

EXHIBIT 1
PAYMENT GUIDELINES, AS AMENDED

PAYMENT GUIDELINES FOR PLAN OF REHABILITATION, AS AMENDED

Date: September 25, 2017

Issued by
the Rehabilitator and the Special Deputy Commissioner
of the Segregated Account of Ambac Assurance Corporation

On March 24, 2010, the Circuit Court for Dane County, Wisconsin (the “Court”)¹ entered a rehabilitation order (the “Rehabilitation Order”), granting the petition of the Commissioner of Insurance of the State of Wisconsin to place the Segregated Account of Ambac Assurance Corporation (the “Segregated Account”) into rehabilitation and to appoint the Commissioner as the Rehabilitator for the Segregated Account (the “Rehabilitator”). On January 24, 2011, the Court issued an order confirming the Plan of Rehabilitation for the Segregated Account dated October 8, 2010 (the “Original Plan”). On June 11, 2014, the Court issued an order approving certain amendments to the Original Plan (together with all supplements and Exhibits thereto, the “First Amended Plan”). On September 25, 2017, the Rehabilitator filed a further amended Plan of Rehabilitation for the Segregated Account (together with all supplements and Exhibits thereto, the “Second Amended Plan” or the “Plan”).

In order to facilitate an efficient and orderly process for the submission of Policy Claims to the Segregated Account and the evaluation, processing, and payment of Claims by the Segregated Account pursuant to the Plan, the Rehabilitator hereby issues the following rules, procedures and guidelines (as may be amended, modified or supplemented from time to time pursuant to the terms hereof, the “Payment Guidelines”). These Payment Guidelines are being posted online at www.ambacpolicyholders.com, and shall be effective immediately on issuance.

These Payment Guidelines replace and supersede the Guidelines under the Plan of Rehabilitation (Claims Processing for Policy Claims) dated as of February 18, 2011, and the Rules Governing the Submission, Processing and Partial Payment of Policy Claims of the Segregated Account of Ambac Assurance Corporation in Accordance With June 4, 2012 Interim Cash Payment Order (the “Interim Cash Payment Rules”) and the Payment Guidelines for the Plan of Rehabilitation, as amended, dated June 12, 2014. These Payment Guidelines do not apply to payments relating to financial guaranty policy no. 17548BE, known as the “LVM Policy,” which shall be controlled by the LVM Payment Guidelines dated June 12, 2014, as amended and supplemented from time to time.

For illustration purposes, these Payment Guidelines are accompanied by a series of examples showing, as applicable, the disbursement of Interim Payments, the creation of Deferred Loss Amounts and Accretion Amounts, the reallocation of Deferred Loss Amounts, and the application of Recovery Amounts in three separate contexts: (i) Write Down Transactions; (ii)

¹ Unless otherwise defined herein or in the Plan, capitalized terms used herein shall have the meanings specified in Exhibit A hereto. Such meanings shall be equally applicable to both the singular and plural forms of such terms, unless the context otherwise requires.

transactions affected by Undercollateralization; and (iii) Certain Multi-CUSIP Policies. The examples are attached hereto as Exhibits C, D, and E, respectively.

ARTICLE I

Submission and Processing of Policy Claims

1.1 Policy Claims Administration. Pursuant to the Management Services Agreement, the Rehabilitator has engaged the Management Services Provider to assist him and the Segregated Account in processing all Policy Claims. Subject to the oversight and control of the Special Deputy Commissioner and the Rehabilitator, the Management Services Provider is responsible for administering, disputing, objecting to, compromising or otherwise resolving all Policy Claims in accordance with the Plan, these Payment Guidelines and the Segregated Account Operational Documents, together with any other rules or guidelines issued by the Rehabilitator or the Special Deputy Commissioner under any of the foregoing, all existing orders of the Court and the specific directions of the Rehabilitator or the Special Deputy Commissioner.

1.2 Submission of Policy Claims. Each Holder of a Policy Claim, whether acting on its own behalf or in its capacity as Trustee, including any Policy Claim arising prior to the Effective Date (but not already submitted to the Management Services Provider in accordance with the provisions of the Interim Cash Payment Rules or the Original Payment Guidelines) shall submit to the Management Services Provider (i) such Policy Claim in accordance with, and including such information as is required by, the provisions of the applicable Policy and any other Transaction Document(s) giving rise to or governing the submission of such Policy Claim, and (ii) a fully completed and duly executed Proof of Policy Claim Form in the form attached hereto as Exhibit B relating to such Policy Claim, including the Claim Schedule referred to therein. Each Holder shall submit all Policy Claims covered by the same Policy and for the same Claim Period on one Proof of Policy Claim Form (and Claim Schedule), and shall therein identify each Insured Obligation (by CUSIP, if any) to which each such Policy Claim relates, as required by the Claim Schedule relating to such Proof of Policy Claim Form. A separate Proof of Policy Claim Form and Claim Schedule shall be submitted for all Policy Claims relating to the same Policy for each Claim Period. Each such Policy Claim submitted in accordance with this Section and Section 1.3, and meeting the requirements of Section 1.4, shall be referred to as a Pending Policy Claim.

1.3 Timing for Submission of Policy Claims. A Holder shall not submit a Policy Claim any earlier than permitted under the relevant Policy or other Transaction Document giving rise to or governing the submission of such Policy Claim; provided however, that a Holder shall submit a Policy Claim in a timely manner such that it is determined not to be a Late Claim.

1.4 Pending Policy Claim. No Policy Claim shall become a Pending Policy Claim unless the Holder of such Policy Claim fully and properly complies with (i) the requirements of Sections 1.2 and 1.3 hereof, as applicable, (ii) the requirements of the Proof of Policy Claim Form (including the Claim Schedule referred to therein) with respect to such Policy Claim, and (iii) any other guidelines or further directions issued by the Rehabilitator from time to time. All Claims that were designated as Pending Policy Claims under the Original Payment Guidelines,

but were not Permitted, and were not denied, under the Original Payment Guidelines as of the Record Date, shall be deemed Pending Policy Claims under these Payment Guidelines.

