent that the Deferred Amount Consideration exceeds the amount of the Policy Claim that gave rise to the Deferred Amount, AAC intends to treat such amount as attributable to accretion, the tax treatment of which is unclear and which may be capital gain or ordinary income for the Deferred Amount holder depending on such holder's particular circumstances. For any U.S. Holder that owns its beneficial interest in a Deferred Amount through a REMIC, the receipt of the Deferred Amount Consideration is intended to have no

adverse effect on such entity's qualification as a REMIC. A U.S. Holder should consult its own tax advisors concerning the U.S. federal income tax consequences of the receipt of the Deferred Amount Consideration in its particular circumstances (including those applicable to Deferred Amount Consideration received in respect of an underlying insured tax-exempt bond).

2. Tax Consequences to Supporting Holders Receiving Deferred Amounts in Initial Exchange

With respect to the Supporting Holders that receive Deferred Amounts in the Initial Exchange, AAC expects that its issuance of Senior Secured Notes, together with the payment of cash consideration, in satisfaction of such Deferred Amounts will be treated as a sale or exchange of such Deferred Amounts for U.S. federal income tax purposes, although there can be no assurance that the IRS or a court will agree with such treatment. The rest of this Disclosure Statement assumes that this sale or exchange treatment will be respected. The amount of the Deferred Amount Consideration will equal the amount of the cash consideration plus an amount equal to the fair market value of the Senior Secured Notes received in respect of the Deferred Amount Payment. Upon the exchange, a Supporting Holder generally will recognize taxable gain or loss equal to the difference between the sum of the Deferred Amount Consideration and the Supporting Holder's adjusted tax basis in the Deferred Amount. Because the Supporting Holders will exchange GA SSNs for the Deferred Amounts in the Initial Exchange immediately prior to receipt of the Deferred Amount Consideration, AAC expects that the combined effect to a Supporting Holder of the Initial Exchange and receipt of the Deferred Amount Consideration generally will be the recognition of taxable gain or loss equal to the difference between the amount of the Deferred Amount Consideration and the Supporting Holder's adjusted tax basis in the GA SSNs exchanged in the Initial Exchange. A Supporting Holder should consult its own tax advisors concerning the character of its gain or loss on the exchange and the application of U.S. federal income tax laws to its particular circumstances.

3. Tax Consequences to AAC

AAC will recognize ordinary income to the extent the amount owed by AAC with respect to the Deferred Amounts exceeds the sum of the aggregate fair market value of the Senior Secured Notes and the Cash consideration paid by AAC in satisfaction of the Deferred Amounts.

E. Ownership and Disposition of GA SSNs Received in the Initial Exchange

1. Characterization of GA SSNs

AAC has treated and intends to treat the GA SSNs as indebtedness of AAC for U.S. federal income tax purposes. This characterization is not binding on the IRS or on the courts; however, this characterization by AAC has not previously been challenged by the IRS. The following discussion assumes that the GA SSNs will be treated as indebtedness of AAC for U.S. federal income tax purposes. To the extent the GA SSNs received in the Initial Exchange were received from AFG, under Treasury Regulations applicable to consolidated returns with respect to intercompany debt obligations that become non-intercompany debt obligations, such GA SSNs should be treated as having been satisfied by AAC and reissued to AFG immediately before the Initial Exchange for an amount of cash equal to their fair market value. The deemed reissuance

will not affect the characterization of such GA SSNs as indebtedness for U.S. federal income tax purposes; however, AAC expects the deemed reissuance to result in such GA SSNs being issued with original issue discount (“OID”) to GA SSN holders. The GA SSNs received from the Supporting Holders in the Initial Exchange will not be treated as having been satisfied and reissued and will not be deemed reissued with OID as a result of the Initial Exchange.

2. Tax Consequences to GA SSN Holders

a. Interest

As described in the preceding paragraph, the GA SSNs received from AFG in the Initial Exchange are expected to be issued with OID. Although the GA SSNs received from the Supporting Holders will not be treated as reissued, they also are expected to accrue OID for the reasons set forth below. OID is the excess of the stated redemption price at maturity of a GA SSN over its issue price. The stated redemption price at maturity of such a GA SSN is the sum of all payments provided by the GA SSN other than “qualified stated interest” payments. The term “qualified stated interest” generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually. Because payments on the GA SSNs may be deferred until approved by the Commissioner, AAC intends to take the position that none of the interest payments constitute qualified stated interest and, accordingly, intends to treat the stated redemption price at maturity as including all payments of principal and interest on such GA SSNs. As a result, a U.S. Holder would include the resulting amount of OID in income as ordinary interest for U.S. federal income tax purposes as it accrues under a constant yield to maturity method, generally in advance of receipt of the cash payments attributable to such income, regardless of such U.S. Holder's regular method of tax accounting. In general, the amount of OID included in income by the U.S. Holder of a GA SSN will be the sum of the daily portions of OID with respect to the GA SSN for each day during the taxable year (or portion of the taxable year) on which such U.S. Holder held such GA SSN. The “daily portion” of OID on any GA SSN is determined by allocating to each day in any accrual period a ratable portion of the OID allocable to that accrual period. An “accrual period” generally will be each twelve-month period. The amount of OID allocable to each accrual period will be generally equal to the product of the GA SSN’s adjusted issue price at the beginning of such accrual period and its yield to maturity. Special rules apply for calculating OID for an initial short accrual period. The “adjusted issue price” of a GA SSN at the beginning of any accrual period is the sum of the issue price of the GA SSN plus the amount of OID allocable to all prior accrual periods minus the amount of any prior payments on the GA SSN.

If the fair market value of a GA SSN received by a U.S. Holder in the Initial Exchange from a Supporting Holder is less than its “revised issue price” on the date of the Initial Exchange, such U.S. Holder will be treated as having acquired such GA SSN at a “market discount,” unless the amount of such market discount is less than a specified *de minimis* amount. For this purpose, the “revised issue price” of a GA SSN generally equals its issue price, increased by the amount of any OID that has accrued on the GA SSN and decreased by the amount of any payments previously made on the GA SSN that were not qualified stated interest payments. If the fair market value of a GA SSN received by a U.S. Holder in the Initial Exchange from a Supporting Holder is greater than the sum of all amounts payable on the GA SSN after the purchase date other than payments of qualified stated interest, such U.S. Holder will be considered to have

acquired the GA SSN with “amortizable bond premium” equal in amount to such excess. U.S. Holders receiving GA SSNs in the Initial Exchange should consult their own tax advisors regarding the rules applicable to debt instruments acquired with market discount or acquisition premium.

