

**NOTICE TO HOLDERS OF
INSURANCE POLICIES ISSUED BY AMBAC ASSURANCE
CORPORATION THAT ARE ALLOCATED TO THE
SEGREGATED ACCOUNT**

TO: Holders (“Holders”) of insurance policies issued by Ambac Assurance Corporation (“AAC”) that are Allocated to the Segregated Account (“Segregated Account”)

FROM: The Rehabilitator of the Segregated Account of AAC

Capitalized terms used but not defined herein shall have the meaning assigned to them in the Plan (as defined herein) or the Payment Guidelines (as defined herein), as applicable.

Background

On September 25, 2017, the Commissioner of Insurance of the State of Wisconsin, as the Court-appointed rehabilitator of the Segregated Account (the “Rehabilitator”) filed a proposed Amended Plan of Rehabilitation for the Segregated Account (the “Second Amended Plan” or the “Plan”), a Disclosure Statement regarding the Plan (the “Disclosure Statement”), the Rehabilitator’s *Motion to Further Amend the Plan of Rehabilitation Confirmed on January 24, 2011 to Facilitate Exit from Rehabilitation* (the “Motion to Exit”), and a Form of Notice of Plan Approval Hearing (the “Hearing Notice”, and together with the Plan, the Disclosure Statement, the Motion to Exit, and the Proposed Order, the “Rehabilitation Plan Papers”) with the Dane County Circuit Court in Wisconsin (the “Court”).

In conjunction with the filing of the Plan, the Rehabilitator has issued (a) revised Payment Guidelines for the Plan, dated September 25, 2017 (the “2017 Payment Guidelines”) which will amend the Payment Guidelines for the Plan of Rehabilitation, dated June 12, 2014; and (b) revised LVM Payment Guidelines dated September 25, 2017 (the “2017 LVM Payment Guidelines”) which will amend the LVM Payment Guidelines for the Plan of Rehabilitation, dated June 12, 2014.

The Payment Guidelines establish procedures for the administration of Policy Claims. AAC serves as the administrator of the Payment Guidelines (the “Management Services Provider”) pursuant to the Management Services Agreement between the Segregated Account and AAC, effective March 24, 2010. Among other things, the Payment Guidelines (a) establish schedules for the submission and payment of Policy Claims, (b) set forth the process by which the Rehabilitator establishes Deferred Amounts, (c) provide for the accrual and calculation of Accretion Amounts, (d) establish schedules for the reconciliation of Deferred Amounts and related Accretion Amounts, and (e) establish dispute resolution procedures with respect to Policy Claims and Deferred Amounts. Should the Court approve the Plan, upon the Effective Date, AAC will resume paying, and administering, all future policy and other claims in cash in full in

accordance with the terms of the various policies, contracts, the Plan, and certain surviving provisions of the Payment Guidelines.

The Plan establishes a record date of September 30, 2017 (the “Record Date”) and provides that, on the Effective Date of the Plan, all Holders of Insured Bonds with Deferred Amounts with respect to claims arising as of the Record Date (“Pre-Record Date Deferred Amounts”) will receive an effective consideration package of \$0.935 for each dollar of accreted value of Deferred Amounts, comprised of \$0.40 in cash, \$0.41 in a senior secured note, and \$0.125 in currently outstanding GA SSNs (the “Pre-Record Date Deferred Amount Consideration”). To distribute the Pre-Record Date Deferred Amount Consideration on the Effective Date (or as soon as reasonably practicable thereafter), with respect to Policy Claims arising as of the Record Date (“Pre-Record Date Policy Claims”), the claims administration process is hereby being modified to provide for (a) an accelerated reconciliation of all pre-Record Date Deferred Amounts (and related Accretion Amounts) and (b) an accelerated schedule to resolve Pre-Record Date Policy Claim-related disputes. Accordingly, the Rehabilitator has modified the 2014 Payment Guidelines to provide for, among other things:

- **Pre-Record Date Policy Claims Bar Date:** All pre-Record Date Policy Claims must be submitted to the Management Services Provider no later than **November 30, 2017**. Pre-Record Date Policy Claims submitted after November 30, 2017 will be deemed Late Claims.
- **Modified Payment Date:** Through the Effective Date, Interim Payments on account of Permitted Policy Claims shall be made on the 11th of every month, or earlier. Under the 2014 Payment Guidelines, Interim Payments were made on the 20th of every month.
- **Final Reconciliation Notice:** The Management Services Provider shall complete a full reconciliation of all Pre-Record Date Deferred Amounts as of December 29 2017, and shall deliver a notice of such reconciliation (the “**Final Reconciliation Notice**”) to the Holders/Trustees of Pre-Record Date Deferred Amounts no later than **December 29th, 2017**. Under the 2014 Payment Guidelines, reconciliation notices with respect to Deferred Amounts as of November 30, 2017 would not be delivered until April 1, 2018.
- **Opposition Period for Final Reconciliation Notice:** Holders/Trustees shall have thirty (30) days following receipt of the Final Reconciliation Notice to provide the Management Services Provider with a written response setting forth their opposition to the Final Reconciliation Notice. Currently, Holders have 45 days following receipt of a reconciliation notice to provide the Management Services Provider with written opposition.
- **Deadline to file Motion Disputing Final Reconciliation Notice:** Following the close of the 30-day opposition period set forth above, if the Management Service Provider has provided the applicable Holder/Trustee with a written response to any opposition to the Final Reconciliation Period (the “**Reconciliation Response**”), such Holder/Trustee will have twenty (20) days following the receipt

of Reconciliation Response to file a motion with the Court asserting that the Rehabilitator or Management Services Provider has improperly reconciled a Pre-Record Date Deferred Amount. Under the 2014 Payment Guidelines, a Holder/Trustee had thirty (30) days following the receipt of a Reconciliation Response to file a motion with the Court.

- **Deadline to Deliver Objections:** The Rehabilitator or the Management Services Provider must deliver any and all objections (an “Objection”) to Pre-Record Date Policy Claims no later than **December 1, 2017**. The 2014 Payment Guidelines do not establish a deadline by which the Rehabilitator or the Management Services Provider must raise an Objection.
- **Opposition Period for Disputed Claims:** Holders/Trustees shall have thirty (30) days following receipt of any Objection to provide the Management Services Provider with a written response setting forth their opposition to the Objection. Currently, Holders/Trustees have sixty (60) days following receipt of an Objection to provide the Management Services Provider with written opposition.
- **Deadline to file Motion Disputing Objection:** Following the close of the 30-day opposition period set forth above, if the Management Service Provider has provided the applicable Holder/Trustee with a written response to any opposition to an Objection (the “Objection Response”), such Holder/Trustee will have twenty (20) calendar days following the receipt of such Objection Response to file a motion with the Court asserting that the Rehabilitator or Management Services Provider has improperly asserted the Objection with respect to a Policy Claim. Under the 2014 Payment Guidelines, a Holder/Trustee has thirty (30) days following the receipt of such Objection Response to file a motion with the Court.
- **Opposition Period for Subsequent Adjustments:** If the Rehabilitator or the Management Services Provider determines that any amount paid by or on behalf of the Segregated Account in respect of a particular Insured Obligation was incorrect, the Rehabilitator or the Management Services Provider may, as necessary to account for such error, take steps to recoup such amount, adjust the amount of any related Deferred Amounts or future payments (a “Subsequent Adjustment”). Holders/Trustees shall have thirty (30) days following receipt of any notice of Subsequent Adjustment to provide the Management Services Provider with a written response setting forth their opposition to the Subsequent Adjustment. Currently, Holders/Trustees have sixty (60) days following receipt of a notice Subsequent Adjustment to provide the Management Services Provider with written opposition.
- **Deadline to file Motion Disputing Subsequent Adjustment:** Following the close of the 30-day opposition period set forth above, if the Management Service Provider has provided the applicable Holder/Trustee with a written response to any opposition to an Subsequent Adjustment (the “Subsequent Adjustment Response”), such Holder/Trustee will have twenty (20) calendar days following

the receipt of such Subsequent Adjustment Response to file a motion with the Court asserting that the Rehabilitator or Management Services Provider has improperly asserted the Subsequent Adjustment. Under the 2014 Payment Guidelines, a Holder/Trustee has thirty (30) days following the receipt of such Subsequent Adjustment Response to file a motion with the Court.

Posting of the Rehabilitation Plan Papers and Payment Guidelines

The full details of the changes to the Payment Guidelines can be found within the Rehabilitation Plan Papers and Payment Guidelines, which can be found on the website established by the Rehabilitator in connection with the Proceeding: www.ambacpolicyholders.com (the “Website”).