1.5 Eligibility of Pending Policy Claims. No Policy Claim shall be eligible to be considered a Permitted Policy Claim on any Payment Date following the date of submission by the Holder unless it is a Pending Policy Claim on or prior to 5:00 p.m. (Eastern Time) on the last Business Day of the calendar month immediately preceding the calendar month in which such Payment Date occurs, unless the Rehabilitator determines otherwise in his sole and absolute discretion.

1.6 Evaluation of Pending Policy Claims. The Management Services Provider shall evaluate each Pending Policy Claim to determine whether the amount set forth in the Proof of Policy Claim Form is a Permitted Policy Claim or whether an Objection should be raised as to such Policy Claim in accordance with Section 4.1 hereof. The Management Services Provider may, from time to time, ask any Holder to supplement its Pending Policy Claim with further supporting documentation in order to evaluate and decide whether to Permit such Pending Policy Claim. Upon the determination by the Management Services Provider and the Rehabilitator that a Pending Policy Claim constitutes a Permitted Claim, such Policy Claim shall be considered a Permitted Policy Claim.

1.7 No Re-Submission of Policy Claims. Unless required or permitted by the Rehabilitator, the Segregated Account or the Management Services Provider, a Holder shall not submit a Policy Claim to the Management Services Provider more than once or in more than one Proof of Policy Claim Form, including without limitation, any Policy Claim previously submitted by a Holder to the Management Services Provider or the Segregated Account in accordance with the Interim Cash Payment Rules or the Original Payment Guidelines. For the avoidance of doubt, unless required by the Rehabilitator, the Segregated Account or the Management Services Provider, a Holder may not submit a subsequent Proof of Policy Claim Form for any portion of a Permitted Policy Claim not satisfied pursuant to any Payment, or for any Pending Claim, Disputed Claim, Late Claim or Disallowed Claim.

1.8 No Duplicative Recovery. No Holder or Beneficial Holder of any securities insured by a Policy shall be entitled to receive consideration (whether from Payments, Recovery Amounts or other amounts received from any other source) on account of its Permitted Policy Claim that exceeds 100% of the amount of such Permitted Policy Claim, other than Accretion Amounts.

ARTICLE II

Payments on Permitted Policy Claims

2.1 Interim Payments. Each Holder of a Permitted Policy Claim shall receive an Interim Payment unless (i) the Court or the Rehabilitator (in his sole and absolute discretion) has permitted an Alternative Resolution of such Permitted Policy Claim, or (ii) the Holder already received an Interim Payment in respect of such Permitted Policy Claim pursuant to the Interim Cash Payment Rules or the Original Payment Guidelines.

2.2 Procedure for Interim Payments. If the Management Services Provider, the Rehabilitator, or the Court has determined that a Pending Policy Claim constitutes a Permitted Policy Claim, the Segregated Account shall pay to the Holder of such Permitted Policy Claim an Interim Payment in Cash. Any Interim Payment in respect of a Permitted Policy Claim shall be made on the first Payment Date occurring after the Determination Date by which it was determined to be a Permitted Policy Claim; *provided that* with respect to Permitted Post-Record Date Policy Claims that are submitted, in accordance with the Plan and these Payment Guidelines, during the month that the Court enters the Approval Order, such Permitted Post-Record Date Policy Claims shall first receive an Interim Payment and then shall be paid in full in Cash on the Effective Date or as soon as reasonably practicable following the Effective Date. Such Interim Payment shall be paid by the Segregated Account to the account identified by the Holder in the Proof of Policy Claim Form relating to such Permitted Policy Claim; *provided that*, any Holder acting in its capacity as Trustee shall, in accordance with the provisions of the Transaction Documents relating to such Policy, distribute such Interim Payment (solely in respect of Insured Obligations) on the Bond Distribution Date immediately following the Payment Date on which such Interim Payment was made. For the avoidance of doubt, notwithstanding each Holder's obligation to submit all Policy Claims covered by the same Policy on one Proof of Policy Claim Form and to identify therein each Insured Obligation (by CUSIP, if any) to which each such Policy Claim relates (as applicable), as set forth in Section 1.2 hereof, on each Payment Date, the Rehabilitator or the Segregated Account shall pay to the Holder a single aggregate Interim Payment for all Permitted Policy Claims that relate to the same Policy.

2.3 Increases to the Interim Payment Percentage. The Rehabilitator may increase the Interim Payment Percentage from time to time if, based on his analysis of the estimated liabilities and available claims-paying resources of the Segregated Account, the Rehabilitator has determined, in his sole and absolute discretion, that such action is equitable to the interests of the Holders of Policy Claims generally. The Rehabilitator shall announce his intention to increase the Interim Payment Percentage by filing with the Court and posting on the Website an IPP Notice. The Rehabilitator shall determine the amount of any increase in the Interim Payment Percentage in his sole and absolute discretion, based on such analysis. In determining whether an increase in the Interim Payment Percentage is equitable to the interests of the Holders of Policy Claims generally, the Rehabilitator shall consider whether, in conjunction with any such increase, a Deferred Payment should be made under Section 2.9 of these Payment Guidelines.

2.4 Deferred Amounts. Unless the Court or the Rehabilitator (in his sole and absolute discretion) has permitted an Alternative Resolution of a Policy Claim, the Rehabilitator shall cause the Segregated Account to establish a Deferred Amount for each Policy in respect of which an Interim Payment has been made or has been deemed to be made pursuant to Section 2.18 of the Original Payment Guidelines, or in the case of a Policy that insures multiple Insured Obligations, each Insured Obligation insured by such Policy in respect of which an Interim Payment has been made or has been deemed to be made. In the case of Certain Multi-CUSIP Policies, subject to Section 2.7 hereof, the Deferred Amount relating to such Policies shall be established, allocated and/or paid in a manner that is substantially similar to the procedure shown in the "Reallocation of Deferred Loss Amount Example" attached hereto as Exhibit E, except to the extent that any Trustee or Holder of such Multi-CUSIP Policies directs otherwise, but in each case as determined by the Rehabilitator and communicated by the Management Services Provider to the Holder during the Reconciliation process described in Section 2.5 of these

Payment Guidelines. In no event shall an uninsured bondholder receive or be allocated any Deferred Amount or Payment.