As explained above, under applicable Treasury Regulations, the GA SSNs transferred by AFG in exchange for Deferred Amounts in the Initial Exchange will be treated as having been satisfied by AAC and reissued to AFG at an issue price equal to their fair market value immediately before the AFG Exchange. The GA SSNs received from AFG in the Initial Exchange are expected to have a lower issue price than the GA SSNs received from the Supporting Holders and other GA SSNs currently outstanding and retained by their current holders. Therefore, the GA SSNs received from AFG in the Initial Exchange may not be fungible for U.S. federal income tax purposes with the GA SSNs received from the Supporting Holders or other outstanding GA SSNs.

It is possible that the GA SSNs could be treated as “contingent payment debt instruments”, within the meaning of the Applicable Treasury Regulations. If the IRS were successful in asserting that the GA SSNs are contingent payment debt instruments, the timing and character of income thereon could be significantly affected. U.S. Holders receiving GA SSNs in the Initial Exchange should consult their own tax advisors regarding the treatment of the GA SSNs for U.S. federal income tax purposes.

b. Sale, Exchange or Other Disposition of GA SSNs

Upon the sale, exchange, redemption or retirement of a GA SSN, a U.S. Holder generally will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange, redemption or retirement and such U.S. Holder’s adjusted tax basis in the GA SSN. A U.S. Holder’s adjusted tax basis in a GA SSN generally will equal the GA SSN’s issue price increased by any OID included in income (and accrued market discount, if any, if the U.S. Holder has included such market discount in income) and decreased by the amount of any payments previously made to the U.S. Holder with respect to such GA SSN, other than qualified stated interest payments received and amortizable bond premium, if any, taken with respect to such GA SSN. Such gain or loss generally will be long-term capital gain or loss if the GA SSN was held for more than one year, subject to certain rules that may be applicable to market discount. If the U.S. Holder is an individual, long-term capital gains will be subject to reduced rates of taxation. The deductibility of capital losses is subject to certain limitations. U.S. Holders receiving GA SSNs in the Initial Exchange should consult their own tax advisors regarding the treatment of the GA SSNs for U.S. federal income tax purposes.

F. Ownership and Disposition of Senior Secured Notes

1. Characterization of Senior Secured Notes

AAC intends to treat the Senior Secured Notes as indebtedness of AAC for U.S. federal income tax purposes. No ruling is being requested from the IRS, and as a result, no assurance can be given that the IRS will agree with this treatment or the statements made below. The following

discussion assumes that the Senior Secured Notes will be treated as indebtedness of AAC for U.S. federal income tax purposes.

2. Tax Consequences to Senior Secured Notes

a. Interest

AAC expects that the Senior Secured Notes will not be issued at a discount from their stated principal amount by more than the statutory defined *de minimis* amount and that stated interest payments on the Senior Secured Notes will constitute qualified stated interest. Thus, under U.S. income tax law, AAC expects that the Senior Secured Notes will not be issued with OID and intends to so treat the Notes. Accordingly, a U.S. Holder should include the stated interest on a Senior Secured Note in income as ordinary interest for U.S. federal income tax purposes in accordance with the U.S. Holder's regular method of tax accounting.

b. Sale, Exchange or Other Disposition of Senior Secured Notes

Upon the sale, exchange, redemption or retirement of a Senior Secured Note, a U.S. Holder generally will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange, redemption or retirement (other than amounts representing accrued and unpaid interest) and such U.S. Holder's adjusted tax basis in the Senior Secured Note. A U.S. Holder's adjusted tax basis in a Senior Secured Note generally will equal the Secured Note's issue price less any payments of principal previously received by such U.S. Holder. AAC expects the issue price of the Senior Secured Notes to be equal to their face amount. Such gain or loss generally will be long-term capital gain or loss if the Senior Secured Note was held for more than one year. If the U.S. Holder is an individual, long-term capital gains will be subject to reduced rates of taxation. The deductibility of capital losses is subject to certain limitations.

G. Information Reporting and Backup Withholding

Payments of interest on, or the proceeds of the sale or other disposition of, the Notes or the Deferred Amounts will be subject to information reporting to the IRS and the U.S. Holder, unless the U.S. Holder is an exempt recipient, and may be subject to U.S. federal backup withholding, currently at a rate of 28%, if the recipient of the payment fails to provide an accurate taxpayer identification number and comply with certain certification requirements or otherwise fails to establish an exemption from backup withholding. Backup withholding does not represent an additional income tax. Any amount withheld under the backup withholding rules is allowable as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund if the required information is timely furnished to the IRS.

H. Medicare Tax

A 3.8% Medicare tax will be imposed on a portion or all of the net investment income of certain individuals with a modified adjusted gross income of over \$200,000 (\$250,000 in the case of joint filers) and on the undistributed net investment income of certain estates and trusts. For these purposes, "net investment income" generally will include interest (including interest paid or accrued with respect to a Note), net gain attributable to the disposition of property not held in a trade or business (including net gain from the sale, exchange, redemption or other taxable

disposition of a Note) and certain other income, but will be reduced by any deductions properly allocable to such income or net gain.

XVIII. CERTAIN RISK FACTORS TO BE CONSIDERED

THIS SECTION PROVIDES INFORMATION REGARDING POTENTIAL RISKS IN CONNECTION WITH THE PLAN. THESE FACTORS ARE NOT THE ONLY RISKS INVOLVED IN CONNECTION WITH THE PLAN AND ITS IMPLEMENTATION. ADDITIONAL RISK FACTORS IDENTIFIED IN AFG'S PUBLIC FILINGS WITH THE SEC MAY ALSO BE APPLICABLE TO THE MATTERS SET OUT HEREIN AND SHOULD BE REVIEWED AND CONSIDERED IN CONJUNCTION WITH THIS DISCLOSURE STATEMENT, TO THE EXTENT APPLICABLE.

A. Risks Relating to Plan Implementation

1. Risk of Non-Approval, Withdrawal or Modification of the Plan

The conclusion of the Proceeding and occurrence of the Merger will require the approval of the Court, which may not be obtained. Even if the RESA remains in effect and the Rehabilitator is pursuing a plan for the exit of the Segregated Account from Rehabilitation that is consistent with the RESA, the Court may determine that the Plan does not meet the legal requirements for the Proceedings to be concluded. The failure to obtain Court approval would create significant uncertainty with respect to whether or when the Proceedings could be concluded in the near term or at all. Further, there can be no assurance that the Court will approve the Plan, that modifications of the Plan may not be required for approval of the Plan, that approval of the Plan will not be overturned on appeal or that the Rehabilitator may not of his own initiative withdraw or modify the Plan for any reason. Any modifications of the Plan or failure of the Court to approve any of the transactions contemplated therein (including payment of any consideration contemplated by the Plan) could substantially impede the feasibility of the Plan.