With respect to each such Policy Claim or Insured Obligation, as the case may be, the Deferred Amount shall be: (A) as of the first Bond Distribution Date occurring after the first Interim Payment made or deemed made by the Segregated Account in respect of a Permitted Policy Claim relating to such Policy or Insured Obligation, or such earlier date as may be determined by the Management Services Provider in its sole discretion, the higher of (i) the amount equal to the Permitted Policy Claim Amount less the amount of any Payment and less any Recovery Amount, in each case established, paid or received with respect to such Policy or Insured Obligation since the immediately preceding Bond Distribution Date, and (ii) zero; and (B) as of each subsequent Bond Distribution Date, or such earlier date as may be determined by the Management Services Provider in its sole discretion, the higher of (i) the amount equal to Deferred Amount as of the immediately preceding Bond Distribution Date, and (x) with respect to each Pre-Record Date Deferred Amount, plus any Accretion Amounts accrued between the immediately preceding Bond Distribution Date and the Effective Date, and (y) with respect to all Deferred Amounts, plus any Permitted Policy Claim Amount, less the amount of any Payment, less any Recovery Amount, and less any and all amounts which reduce the Deferred Amount pursuant to Sections 2.14, 4.2 and 4.3 in each case in this subparagraph (B)(i), as established, paid or received with respect to such Policy or Insured Obligation since the immediately preceding Bond Distribution Date, and (ii) zero.

2.5 Reconciliation of Pre-Record Date Deferred Loss Amounts. The Management Services Provider, on behalf of the Segregated Account and the Rehabilitator, and any Holders of any outstanding Deferred Amounts, including those acting in their capacity as Trustee, shall conduct a final reconciliation of the Pre-Record Date Deferred Loss Amounts relating to any and all Permitted Pre-Record Date Policy Claims. Such reconciliation (the “Pre-Record Date Reconciliation”) shall be completed with respect to each Policy in respect of which there is an outstanding Pre-Record Date Deferred Amount, or in the case of a Policy that insures multiple Insured Obligations, each Insured Obligation insured by a Policy by CUSIP (if any) in respect of which there is an outstanding Pre-Record Date Deferred Amount, in each case, to the extent not previously reconciled.

Provided that a Holder, and/or its paying agent or calculating agent, as applicable, has complied with any request of the Management Services Provider (as described below), the Management Services Provider shall complete the Pre-Record Date Reconciliation by delivering, no later than December 29, 2017, the Reconciliation Notice relating to each Policy and the Insured Obligations insured thereunder by CUSIP, as the case may be, to the relevant Holder of the related Pre-Record Date Deferred Amount, using personal delivery, first class mail or electronic mail, showing the Management Service Provider’s calculation, as of the Reconciliation Date, of the Pre-Record Date Deferred Loss Amounts relating to such Insured Obligation or Policy. Following delivery of the Reconciliation Notice contemplated by this Section 2.5, and, as necessary, completion of any dispute resolution proceedings described below, the Rehabilitator will post to the Website a schedule showing all outstanding Deferred Amounts, including the aggregate of all unpaid and outstanding Accretion Amounts.

The Management Services Provider or the Rehabilitator may, from time to time, ask a Holder to promptly provide, or cause its paying agent or calculating agent, as applicable, to promptly provide, information and/or further supporting documentation in order to evaluate a Pre-Record Date Deferred Loss Amount and/or Pre-Record Date Reconciliation and/or in order to assist the Management Services Provider in preparing the Reconciliation Notice. Such Holder, paying agent or calculating agent shall be required to deliver any such information and/or supporting documentation within the time frame specified for delivery of such information in the reasonable request made by the Management Services Provider or the Rehabilitator and Section 2.11 hereof shall apply if the Holder, paying agent or calculating agent does not do so.

If a Holder wishes to dispute, for any reason, the Reconciliation Notice issued by the Management Services Provider, the Holder shall, no later than thirty (30) calendar days after delivery of such Reconciliation Notice (the “Reconciliation Opposition Period”), send to the Management Services Provider a written response to the Reconciliation Notice. Such written response (and any related written communications) shall be delivered by email to:

claimsprocessing@ambac.com

with a copy to:

claimsobjections@ambac.com.

The response must clearly set forth all facts and the legal basis, if any, for the opposition and the reasons why the Reconciliation Notice is incorrect. If no response is sent by the Holder within such Reconciliation Opposition Period, the Pre-Record Date Reconciliation shall be deemed final as of the Reconciliation Date, and no further dispute resolution shall be permitted. If a response is submitted within such Reconciliation Opposition Period, the Rehabilitator shall resolve such dispute with the Holder in accordance with these Payment Guidelines and communicate such resolution to the Holder in writing. Only in the event that a response is submitted within such Reconciliation Opposition Period by the Holder, and the Management Services Provider issues a written resolution against the Holder (a “Resolution”), shall the Holder have the right to file a motion with the Court asserting that the Reconciliation Notice is incorrect. Any such motion must be filed by the Holder no later than the 20th day after the delivery of such Resolution to the Holder. If no motion is filed by the 20th day after the delivery of such Resolution to the Holder, the Reconciliation shall be deemed final as of the Reconciliation Date and no further dispute resolution shall be permitted. If at any time, pursuant to this Section 2.5, the Reconciliation is deemed final and no further dispute resolution shall be permitted, the Management Services Provider and the Rehabilitator’s calculation of the Pre-Record Date Deferred Loss Amount shall apply for the purposes of these Payment Guidelines.

2.6 Allocation Schedules. To assist with the Reconciliation process contemplated by this Article 2, following the receipt by a Holder of any Payment in respect of a Permitted Policy Claim under the Plan, such Holder receiving such Payment, or its paying agent or calculating agent, as applicable, shall, on or before November 30, 2017, submit to the Management Services Provider, by e-mail to claimsprocessing@ambac.com, a fully completed and duly executed Allocation Schedule in respect of the application of such Payment, in the form attached to the

Proof of Policy Claim Form which is set forth in Exhibit B to these Payment Guidelines. Provided that the Allocation Schedule is submitted on or before November 30, 2017, an Allocation Schedule may be submitted either together with a Proof of Policy Claim Form relating to the Policy pursuant to which the relevant Payment was made or separately. The requirement to submit an Allocation Schedule may be waived by the Management Services Provider, in its sole and absolute discretion, if the information required by the Allocation Schedule is contained in a remittance, trust or other report, in a form acceptable to the Management Services Provider.