2. Risk of Non-Occurrence of the Effective Date

There can be no assurance that the Effective Date will occur. Events that may delay or prevent the Effective Date (among other things) include appeals of the Approval Order and failure of any other conditions to the Effective Date in Section 5.2 of the Plan, including, but not limited to, procurement of (a) an opinion from AAC's tax advisors regarding satisfactory tax treatment of various aspects of the Transaction, (b) a private letter ruling from the Internal Revenue Service in form and substance reasonably satisfactory to the Rehabilitator, AAC, and AFG, and (c) other closing conditions described within the RESA. Circumstances may arise that are outside the control of the Rehabilitator and that may prevent one or more required conditions from occurring, which would prevent the Effective Date from occurring. Importantly, the Plan envisages the concurrent consummation of the Exchange Offers. The consummation of the Exchange Offers is a closing condition to the effectiveness of the Plan, and the concurrent effectiveness of the Plan is a closing condition to the consummation of the Exchange Offers. Accordingly, if one does not occur, then the other will not unless the closing condition is waived. The failure to consummate the Rehabilitation Exit Transactions due to the foregoing events or circumstances or other reasons may cause the Rehabilitator to pursue a different plan to conclude

the Proceedings or to abandon the pursuit of a near-term resolution of such proceedings. Either alternative would have uncertain consequences for AAC and for holders of its securities or securities insured by AAC or the Segregated Account.

3. Risks relating to the Character of Securities received under the Plan

Pursuant to the Plan, and in connection with the Initial Exchange and the Pre-Record Deferred Amount Consideration, entitled Beneficial Holders will receive their allocated portion of GA SSNs and Senior Secured Notes. As described in detail herein, the GA SSNs and the Senior Secured Notes each have certain characteristics that may carry risk for certain Beneficial Holders or, by their very form and structure, make the GA SSNs or Senior Secured Notes ineligible for holding by certain Beneficial Holders due to, among other things, institutional constraints or limitations. Accordingly, any Holder that believes it may be entitled to receive GA SSNs, Senior Secured Notes, or any other consideration under the Plan should consult, in advance, their respective tax, financial, and legal advisors to ensure that they will not be prohibited from receiving or holding such consideration. For the avoidance of doubt, the Plan does not provide any alternative consideration for those Beneficial Holders who may fall within such category. Accordingly, any such holders who cannot receive or hold securities received pursuant to the Plan should take any necessary and appropriate mitigating action prior to receipt of any consideration pursuant to the Plan.

4. Risks relating to the RESA

As set out in detail above, AFG, AAC, and the Supporting Holders (collectively, the “RESA Parties”) entered into the RESA which, among other things, includes milestones relating to the consummation of the transactions contemplated therein. Although the milestone dates for those transactions may be extended by agreement of the RESA Parties, there is no guarantee that they will agree to do so. The failure to consummate those transactions may result in the RESA Parties deciding to terminate the RESA. If the RESA is terminated, the Rehabilitator may decide to pursue a different plan to conclude the Proceedings or to abandon the pursuit of a near-term resolution of the Proceedings. Either alternative would have uncertain consequences for the Segregated Account and for holders of Policy Claims or Deferred Amounts.

B. Risks Relating to Creditors’ Recoveries Under the Plan

1. Risks relating to the Durability of AAC following the Merger

The Rehabilitator has reviewed the financial status of AAC and has formed the view that AAC’s financial position is durable and, as a consequence, it will be able to satisfy its obligations following the Merger, as contemplated by the Plan. The Rehabilitators’ view is based on projections. Those projections may prove inadequate or inaccurate due to reasons outside the control of the Rehabilitator. As set out in detail above, the Plan provides for the Segregated Account to merge with AAC; thereafter, AAC will have the sole responsibility for satisfying the obligations of the Segregated Account in addition to its own existing obligations to creditors and policy holders. If, for some reason, AAC is not as durable as assumed by the Rehabilitator, then there is no certainty that it will be able to pay the claims of creditors and policy holders, if and

when they come due. In that scenario, holders of policy or other claims may not receive satisfaction of their claims.

2. Risks Relating to the GA SSNs Received in the Initial Exchange

AAC has not made regular interest or principal payments on its GA SSNs and may be unable to repay GA SSNs in full at maturity or ever.

On November 20, 2014, AAC, with the approval of OCI, redeemed GA SSNs in an amount equal to 26.67% of the principal amount of GA SSNs, plus accrued interest thereon, outstanding as of July 20, 2014, or approximately \$396,366,560, owned by third parties. This redemption occurred concurrently with the redemption of a proportionate amount of SA SSNs, which was made pursuant to the First Amended Plan, and pursuant to the Bank Settlement Agreement, which required AAC to make proportional payments to holders of the GA SSNs as and when the Segregated Account made a payment to holders of the SA SSNs. However, no other interest or principal payments on the GA SSNs have been made to date and AAC may not receive approval from OCI to make payments as and when scheduled. While a single payment on the GA SSNs that remain outstanding following the consummation of the Plan and the Exchange Offers is a condition precedent to the Exchange Offers, there can be no assurance that any additional interest or principal payments will be made in the future. As a result, holders of the GA SSNs may not be paid in full at maturity or ever. If OCI does not begin to approve regular payments on the GA SSNs within the next several years, the accretion of GA SSNs may exceed AAC's ability to ever repay in full the GA SSNs. If AFG or AAC become subject to a bankruptcy or similar proceeding, such as rehabilitation or liquidation under the Wisconsin Insurance Law, prior to the repayment of GA SSNs, holders of GA SSNs may not receive any recoveries on the GA SSNs.

There is a limited or no trading market for the GA SSNs and market prices for outstanding GA SSNs may decline as a result.

There is currently a limited trading market in the GA SSNs. AAC cannot assure holders that any trading market will continue, further develop or provide sufficient liquidity. Prices of GA SSNs in any trading market may also be volatile and such GA SSNs may trade at a discount to the price at which they would have traded if the Plan and the Exchange Offers had not been consummated depending on prevailing interest rates, the market for similar securities and other factors. There can be no assurance as to the prices at which the GA SSNs outstanding after the consummation of the Plan and the Exchange Offers may be traded. AAC does not intend to create or sustain a market for any GA SSNs that remain outstanding following the consummation of the Plan and the Exchange Offers.

The GA SSNs received from AFG in the Initial Exchange may not be fungible with GA SSNs received from the Supporting Holders or other outstanding GA SSNs.