2.7 Payment of Pre-Record Date Deferred Amount Consideration. On the Effective Date, or as soon as reasonably practicable following the Effective Date, and pursuant to the terms set forth in the Plan, 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 Eligibility Distribution Date, of the Insured Obligations related to the Pre-Record Date Deferred Amounts established pursuant to the Original Payment Guidelines, the Interim Cash Payment Rules, or these Payment Guidelines. In the case of Certain Multi-CUSIP Policies, Pre-Record Date Deferred Amount Consideration relating to such Policies shall be distributed in a manner that is substantially similar to the procedure shown in the “Reallocation of Deferred Loss Amount Example” attached hereto as Exhibit E, except to the extent that any Trustee or Holder of such Multi-CUSIP Policies directs otherwise. Where such underlying securities related to such Pre-Record Date Deferred Amounts are held through 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 Payments as contemplated by the Plan and these 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. If the Pre-Record Date Deferred Amount Consideration relates to an Insured Obligation that is Undercollateralized, the Holder of the related Pre-Record Date Deferred Amount shall reduce the outstanding principal balance of the related Insured Obligation by an amount equal to the Pre-Record Date Deferred Loss Amount portion of the related Pre-Record Date Deferred Amount, provided the Pre-Record Date Deferred Amount has been satisfied in full in accordance with the Plan and these Payment Guidelines.

2.8 Reconciliation of and Satisfaction of Post-Record Date Deferred Amounts. The Management Services Provider, on behalf of the Segregated Account and the Rehabilitator, and after the Effective Date, AAC, shall reconcile any Post-Record Date Deferred Amounts relating to any and all Permitted Post-Record Date Policy Claims. Such reconciliation shall be completed with respect to (x) each Policy in respect of which there is an outstanding Post-Record Date Deferred Amount, or (y) in the case of a Policy that insures multiple Insured Obligations, each Insured Obligation insured by a Policy by CUSIP (if any) in respect of which there is an outstanding Post-Record Date Deferred Amount, pursuant to the terms of the applicable Insured

Obligation and related Transaction Documents. In accordance with Section 2.2 of the Plan, AAC shall pay the outstanding Final Post-Record Date Payment in full in Cash, less any and all amounts which reduce the Post-Record Date Deferred Amount, including any Recovery Amounts, Subsequent Adjustments, or setoffs.

2.9 Deferred Payments. The Rehabilitator may determine to make a Deferred Payment if, based on an analysis of the estimated liabilities and available claims-paying resources of the Segregated Account, the Rehabilitator has determined, in his sole and absolute discretion, that such action is equitable to the interests of the Holders of Policy Claims generally. The Rehabilitator shall announce his intention to make a Deferred Payment, by filing with the Court and posting on the Website a Deferred Payment Notice. The Rehabilitator shall determine the Deferred Payment Percentage in connection with any such Deferred Payment in his sole and absolute discretion, based on such analysis. In determining whether a Deferred Payment is equitable to the interests of the Holders of Policy Claims generally, the Rehabilitator shall consider whether, in conjunction with any such Deferred Payment, among other things, the Interim Payment Percentage should be increased under Section 2.3 of these Payment Guidelines. Deferred Payment Notices shall identify the Deferred Payment Percentage and the anticipated Deferred Payment Date for the Deferred Payment. For the avoidance of doubt, the term “Deferred Payment” does not include the Payment of the Pre-Record Date Deferred Amount Consideration and Final Post-Record Date Payment to be made on the Effective Date, or as soon as reasonably practicable following the Effective Date, pursuant to the Plan.

2.10 Surplus Note Payments. On or about the Deferred Payment Date when any Deferred Payment is made, the Segregated Account shall pay the holder of each outstanding Surplus Note an amount equal to the product of (i) the Deferred Payment Percentage applicable to such Deferred Payment and (ii) the sum of the principal and accrued but unpaid interest outstanding, as of the immediately preceding Reconciliation Date, under each such Surplus Note. Any such payment shall be applied in accordance with the terms of the Surplus Notes and any applicable fiscal agency agreement, and shall be deemed approved by OCI in accordance with Wis. Stat. § 611.33(2)(d). For the avoidance of doubt, and consistent with Section 2.3 of the Plan, this Section 2.10 of these Payment Guidelines shall be of no further force or effect from and after the Effective Date, and shall not apply to any Payment made on or after the Effective Date.

2.11 Eligibility for Deferred Payments. A Holder of a Permitted Policy Claim shall not be eligible to receive a Deferred Payment announced by the Rehabilitator pursuant to these Payment Guidelines until the later of the relevant Deferred Payment Date and the Payment Date following the first Determination Date on which (i) it and each Beneficial Holder of the Insured Obligation relating to such Permitted Policy Claim, and any paying agent or calculating agent, as applicable, are not in violation of the Plan, the Injunction, these Payment Guidelines, or any other order of the Court relating to the Segregated Account, (ii) all Reconciliations of Deferred Loss Amounts relating to such Insured Obligation have been finally determined in accordance with these Payment Guidelines, and (iii) it, or its’ paying agent or calculating agent, as applicable, has provided all information and supporting documentation reasonably requested by the Rehabilitator and the Management Services Provider pursuant to these Payment Guidelines

2.12 Procedure for Deferred Payments. For each Holder eligible to receive a Deferred Payment announced by the Rehabilitator pursuant to Section 2.9, as determined by the Rehabilitator in his sole and absolute discretion, the Segregated Account shall, on or before the Deferred Payment Date, in satisfaction of its liabilities under the Permitted Policy Claim (insofar as they relate to the portion of such Deferred Payment Amount attributable to the Deferred Loss Amount), pay the Deferred Payment relating to such Insured Obligation to the relevant Holder or a Paying Agent, as applicable, in an amount equal to the product of (i) the Deferred Payment Percentage announced by the Rehabilitator and (ii) the sum of (y) the Deferred Loss Amount set forth in the Reconciliation Notice (or, if a Holder has disputed a Reconciliation Notice in accordance with the procedures set forth in Section 2.5 of these Payment Guidelines, the Deferred Loss Amount determined as a result of such dispute resolution procedures) and (z) the aggregate of all outstanding Accretion Amounts posted by the Rehabilitator to the Website pursuant to Section 2.5 of these Payment Guidelines. Any Holder acting in its capacity as Trustee shall, on the Bond Distribution Date immediately following the Deferred Payment Date on which the Deferred Payments were made, distribute to the Beneficial Holders all Deferred Payment Amounts (a) in respect of Deferred Loss Amounts, in accordance with the Reconciliation Notice (or, if a Holder has disputed the Reconciliation Notice in accordance with the procedures set forth in Section 2.5 of these Payment Guidelines, then in accordance with the result of such dispute resolution procedures), and (b) in respect of Accretion Amounts, in accordance with the written direction of the Management Services Provider, on behalf of the Rehabilitator. If any Accretion Amounts are paid to a Holder in its capacity as Trustee or other paying agent for and on behalf of Beneficial Holders, such Holder shall establish a separate account solely for the purpose of paying Accretion Amounts and such amounts shall not be paid to or through any trust or REMIC to any Beneficial Holder.

2.13 Paying Agent Obligations. If, in accordance with the Plan, the Segregated Account has retained and elects to use (in the sole and absolute discretion of the Rehabilitator) a Paying Agent in connection with any Deferred Payment relating to an Insured Obligation, then the Paying Agent, unless otherwise directed by the Rehabilitator, shall: (i) on the Deferred Payment Date, distribute all Deferred Payment Amounts in respect of Deferred Loss Amounts relating to such Insured Obligation to the Holder of the relevant Permitted Policy Claim using the account information provided in the most recent Proof of Policy Claim Form, and such Holder shall then distribute such Deferred Loss Amounts to the Beneficial Holders of such Insured Obligations to which such Deferred Loss Amounts apply; and (ii) on or before the next occurring Bond Distribution Date relating to the relevant Insured Obligation, distribute any Deferred Payment Amounts in respect of Accretion Amounts directly to the then-current (or, when a Deferred Loss Amount has been reduced to zero, the last) Beneficial Holders of the Insured Obligation via DTC or in such other manner that is reasonably available to the Paying Agent. All Trustees shall permit, and provide any authorization, direction or special direction (but not indemnification) needed for, the Segregated Account, AAC, any Paying Agent and/or DTC to make, process and/or accept any Payments (including, without limitation, Accretion Amounts) contemplated by these Payment Guidelines.

2.14 Reimbursements on Policy Claims. Notwithstanding the Proceeding, the Proceeding Circumstances, any provisions of the Interim Cash Payment Rules, the Original Payment Guidelines, these Payment Guidelines, the Plan, the First Amended Plan, the Disclosure Statement and/or any amendments thereto, the Claims Administrator shall be entitled to collect

any Reimbursement Amounts that AAC or the Segregated Account becomes, or is, entitled to receive under the Transaction Documents in relation to any: (i) Payments made prior to, on, or after the Effective Date (including any Payment of the Pre-Record Date Deferred Amount Consideration and the application of the Pre-Record Date Deferred Amount Discount if applied to Pre-Record Date Deferred Loss Amounts pursuant to the Plan), under the Original Payment Guidelines and these Payment Guidelines, pursuant to, and in accordance with, the applicable Policy and any related Transaction Documents; (ii) payments made according to the Interim Cash Payment Rules; and (iii) other amounts paid by or on behalf of the Segregated Account in respect of an Insured Obligation, and in each case where a payment was made by AAC in respect of a Pre-Record Date Deferred Amount received by AFG or a Sponsoring Holder from a Holder in the Initial Exchange, it shall be treated as if AAC had paid such amount under the relevant Policy to the Holder directly and then the Holder paid such amount to AFG or the Sponsoring Holder, in each such case as if AAC had paid 100% of such Policy Claims under the relevant Policy in Cash, notwithstanding the Pre-Record Date Deferred Amount Discount, to the Holder directly.

2.15 Recoveries on Policy Claims. Notwithstanding the Proceeding, the Proceeding Circumstances, any provisions of the Interim Cash Payment Rules, the Original Payment Guidelines, these Payment Guidelines, the Plan, the First Amended Plan, the Disclosure Statement and/or any amendments thereto, the Segregated Account, or AAC as its successor, shall be entitled, in its sole and absolute discretion, to reduce its obligations to the Holders of Permitted Claims and Beneficial Holders of Deferred Amounts by any Recovery Amounts attributable to such Holders or Beneficial Holders of the relevant Insured Obligations, by reducing the amount of the Pre-Record Date Deferred Amount Consideration or the Final Post-Record Date Payment due to such Holders or Beneficial Holders by the Recovery Amount. No Holder, Trustee or Beneficial Holder may apply a Recovery Amount in a manner inconsistent with the determination by the Claims Administrator pursuant to this Section 2.15 or the Plan.

2.16 Supplemental Payments. The Rehabilitator may, at any time, direct the Management Services Provider to make a Supplemental Payment to any Holder of a Permitted Policy Claim. Supplemental Payments may be made in one lump sum, or in varying proportions in certain months or time periods as appropriate, and may include, on a case-by-case basis, payments of all or a portion of any Deferred Amount. The Rehabilitator shall use his (sole and absolute) discretion to monitor and manage Supplemental Payments to maximize Reimbursement Amounts, and to minimize Supplemental Payments in excess of the available reimbursements.

2.17 Special Policy Payments. The Rehabilitator may, at any time, direct the Management Services Provider to make a Special Policy Payment. Special Policy Payments may be made in one lump sum, or in varying proportions in certain months or time periods as appropriate, and may include, on a case-by-case basis, payments of all or a portion of any Deferred Amount.

2.18 Assignment of Rights. Without prejudice to (i) the terms and provisions of the applicable Policy and any related Transaction Document and (ii) any assignment previously executed, whether pursuant to a Proof of Policy Claim Form, or otherwise, upon receipt of any Payment, including the Pre-Record Date Deferred Amount Consideration and the Final Post-

Record Date Payment from AAC or the Segregated Account, or the type of Payments described in Section 3.3(c) of the Plan, each Holder (for and on behalf of its Beneficial Holders, if such Holder is a Trustee) of such Permitted Policy Claim shall be deemed to have assigned its rights with respect to the full amount of its Policy Claim relating to the amount of such Payment or transfer, including any Pre-Record Date Deferred Amount Discount in respect of any Pre-Record Date Deferred Amount, under the Transaction Document(s) to AAC.