The GA SSNs received in the Initial Exchange are expected to have a lower issue price for U.S. federal income tax purposes than the GA SSNs received from the Supporting Holders or other outstanding GA SSNs and, therefore, the GA SSNs received from AFG in the Initial Exchange

will not be fungible with the GA SSNs received from the Supporting Holders or other outstanding GA SSNs for U.S. federal income tax purposes.

The Surplus Notes that remain outstanding following the consummation of the Exchange Offers (the “Remaining Surplus Notes”) will be subordinated in right of payment to other claims, which could impair your right to receive interest and principal in the event of AAC’s insolvency or a similar occurrence.

The Remaining Surplus Notes are unsecured obligations of AAC and, following effectiveness of the Rehabilitation Plan Amendment, will be expressly subordinated in right of payment to all of AAC’s existing and future indebtedness and policy claims. The Remaining Surplus Notes will be subject to provisions of Wisconsin insurance law, which establishes the priority of distribution of claims from the estate of an insolvent property/casualty insurance company. In the event that AAC becomes subject to rehabilitation, liquidation, conservation or dissolution, holders of AAC’s senior indebtedness, and policy claims would be afforded a higher priority of distribution than holders of the Remaining Surplus Notes, and accordingly would have the right to be paid in full before holders of the Remaining Surplus Notes would be paid. Due to the nature of AAC’s business, the amount of such higher priority claims in any rehabilitation, liquidation, conservation or dissolution is likely to be many times greater than any free and divisible surplus and it is likely that the holder of the Remaining Surplus Notes would not recover any payment in such circumstances. In addition, claims of holders of the Remaining Surplus Notes will be effectively subordinated to certain liabilities of AAC’s subsidiaries that are guaranteed by AAC.

There is a limited or no trading market for the Remaining Surplus Notes and market prices for outstanding Remaining Surplus Notes may decline as a result.

There is currently a limited trading market in the Remaining Surplus Notes. There is no assurance that any trading market will continue, further develop or provide sufficient liquidity. Prices of the Remaining Surplus Notes in any trading market may also be volatile and such Remaining Surplus Notes may trade at a discount to the price at which they would have traded if the Exchange Offers had not been consummated depending on prevailing interest rates, the market for similar securities and other factors. There can be no assurance as to the prices at which the Remaining Surplus Notes outstanding after the Exchange Offers may be traded. AAC does not intend to create or sustain a market for any Remaining Surplus Notes that remain outstanding following the consummation of the Exchange Offers.

The Surplus Notes have not been rated.

The Remaining Surplus Notes have not been rated by any rating agency. The lack of a rating reduces the potential liquidity of the Remaining Surplus Notes and thus may affect the market value of the Remaining Surplus Notes. In addition, the lack of a rating will reduce the potential for, or increase the cost of, financing the purchase and/or holding of the Remaining Surplus Notes. Investors subject to capital requirements will be required to hold more capital against the Remaining Surplus Notes than would have been the case had the Remaining Surplus Notes been rated.

3. Risks Relating to the Senior Secured Notes

The Senior Secured Notes are secured primarily by potential recoveries on AAC's RMBS Litigations and AAC's ability to obtain, and the timing of, any recovery on the RMBS Litigations is subject to significant uncertainty.

The Senior Secured Notes are primarily secured by AAC's potential recoveries in respect of the RMBS Litigations. The RMBS Litigations arise from AAC's claims of fraud and/or contractual breaches of representations and warranties with respect to certain RMBS transactions insured by AAC. These claims are based on, among other things, representations with respect to the characteristics of the securitized loans, the absence of borrower fraud in the underlying loan pools or other misconduct in the origination process, the compliance of loans with the prevailing underwriting policies, and compliance of the RMBS transaction counterparties with policies and procedures related to loan origination and securitization. In such cases, where contract claims are being pursued, the sponsor of the transaction is contractually obligated to repurchase, cure or substitute collateral for any loan that breaches the representations and warranties. However, generally the sponsors have not honored those obligations and have vigorously defended claims brought against them.

The outcome of any litigation, including the RMBS Litigations, is inherently unpredictable, including because of risks intrinsic in the adversarial nature of litigation. Subsequent court motions, appeals and rulings, some of which could relate to the Rehabilitation Exit Transactions and the issuance of the Senior Secured Notes, could delay or otherwise impact any recovery by AAC. Moreover, rulings that may be adverse to AAC (in any given RMBS Litigation, as well as in related matters) could affect AAC's ability to pursue its claims or alter settlement dynamics with RMBS Litigations counterparties. There can be no assurance that AAC will be successful in prosecuting its claims in the RMBS Litigations.

Any litigation award or settlement amount is subject to counterparty credit risk, successor liability and other similar risks of recovery, including that the sponsor is unable to honor its contractual obligations or pay a judgment that AAC may obtain in litigation. Some sponsors against which AAC has claims have been acquired since the securitized loans were originated and their successors may decline to honor the sponsor's obligations. AAC may not be successful in enforcing its claims against any successor entity. There can be no assurance that AAC will not have difficulties recovering any damages it may be owed or that it will recover all amounts to which it believes it is entitled or that any actual recoveries will not differ materially from the estimated representation and warranty recoveries AAC has currently accounted for in its financial statements.

AAC's inability to realize the recoveries included in the Company's financial statements could adversely impact the value of the Senior Secured Notes.

As of June 30, 2017, the Company included in its financial statements estimated representation and warranty recoveries of \$1,857 million (net of reinsurance). This estimate of representation and warranty recoveries is based on contractual claims arising from RMBS transactions that AAC insured, and represents a probability-weighted estimate of amounts AAC may recover under various possible scenarios under the applicable accounting rules. The Company's

estimated representation and warranty recoveries do not represent the full amount of damages that AAC seeks to recover in those matters, and also do not include any amounts attributable to RMBS litigation matters in which AAC is pursuing only claims for fraudulent inducement. As such, the Company's estimated representation and warranty recoveries do not represent the best or the worst possible outcomes with respect to any particular transaction or group of transactions. The amount of these representation and warranty recoveries is significant and if AAC were unable to recover any of the amount the Company has estimated for in its financial statements, AAC's ability to meet policy and other obligations may be adversely affected, perhaps materially.