2.19 Payments of ACP Obligations. Any Payment made in respect of a Permitted Policy Claim that relates to an obligation of ACP under a related credit default swap shall be deemed a payment by ACP of its obligations under such related credit default swap to the extent of such Payment.

2.20 Proof of Policy Claim Form. From and after the Effective Date, each Holder of a Post-Effective Date Policy Claim shall submit such Post-Effective Date Policy Claim to AAC in accordance with the applicable Transaction Documents; *provided that* if the applicable Transaction Documents contain provisions requiring Holders of a Post-Effective Date Policy Claim to use forms other than the Proof of Policy Claim Form, such Holder shall be required to submit such Post-Effective Date Policy Claim using the Proof of Policy Claim Form and any related Claim Schedule.

ARTICLE III

General Claims Procedure²

3.1 General Claims Administration. Pursuant to the Management Services Agreement, the Rehabilitator has engaged the Management Services Provider to assist him and the Segregated Account in processing all General Claims. The Management Services Provider is responsible for administering, disputing, objecting to, compromising or otherwise resolving all General Claims in accordance with the Plan and the Segregated Account Operational Documents, together with any other rules or guidelines issued by the Rehabilitator or the Special Deputy Commissioner under any of the foregoing, all existing orders of the Court and the specific directions of the Rehabilitator or the Special Deputy Commissioner.

3.2 Submission of General Claims. Each Holder of a General Claim, including any General Claim arising prior to the Effective Date (other than a General Claim that was, is or becomes the subject of an Alternative Resolution), shall submit to the Management Services Provider such General Claim in accordance with, and including such information as is required by, the provisions of the underlying instrument(s) or contract(s) giving rise to or governing the submission of such General Claim, if any. Each such General Claim submitted in accordance with this Section shall be referred to as a Pending General Claim.

3.3 Timing for Submission of General Claims. A Holder shall not submit a General Claim any earlier than permitted under the underlying instrument(s) or contract(s) giving rise to or governing the submission of such General Claim; provided, however, that a Holder

² Because the Plan does not provide for any Payments on account of General Claims, this Article and its provisions are inoperable; *provided that* the Court approves the Plan.

shall submit a General Claim in a timely manner such that it is determined not to be a Late Claim.

3.4 Pending General Claims. No General Claim shall become a Pending General Claim unless the Holder of such General Claim fully and properly complies with the Plan and these Payment Guidelines, including without limitation the requirements of Sections 3.2 and 3.3 hereof, as applicable, and with any other guidelines or further directions issued by the Rehabilitator.

3.5 Evaluation of Pending General Claims. The Management Services Provider shall evaluate each Pending General Claim to determine whether such Pending General Claim is a Permitted Claim or whether an Objection should be raised as to such General Claim in accordance with Section 4.1 hereof. The Management Services Provider may, from time to time, ask any Holder to supplement its Pending General Claim with further supporting documentation in order to evaluate and decide whether to Permit such Pending General Claim. Upon the determination by the Management Services Provider or the Rehabilitator that a Pending General Claim constitutes a Permitted Claim, such General Claim shall be considered a Permitted General Claim.

3.6 No Re-Submission of General Claims. Unless required by the Rehabilitator, the Segregated Account or the Management Services Provider, a Holder shall not submit the same General Claim to the Management Services Provider more than once.

3.7 Junior Deferred Amounts. Unless the Court or the Rehabilitator (in his sole and absolute discretion) has permitted an Alternative Resolution of a General Claim, the Rehabilitator shall cause the Segregated Account to establish a Junior Deferred Amount with respect to each Permitted General Claim on the Payment Date immediately following the date on which such General Claim is determined to be a Permitted General Claim.

3.8 Junior Deferred Payments. No part of any Junior Deferred Amount shall be payable until such time as the Rehabilitator announces that a Junior Deferred Payment will be made. The Rehabilitator may announce his intention to make a Junior Deferred Payment by filing with the Court and posting on the Website a Junior Deferred Payment Notice if, based on an analysis of the estimated liabilities and available claims-paying resources of the Segregated Account, the Rehabilitator has determined, in his sole and absolute discretion, that such action is generally equitable to the interests of the Holders of Permitted Policy Claims and General Claims. The Rehabilitator shall determine the Junior Deferred Payment Percentage in connection with each Junior Deferred Payment in his sole and absolute discretion, based on such analysis. On or about the Deferred Payment Date when any Junior Deferred Payment is made, the Segregated Account shall pay the holder of each outstanding Junior Surplus Note an amount equal to the product of (i) the Junior Deferred Payment Percentage applicable to such Junior Deferred Payment and (ii) the sum of the principal and interest then outstanding under each such Junior Surplus Note. Any such payment shall be applied in accordance with the terms of the Junior Surplus Notes, and shall be deemed approved by OCI in accordance with Wis. Stat. § 611.33(2)(d).

3.9 Procedure for Junior Deferred Payments. Promptly following the announcement of a Junior Deferred Payment, the Management Services Provider and the Holders of Permitted General Claims shall reconcile the amount to be paid. The Rehabilitator may ask any Holder to supplement its General Claim with further supporting documentation. If the parties are unable to reconcile the amount to be paid, each of the Holder and the Management Services Provider shall have the right to file a motion with the Court seeking resolution of the dispute. The Management Services Provider shall make any Junior Deferred Payments to the Holder of the applicable Permitted General Claim in an amount equal to the Junior Deferred Payment Percentage announced by the Rehabilitator, multiplied by the Junior Deferred Amount with respect to such General Claim as of the date of the Junior Deferred Payment Notice. Such Junior Deferred Payment shall be made on the Payment Date that next follows the date on which the reconciliation required by this Section 3.9 is completed. All Junior Deferred Payments shall be made by the Management Services Provider to the account of the Holder identified in the General Claim submitted by the Holder.