In addition, while AAC will issue the Secured Notes Policy, pursuant to which AAC will irrevocably guaranty the payment of the Senior Secured Notes as and when such payment becomes due and owing in respect of the Senior Secured Notes, such policy may not provide adequate assurance that payments of principal and interest in respect of the Senior Secured Notes will be available in the event that AAC's financial condition, including its capital and liquidity, is materially adversely affected, including as a result of the failure to recover expected damages and, as a result, AAC is unable to satisfy its policy obligations. In the event that AAC is unable to satisfy its obligations under the Secured Notes Policy, holders of the Senior Secured Notes will have the right to foreclose on the RMBS securities constituting collateral under the Senior Secured Notes and to sue AAC for failure to make payments under the Secured Notes Policy, however, there can be no assurance that the sale of the RMBS securities collateral will produce proceeds in an amount sufficient to pay any or all amounts due on the Senior Secured Notes or that holders will be successful in any litigation seeking payments pursuant to the Secured Notes Policy. Furthermore, holders of Senior Secured Notes will not obtain any control, consultation or direction rights in respect of the RMBS Litigations nor will holders be able to sell the Ambac Note or the right to receive proceeds in respect of the RMBS Litigations without the prior consent of AAC.

AAC's estimate of RMBS Litigation recoveries is subject to significant uncertainty and changes to the estimate could adversely impact its liquidity, financial condition and results of operations.

For AAC's current RMBS cases for which the Company records a representation and warranty recovery in its financial statements, AAC has been provided access to loan files for all loans in the relevant original pool and AAC utilizes a "random sample" approach to estimate such recoveries. The Company does not include estimates of damages attributed solely to fraudulent inducement claims in its estimate of representation and warranty recoveries.

The amount estimated for purposes of AAC's representation and warranty recovery and the amount AAC may ultimately receive is subject to significant uncertainty, including risks inherent in litigation, collectability of such amounts from counterparties and/or their respective parents and affiliates, timing of receipt of any recoveries, intervention by the OCI which could impede AAC's ability to take actions required to realize recoveries, and uncertainties inherent in the assumptions used in estimating any recoveries. In particular, the Company's assumptions regarding default rates of the loans and the Company's expectations with respect to the RMBS Litigations have a significant impact on the Company's estimated representation and warranty recoveries. If these assumptions, expectations or estimates prove to be incorrect, or if an investor

were to use different assumptions, expectations or estimates to predict recoveries, actual recoveries could differ materially from those estimated. Actual recovery will ultimately depend on future events and there can be no assurance that the assumed default rates or estimated RMBS Litigations recoveries will not differ from actual events. Although the Company believes that its methodology for extrapolating estimated recoveries is appropriate for evaluating the amount of potential recoveries, the methodologies the Company uses to estimate expected losses in general and for any specific obligation in particular may not be similar to methodologies used by the Company's competitors, counterparties or other market participants. The determination of expected recovery is an inherently subjective process involving numerous estimates, assumptions and judgments by management, using both internal and external data sources with regard to frequency, economic projections and other factors that affect credit performance. As a result, the Company's current estimates may not reflect AAC's future ultimate recovery and management makes no representation that the actual amount recovered, if any, will not differ materially from those estimated. The failure of AAC's actual recovery to meet or exceed its current estimate could result in a material adverse effect on the Company's financial condition, including its capital and liquidity.

The Company's estimated representation and warranty recoveries may change over time, causing the value or the perceived value of the collateral securing the Senior Secured Notes to change and any such changes may be material.

The Company reevaluates its estimated representation and warranty recoveries on a quarterly basis in connection with the preparation of its financial statements. As a result of any reevaluation, the amount of the Company's representation and warranty recovery may be adjusted upward or downward due to, among other things, changes in management's view of the value of such recoveries and/or changes in the loss reserves related to such recoveries, and any adjustment may be material. Changes in the representation and warranty recoveries may result in material changes in the Company's financial condition, including its capital and liquidity. In addition, any adjustment to the estimated representation and warranty recoveries may alter the value or the perceived value of the collateral securing the Senior Secured Notes before payment on the Senior Secured Notes is made in full, which may affect the value of, and trading market, if any, for, the Senior Secured Notes. Adjustments to the Company's estimated representation and warranty recovery are solely in the Company's discretion and management makes no representation that the estimated representation and warranty recoveries will not change, materially or at all, including in the near term. There can be no assurance that the apparent, or actual, value of the collateral securing the Senior Secured Notes will equal or exceed the principal amount of the Senior Secured Notes at all times prior to maturity.

There may not be sufficient collateral to pay any or all of the Senior Secured Notes.

In addition to AAC's right to representation and warranty recoveries in respect of the RMBS Litigations, which is inherently uncertain, the Ambac Note is also secured by RMBS securities having an estimated fair market value of not less than \$350,000,000 on the date that is not more than five business days prior to the Effective Date. However, no appraisal of the value of the RMBS securities has been made in connection with this offering and there can be no assurances that the fair market value of these securities will not decrease, including significantly. The value of the collateral in the event of liquidation will depend on market and economic conditions, the

availability of buyers and other factors. Consequently, liquidating the RMBS securities collateral securing the Ambac Note may not produce proceeds in an amount sufficient to pay any or all amounts due on the Senior Secured Notes.

The estimated fair market value of the RMBS securities collateral securing the Ambac Note is subject to fluctuations based on factors that include, among others, the financial condition of participants in the financial guaranty insurance industry, the market for and availability of financial guaranty insurance, the ability to sell the collateral in an orderly sale, general economic conditions, the availability of buyers and other factors. The amount to be received upon a sale of the RMBS securities collateral would be dependent on numerous factors, including, but not limited to, the actual fair market value of the collateral at such time and the timing and the manner of the sale, and the amount AAC receives may not equal or exceed the expected fair market value. Accordingly, there can be no assurance that the collateral can be sold in a short period of time or at all or at acceptable prices to AAC.

In the event of rehabilitation, liquidation, conservation, dissolution or other insolvency proceeding, AAC cannot assure holders that the proceeds from any sale or liquidation of the RMBS securities collateral will be sufficient to pay any or all of AAC's obligations under the Ambac Note. In addition, in the event of any such proceeding, it is possible that the rehabilitator, trustee, or competing creditors will assert that the value of the collateral with respect to the Ambac Note, including AAC's rights to recoveries in respect of the RMBS Litigations, is less than the then-current principal amount outstanding under the Ambac Note and the Senior Secured Notes on the date of the rehabilitation filing. Upon a finding by the Court that the Ambac Note and the Senior Secured Notes are under-collateralized, the claims in the rehabilitation proceeding with respect to the Ambac Note or the Senior Secured Notes may be bifurcated between a secured claim up to the value of the collateral and an unsecured claim for any deficiency. As a result, the claim of the holders of the Senior Secured Notes could be unsecured in whole or in part. The ability of the holders of the Senior Secured Notes to realize upon any of the collateral securing the Ambac Note and the Senior Secured Notes may also be subject to bankruptcy and insolvency law limitations or similar limitations applicable in insurance company rehabilitation or liquidation proceedings.

Holders of Senior Secured Notes will have no authority to make decisions in respect of the RMBS Litigations, will need to rely on AAC to pursue the RMBS Litigations and may only receive limited information concerning the RMBS Litigations.

All decisions concerning the conduct of the RMBS Litigations, including as to strategy, settlement, pursuit and abandonment, will be made by AAC, in consultation with its legal counsel. Holders of the Senior Secured Notes will have no control over any decisions related to the RMBS Litigations and will need to rely on AAC to prosecute the underlying claims. If holders do not agree with decisions by AAC with respect to the RMBS Litigations, there is no recourse or ability to object to such decision. Additionally, AAC's ability to disclose potentially material details of the RMBS Litigations on a regular basis may be limited by litigation strategy and the inherent nature and rules of judicial proceedings, including, among other things, proceedings and filings that are sealed by the court, matters involving attorney-client privilege and proceedings that are conducted on a confidential basis by agreement of the parties. The RMBS Litigations could also be adversely affected if AAC does not have sufficient resources to

actively prosecute its claims or becomes subject to rehabilitation, liquidation, conservation or dissolution, or otherwise impaired by actions of OCI or the Rehabilitator.

While AAC may pursue negotiated settlements of the RMBS Litigations, the settlement discussions may not materialize, may ultimately fail, may cause delays or may result in settlements for less than \$1.4 billion.

AAC may elect to engage in settlement negotiations with the defendants of the RMBS Litigations and may decide to settle any or all of the RMBS Litigations. The aggregate amount of settlements may be for an amount less than \$1.4 billion, which could have a material adverse effect on its financial condition or results of operations and make it more difficult for AAC to repay the Ambac Note, and therefore make it more difficult for the Senior Secured Notes Issuer to repay the Senior Secured Notes, on a timely basis or at all. Additionally, while AAC may pursue settlement negotiations, there can be no assurance that any settlement negotiations will materialize or that any settlement agreement can be reached on terms acceptable to AAC, or at all. If settlement discussions prior to trial fail with respect to a particular case, AAC could incur greater expenses preparing for, and prosecuting, a trial in such case, and AAC's recovery would be subject to the additional risks inherent in any trial, which could adversely impact the value of the Senior Secured Notes.

AAC may receive non-cash proceeds in respect of the RMBS Litigations and may need to liquidate such proceeds for less than fair market value in order to make cash payments on the Ambac Note.

In connection with a settlement agreement or judgment, AAC may receive non-cash proceeds or indirect proceeds, which are cash or non-cash proceeds received by others for the benefit of AAC. AAC, however, will be required to make payments on the Ambac Note, for the benefit of the holders of Senior Secured Notes, in cash. In the event that AAC receives non-cash proceeds, AAC may need to liquidate the non-cash proceeds if it does not have sufficient cash available to make a payment on the Ambac Note on the applicable payment date. Market and economic conditions, governmental actions, the form of non-cash proceeds and other factors may cause substantial delays in the ability to liquidate any non-cash proceeds received. AAC may not be able to liquidate any non-cash proceeds received for fair value or at all. If AAC is unable to liquidate non-cash proceeds at their fair value, AAC will still be required to make payments on the Ambac Note and any payment made that is greater than the amount received could have a material adverse effect on AAC's financial condition, including its capital and liquidity. If indirect proceeds are received, AAC will also be required to make payments on the Ambac Note, for the benefit of the holders of Senior Secured Notes, in cash to the extent of the fair value to AAC of the indirect proceeds. Any payments of cash on the Ambac Note as the result of receiving indirect proceeds may have a material adverse effect on AAC's financial condition, including its capital and liquidity.

Increases in interest rates will increase the cost of servicing our debt, could reduce our profitability and could result in a decrease in the value of the Senior Secured Notes.

The Senior Secured Notes will bear interest at variable rates. As a result, increases in interest rates will increase the cost of servicing the Senior Secured Notes and could adversely affect our

profitability and cash flows. Each one percentage point increase in interest rates would result in an \$0.0223 million increase in the annual cash interest payments due on the Senior Secured Notes.

Changes in inter-bank lending rate reporting practices or the method pursuant to which LIBOR rates are determined may adversely affect the value of the Senior Secured Notes.

Since February 1, 2014, the administration of LIBOR has been undertaken by ICE Benchmark Administration Limited (“IBA”), a subsidiary of Intercontinental Exchange Group, and is known by the name ICE LIBOR. IBA, as the administrator of LIBOR, may make changes in methodology that could change the level of LIBOR, which in turn may adversely affect the value of the Senior Secured Notes. Since 2014, the IBA published multiple papers and other literature, including a “LIBOR Code of Conduct” relating to the setting of LIBOR. IBA has the power to alter, discontinue or suspend calculation or dissemination of LIBOR. IBA may take any actions in respect of LIBOR without regard to the interests of any holder of the Senior Secured Notes, and any of these actions could have an adverse effect on the value of the Senior Secured Notes.

At the present time it is uncertain what further changes, if any, may be made by the U.K. government or other governmental or regulatory authorities in the method for determining LIBOR or whether these changes would cause any decrease or increase in LIBOR rates. Any changes in the method pursuant to which the LIBOR rates are determined, or the development of a widespread market view that LIBOR rates have been or are being manipulated by members of the bank panel, may result in a sudden or prolonged increase or decrease in the reported LIBOR rates. If that were to occur, the level of interest payments and the value of the Senior Secured Notes may be adversely affected.

The amount of interest payable on the Senior Secured Notes is set only once per interest period based on the three-month LIBOR rate on the applicable interest determination date, which rate may fluctuate substantially, and affect our ability to make payment on the Senior Secured Notes.

In the past, the level of the three-month LIBOR rate has experienced significant fluctuations. You should note that historical levels, fluctuations and trends of the three-month LIBOR rate are not necessarily indicative of future levels. Any historical upward or downward trend in the three-month LIBOR rate is not an indication that the three-month LIBOR rate is more or less likely to increase or decrease at any time during an Interest Period (as defined in the Senior Secured Notes Indenture), and you should not take the historical levels of the three-month LIBOR rate as an indication of its future performance. In addition, although the actual three-month LIBOR rate on an interest payment date or at other times during an interest period may be higher than the three-month LIBOR rate on the applicable interest determination date, the only relevant date for purposes of determining the interest payable on the Senior Secured Notes is the three-month LIBOR rate as of the respective interest determination date. Changes in the three-month LIBOR rates between interest determination dates will not affect the interest payable on the Senior Secured Notes. As a result, changes in the three-month LIBOR rate may not result in a comparable change in the market value of the Senior Secured Notes.