ARTICLE IV

Claims Resolution Procedures

4.1 Disputed Claims. The Rehabilitator or the Management Services Provider may raise an Objection to any Pending Claim on any ground, including, but not limited to, the ground that the Rehabilitator or the Management Services Provider lacks sufficient information to evaluate such Pending Claim, that the amount submitted as a Claim is not valid, or that such Claim is a Duplicate Claim or a Late Claim, by providing the Holder of the Claim or the Holder's representative (as applicable) with written notice of the substance of the Objection, which objection, with respect to any Claim arising on or prior to the Record Date, shall be delivered by the Management Services Provider to such Holder no later than December 1, 2017. No later than the thirtieth (30th) day after the delivery of such written notice of Objection to the Holder (the "Disputed Claim Opposition Period"), the Holder, if it wishes to dispute such Objection, shall send to the Management Services Provider a written response to the Objection. Such written response (and any related written communications) shall be delivered by email to:

claimsprocessing@ambac.com

with a copy to:

claimsobjections@ambac.com

The response must clearly set forth all facts and the legal basis, if any, for the opposition and the reasons why the Claim should be a Permitted Claim. If no response is sent by the Holder within such Disputed Claim Opposition Period, the Claim, or the portion in respect of which the Rehabilitator or the Management Services Provider has raised an Objection, as applicable, shall become a Disallowed Claim without order of the Court and no further dispute resolution shall be permitted. If a response is submitted within such Disputed Claim Opposition Period, the Rehabilitator or the Management Services Provider shall resolve such dispute in accordance with these Payment Guidelines (including by considering any excusable neglect, in the case of a Late Claim) and communicate such resolution to the Holder in writing (a "Resolution"). Only in the

event that a response is submitted within such Disputed Claim Opposition Period by the Holder and the Rehabilitator or the Management Services Provider issues a written Resolution that such Disputed Claim is fully or partially a Disallowed Claim, shall the Holder have the right to file a motion with the Court asserting that the Rehabilitator or the Management Services Provider improperly disallowed all or any portion of such Claim. Any such motion must be filed by the Holder no later than the twentieth (20th) day after the delivery of such Resolution to the Holder.

4.2 Setoffs. The Segregated Account or AAC (individually or in its capacity as successor to the Segregated Account) may set off or recoup in whole or in part against any Permitted Claim and the Payment to be made pursuant to the Plan on account of such Permitted Claim, and any all claims, rights and Causes of Action that the Segregated Account or AAC may hold against the Holder of such Permitted Claim; provided that, (a) neither the failure to effect a set-off or recoupment, nor (b) the permission of any Claim hereunder, will constitute a waiver or release by the Segregated Account or AAC with respect to claims, rights, or Causes of Action that AAC may possess against such Holder.

4.3 Subsequent Adjustments. Prior to the Effective Date, if the Rehabilitator or the Management Services Provider determines that any amount of the Cash received by the Holder of a Permitted Claim as a Payment, a payment under the Interim Cash Payment Rules, or any other 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: (i) recoup from the Holder the amount of such Payments or other amounts paid by the Segregated Account; (ii) adjust the amount of the Cash paid in respect of the relevant Insured Obligation in one or more subsequent Payments of other Permitted Claims; or (iii) reduce the Holder's then applicable Deferred Amount for the relevant Insured Obligation (each, a "Subsequent Adjustment"), by providing the Holder of the Permitted Claim or the Holder's representative (as applicable) with a notice of Subsequent Adjustment. No later than the thirtieth (30th) day after the delivery of such written notice of Objection to the Holder (the "Subsequent Adjustment Opposition Period"), the Holder, if it wishes to dispute such Subsequent Adjustment, shall send to the Management Services Provider a written response to the Subsequent Adjustment Notice. Such written response (and any related written communications) shall be delivered by email to:

claimsprocessing@ambac.com

with a copy to:

claimsobjections@ambac.com

The response must clearly set forth all facts and the legal basis, if any, for the opposition to the Subsequent Adjustment. If no response is sent by the Holder within such Subsequent Adjustment Opposition Period, the Management Services Provider may make a Subsequent Adjustment and no further dispute resolution shall be permitted. If a response is submitted within such Subsequent Adjustment Opposition Period, the Rehabilitator shall resolve such dispute in accordance with these Payment Guidelines and communicate such resolution to the Holder in writing (a "Resolution"). Only in the event that a response has been submitted by the Holder within such Subsequent Adjustment Opposition Period and the Rehabilitator issues a written

Resolution determining that a Subsequent Adjustment is necessary, shall the Holder have the right to file a motion with the Court asserting that the Subsequent Adjustment was improper. Any such motion must be filed by the Holder no later than the twentieth (20th) day after the delivery of such Resolution to the Holder.

4.4 Disputes Pending on the Effective Date. Any Post-Record Date Policy Claim disputes or objections that are pending on the Effective Date shall be resolved in accordance with the procedures set forth in the applicable Transaction Documents in respect of the Insured Obligations that give rise to such Post-Record Date Policy Claims.

4.5 Disallowed Claims on or prior to the Effective Date. Any Claim which has been Disallowed on or prior to the Effective Date pursuant to the Interim Cash Payment Rules or the Original Payment Guidelines shall be, and shall continue to be, Disallowed under these Payment Guidelines.

ARTICLE V

Miscellaneous

5.1 Governing Law. The rights and obligations arising under these Payment Guidelines shall be governed by, and construed and enforced in accordance with, the laws of the State of Wisconsin, without giving effect to the principles of conflicts of law thereof.

5.2 Prior Orders and Agreements. Subject to these Payment Guidelines and the Plan, the prior orders of the Court shall remain in full force and effect throughout the period of administration of the Plan. These orders include, without limitation, the Rehabilitation Order and the Injunction. Nothing in the Plan alters prior agreements or arrangements approved by the Rehabilitator with respect to the Segregated Account or any liability in respect of any Policy or other liability allocated to the Segregated Account.