The Senior Secured Notes will bear interest at floating rates that could rise significantly, increasing our interest expense and reducing our cash flow. If our interest expense increases

significantly, whether due to changes in LIBOR or increased borrowing costs when we refinance our current indebtedness, we may not be able to make payments on the Senior Secured Notes or our other indebtedness.

Rights of holders of the Senior Secured Notes in the RMBS Litigations and the RMBS securities collateral may be adversely affected by the failure to perfect security interests in such collateral and insolvency considerations with respect to AAC may have an adverse effect on the ability of holders of the Senior Secured Notes to receive payments on the Senior Secured Notes.

Applicable law provides that a security interest in certain tangible and intangible assets can only be properly perfected and its priority retained through certain actions undertaken by the secured party. There can be no assurance that the note collateral agent for the holders of the Senior Secured Notes will have taken or will take all actions necessary to create properly perfected security interests in the proceeds from the RMBS Litigations, which may result in the loss of the priority of the security interest in favor of the holders of the Senior Secured Notes to which they would otherwise have been entitled. In particular, in the event of a rehabilitation, liquidation, conservation, dissolution or other insolvency proceeding with respect to AAC, if the proceeds from the RMBS Litigations received by AAC are determined not to be under the control of the Senior Secured Notes Issuer, a receiver or a creditor of AAC may take the position that the Senior Secured Notes Issuer's security interest in such proceeds or a portion hereof is not perfected and therefore that such proceeds do not secure the Ambac Note. Moreover, if the proceeds from the RMBS Litigations are received after the initiation of a rehabilitation, liquidation, conservation, dissolution or other insolvency proceeding with respect to AAC, a receiver or a creditor of AAC may take the position that such proceeds do not secure the Ambac Note. If a court were to accept either of these positions, payments under the Ambac Note may be adversely affected and the Senior Secured Notes may become worthless. In addition, a rehabilitation, liquidation, conservation, dissolution or other insolvency proceeding with respect to AAC or the Senior Secured Notes Issuer, as applicable, could lead to delays in payments due on the Senior Secured Notes.

Fraudulent transfer laws may permit a court to void the Ambac Note, and if that occurs, holders may not receive any payments on the Senior Secured Notes.

Fraudulent transfer and conveyance statutes may apply to the issuance of the Ambac Note. Under state fraudulent transfer or conveyance laws, which may vary from state to state, the Ambac Note could be voided as a fraudulent transfer or conveyance if AAC (a) issued the Ambac Note with the intent to hinder, delay or defraud creditors or (b) received less than reasonably equivalent value or fair consideration in return for issuing the Ambac Note and, in the case of (b) only, one of the following is also true at the time thereof:

- AAC was insolvent or rendered insolvent by reason of the issuance of the Ambac Note;
- the issuance of the Ambac Note left AAC with an unreasonably small amount of capital or assets to carry on its business; or

- AAC intended to, or believed that it would, incur debts beyond its ability to pay as they mature.

In addition, under Wisconsin insurance law, if the Ambac Note were issued within one year prior to the filing of a successful petition for rehabilitation or liquidation with respect to AAC, the Ambac Note could be voided as a fraudulent transfer if AAC issued the Ambac Note with the intent to hinder, delay or defraud creditors or received less than fair consideration in return for issuing the Ambac Note.

As a general matter, value is given for a transfer or an obligation if, in exchange for the transfer or obligation, property is transferred or a valid antecedent debt is satisfied.

AAC cannot be certain as to the standards a court would use to determine whether or not AAC was insolvent at the relevant time or, regardless of the standard that a court uses, whether the Senior Secured Notes would be subordinated to AAC's other debt or policyholder claims. In general, however, a court would deem an entity insolvent if:

- the sum of its debts, including contingent and unliquidated liabilities, was greater than the fair saleable value of all of its assets;
- the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or
- it could not pay its debts as they became due.

If a court were to find that the issuance of the Ambac Note was a fraudulent transfer or conveyance, the court could void the payment obligations under the Ambac Note or could subordinate the Ambac Note to presently existing and future indebtedness or policy obligations of AAC, and, as a result, holders may not receive any payments on the Senior Secured Notes.

No public market exists for the Senior Secured Notes and the Senior Secured Notes are subject to transfer restrictions and we do not expect an active trading market to develop in the Senior Secured Notes.

Prior to the effectiveness of the Plan, there has been no established market for the Senior Secured Notes. Senior Secured Notes are not and will not be registered under the Securities Act or any "blue sky," state or foreign securities laws and, as a result, are subject to certain restrictions on transfer. These transfer restrictions may further limit the development or liquidity of any market for the Senior Secured Notes, and may have a negative impact on the trading price of the Senior Secured Notes. The Senior Secured Notes will also not be listed on any securities exchange and may not be quoted on any quotation system. AAC does not expect that the Dealer Managers or anyone else intends to or will make a market in the Senior Secured Notes. Accordingly, there can be no assurance that an active market for the Senior Secured Notes will develop. Moreover, even if a market for the Senior Secured Notes does develop, the Senior Secured Notes could trade at a substantial discount from their face amount. If a market for the Senior Secured Notes does not develop, or if market conditions change, holders of the Senior Secured Notes may be

unable to sell the Senior Secured Notes for an extended period of time, if at all. Consequently, a holder may not be able to liquidate its investment readily, and the Senior Secured Notes may not be readily accepted collateral for loans.

If a trading market does develop for the Senior Secured Notes, general market conditions and unpredictable factors could adversely affect market prices for the Senior Secured Notes.

If a trading market does develop for the Senior Secured Notes, the market price for the Senior Secured Notes is uncertain. Several factors, many of which are beyond AAC's control, will influence the market value of the Senior Secured Notes. As discussed herein, Holders of Senior Secured Notes will have no authority to make decisions in respect of the RMBS Litigations, will need to rely on AAC to pursue the RMBS Litigations and may only receive limited information concerning the RMBS Litigations," AAC's ability to disclose potentially material details of the RMBS Litigations on a regular basis may be limited, which could make it difficult for holders of, and potential investors in, the Senior Secured Notes, to value the Senior Secured Notes, which may negatively impact the trading market for the Senior Secured Notes, if any. Additional factors that might influence the market value of the Senior Secured Notes include, but are not limited to:

- the nature of court decisions and opinions in the RMBS Litigations or other litigations involving similar claims or issues;
- the settlement of any of the RMBS Litigations;
- AAC's ability to fund the prosecution of the RMBS Litigations;
- AAC's creditworthiness, financial condition, performance and prospects;
- prevailing interest rates and expectations regarding changes in interest rates;
- the market for similar securities; and
- economic, financial, geopolitical, regulatory or judicial events that affect AAC or the financial markets generally.

The conditions of the financial markets and prevailing interest rates have fluctuated in the past and are likely to fluctuate in the future, which could have an adverse effect on the market price of the Senior Secured Notes. If holders receive Senior Secured Notes pursuant to the Plan or Exchange Offers, or purchase Senior Secured Notes in the secondary market, the Senior Secured Notes may subsequently trade at a discount which may be substantial, to the value ascribed by a holder to the Senior Secured Notes received pursuant to the Plan or Exchange offers, or the price paid for them.

AAC may redeem the AAC Note at its option on any payment date and the Senior Secured Notes will be redeemed with the proceeds of any optional redemption of the Ambac Note.

The Ambac Note will be redeemable, in whole or in part, at the option of AAC on any payment date without penalty or premium. In the event of an Ambac Note redemption, the Senior Secured Notes Issuer will redeem the Senior Secured Notes, without penalty or premium, with the proceeds of the Ambac Note redemption. In the event AAC chooses to redeem the Ambac Note, investors may not be able to reinvest the redemption proceeds in a security comparable to the Senior Secured Notes at an effective interest rate as high as the interest rate on such Senior Secured Notes. *See* “Summary of Senior Secured Notes” above.

Holders of the Senior Secured Notes will not be entitled to registration rights, and neither AAC nor the Senior Secured Notes Issuer currently intends to register the Senior Secured Notes under applicable securities laws.

The Senior Secured Notes are being offered and sold pursuant to an exemption from registration under the Securities Act and applicable state securities laws, and neither AAC nor the Senior Secured Notes Issuer currently intends to register the Senior Secured Notes. The holders of the Senior Secured Notes will not be entitled to require AAC or the Senior Secured Notes Issuer to register the Senior Secured Notes for resale or otherwise. Therefore, you may transfer or resell the Senior Secured Notes in the United States only in a transaction registered under or exempt from the registration requirements of the Securities Act and applicable state securities laws, and you may be required to bear the risk of your investment for an indefinite period of time. The Senior Secured Notes will not be subject to registration rights.

The Senior Secured Notes and the GA SSNs have not been rated.

The Senior Secured Notes and the GA SSNs have not been rated by any rating agency. The lack of a rating reduces the potential liquidity of the Senior Secured Notes and the GA SSNs and thus may affect the market value of the Senior Secured Notes and the GA SSNs. In addition, the lack of a rating will reduce the potential for, or increase the cost of, financing the purchase and/or holding of the Senior Secured Notes and the GA SSNs. Investors subject to capital requirements will be required to hold more capital against the Senior Secured Notes than would have been the case had the Senior Secured Notes and the GA SSNs been rated.

The Senior Secured Notes Issuer has not registered as an investment company under the Investment Company Act of 1940.

The Senior Secured Notes Issuer has not registered as an investment company under the Investment Company Act of 1940 (the “Investment Company Act”) and believes it is not subject to registration under the Investment Company Act. If the Senior Secured Notes Issuer becomes obligated to register as an investment company under the Investment Company Act, it could be subject to adverse regulatory actions and would be required to comply with, or seek a waiver from, a number of additional regulatory requirements, all of which could have a material adverse effect on the Senior Secured Notes Issuer.

C. Risks Relating to Tax

If surplus notes or other obligations are characterized as equity of AAC, the NOLs (and certain other tax attributes or tax benefits of the AFG Consolidated Group) may be subject to limitation under Section 382 of the Code.

It is possible that certain surplus notes or other obligations may be characterized as equity of AAC for U.S. federal income tax purposes. Such characterization could result in an “ownership change” of AAC for purposes of Section 382 of the Code. If such an ownership change were to occur, the value and amount of AAC’s NOLs would be substantially impaired, increasing the U.S. federal income tax liability of AAC.

U.S. federal income tax consequences of certain aspects of the transaction contemplated by the Second Amended Plan are uncertain.

The U.S. federal income tax consequences of certain aspects of the transaction contemplated by the Second Amended Plan are uncertain. Because of this uncertainty, holders of beneficial interests in Deferred Amounts should see the section of this Disclosure Statement entitled *Certain U.S. Federal Income Tax Considerations* and consult their own tax advisors concerning the application of the U.S. federal income tax laws, as well as the tax laws of any other taxing jurisdiction, to their particular circumstances. In addition, the summary of U.S. federal income tax consequences of the transactions contemplated by the Second Amended Plan that is set forth in this Disclosure Statement does not address the U.S. federal income tax consequences to holders other than U.S. Holders (as defined in this Disclosure Statement (*Certain U.S. Federal Income Tax Considerations*)). Non-U.S. Holders of beneficial interests in Deferred Amounts should consult their own tax advisors concerning the application of the U.S. federal income tax laws, including any possible U.S. withholding tax, to their particular situations.

D. Other Considerations

1. No Duty to Update

This Disclosure Statement does not reflect any events that may occur subsequent to the date hereof. Such events may have a material impact on the information contained in this Disclosure Statement and any recovery that may be received by Holders or Beneficial Holders of a Policy Claim of the Segregated Account. Neither the Rehabilitator nor AAC intends to update any of the information contained in this document (including the Rehabilitator’s Financial Projections and other financial information, as well as underlying assumptions).


2. Unanticipated Developments

Although potential changes in law or regulation, regulatory action, unanticipated administrative developments or interpretation and other factors may be beyond the Rehabilitator’s control, and although their impacts may not be ascertainable in advance, they could have a significant impact on the Segregated Account or General Account, and/or the implementation of the Plan, including, without limitation, by increasing the costs of administration of the Proceeding or implementation of the Plan and resulting in a corresponding reduction in the value or creditworthiness of AAC or the ability to effectuate the Plan.

XIX. CONCLUSION

The Rehabilitator believes that the Plan is fair and equitable and represents the most value to Deferred Amount holders and policy holders and approval and implementation of the Plan is in the best interests of Deferred Amount holders, Segregated Account policy holders, other claimants, and the public in general.

Dated: September 22, 2017.

By: 
Daniel J. Schwartzer,
Special Deputy Commissioner,
on behalf of the Rehabilitator

AMBAC ASSURANCE CORPORATION

By: _____
Claude LeBlanc,
President & CEO

XIX. CONCLUSION

The Rehabilitator believes that the Plan is fair and equitable and represents the most value to Deferred Amount holders and policy holders and approval and implementation of the Plan is in the best interests of Deferred Amount holders, Segregated Account policy holders, other claimants, and the public in general.

Dated: September 22, 2017.

By: _____
Daniel J. Schwartzner,
Special Deputy Commissioner,
on behalf of the Rehabilitator

AMBAC ASSURANCE CORPORATION

By: _____

Claude LeBlanc,
President & CEO