5.3 Retention of Jurisdiction. Before and after the Effective Date, the Court shall have exclusive jurisdiction over the Proceeding in accordance with the Act to ensure that the purposes and intent of the Plan and these Payment Guidelines are carried out. Without limiting the generality of the foregoing, and except as otherwise provided in the Plan or these Payment Guidelines, the Court shall also expressly retain exclusive jurisdiction:

(a) to hear and determine Objections to Disputed Claims and disputes relating to Subsequent Adjustments

(b) to hear, determine and enforce Causes of Action that may exist by or against the Segregated Account or by or against the General Account or AAC or the Management Services Provider in regards to the Segregated Account;

(c) to enter such orders and injunctions as are necessary to enforce the terms of the Plan, and to impose such limitations, restrictions, terms, and conditions as the Court may deem necessary;

(d) to enter an order reopening the Proceeding;

(e) to correct any defect, cure any omission, or reconcile any inconsistency in the Plan and these Payment Guidelines, or in any order of the Court as may be necessary to implement the purposes and intent of the Plan;

(f) to determine any motions, applications, and other contested matters that may be pending on the Effective Date;

(g) to consider any amendment or modification of the Plan or any related documents;

(h) to determine controversies, suits, and disputes that may arise in connection with the interpretation, enforcement, or consummation of the Plan, the Payment Guidelines, or these Payment Guidelines;

(i) to determine such other matters or proceedings as may be provided for under the Act, including, but not limited to, the Plan, any prior order or orders of the Court, the Approval Order or any order that may arise in connection with the Plan or the Proceeding; and

(j) to interpret and enforce, and determine questions and disputes regarding, the injunctions, releases, exculpations, and indemnifications provided for or set forth in the Plan or the Approval Order.

5.4 Immunity and Indemnity. The immunity and indemnity provisions in Sections 6.9 and 6.12 of the Plan are incorporated here in full by reference as if fully set forth.

5.5 Amendment and Modification of These Guidelines. Upon 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, these Payment Guidelines may be supplemented, modified, altered or withdrawn in the Rehabilitator's discretion, *provided that* so long as the Rehabilitation Exit Support Agreement has not been terminated, to the extent that such supplement, modification, alteration, or withdrawal affects the Pre-Record Date Deferred Amount Consideration, such supplement, modification, alteration, or withdrawal shall require the consent of the Sponsoring Holders.

5.6 Implementation. The Rehabilitator and Management Services Provider shall take all steps, and execute all documents, necessary to effectuate the provisions of these Payment Guidelines.

5.7 Limitation of Recovery. Other than in respect of Accretion Amounts, nothing in these Payment Guidelines shall cause to inure to the benefit of any Holder of a Policy Claim, General Claim or any other Claim any greater right than that which would have existed were the Segregated Account not in rehabilitation.

5.8 Successors and Assigns. The rights, benefits, and obligations of any Person named or referred to in these Payment Guidelines shall be binding upon, and shall inure to the benefit of, the heirs, executors, administrators, successors, or assigns of such Person.

5.9 Inconsistency. With respect to making Payments on Permitted Claims, these Payment Guidelines shall supersede the Interim Cash Payment Rules and the Original Payment Guidelines, and any inconsistent provisions of the Disclosure Statement or any other document, other than the Plan, that provides or impose rules, procedures, guidelines and/or obligations for, or on, any Person for the submission to and the evaluation, processing and payment of Claims by the Segregated Account. In the case of any inconsistency between these Payment Guidelines and the Plan, the Plan shall control.

5.10 Effect of Failure of Conditions to Effective Date. If (i) the Effective Date does not occur before the termination of the Rehabilitation Exit Support Agreement, (ii) a Final Order is entered (x) denying approval of the Plan or (y) reversing or vacating the Approval Order, or (iii) the Rehabilitator withdraws the Plan, these Payment Guidelines shall automatically rescind and shall have no further force or effect and, in such case, the Original Payment Guidelines shall control.

5.11 Post-Effective Date Period. These Payment Guidelines shall be of no further force or effect after the Effective Date, except with respect to Sections 2.14, 2.20, 4.2, 4.3, 4.4, 4.5, and Article 5 of these Payment Guidelines, which shall continue to be operative during the Post-Effective Date Period.

5.12 No Admissions. Notwithstanding anything herein to the contrary, nothing contained in these Payment Guidelines shall be deemed an admission by any Person with respect to any matter set forth herein.

5.13 Notice. Except as otherwise specified herein, any notice permitted or required to be delivered by these Payment Guidelines may be delivered personally, by mail or by e-mail. Any such notice shall be deemed to have been duly delivered on the date (i) on which such notice is personally delivered, (ii) falling two (2) Business Days after the mailing by first class mail, postage prepaid, or by express delivery service of such notice, or (iii) on which such notice is sent by electronic mail (with a delivery receipt received from the addressee), (A) in the case of a Holder, to the address or e-mail address specified in the Proof of Policy Claim Form relating to the relevant Policy Claim, (B) in the case of the Management Services Provider, unless otherwise specified herein, to Ambac Assurance Corporation, One State Street Plaza, New York, New York 10004, and by electronic mail to claimsprocessing@ambac.com and any other e-mail address specified herein, and (C) in the case of the Rehabilitator and the Segregated Account, to the address advised to the parties by the Rehabilitator in writing from time to time.

5.14 Filing of Additional Documents. The Rehabilitator may file with the Court such agreements and other documents as may be necessary or appropriate to effectuate and further evidence the terms and conditions of these Payment Guidelines.

5.15 Returned Payments. In the event that a Holder (including any Holder acting as Trustee) rejects or returns a Payment to the Management Services Provider (other than for clerical or administrative error), the Segregated Account, AAC, or the Rehabilitator for any reason, the amount thereof shall revert to AAC, notwithstanding any applicable federal or state escheat, abandoned, or unclaimed property laws, and the corresponding Claim of any such

Holder to such Payment shall be released and forever barred, except in the sole and absolute discretion of the Rehabilitator.

5.16 Terminated Trusts. Notwithstanding the terms of any Transaction Documents to the contrary, at no time throughout the effective duration of the Plan shall any Trustee acting on behalf of and for the benefit of Beneficial Holders, or any other person, be permitted to terminate the trust or an indenture relating to a Policy, or to extinguish or retire, or cause to be extinguished, retired, or terminated, any Insured Obligation insured by such Policy in respect of which a Deferred Amount is continuing, without the express, written consent of AAC and the Rehabilitator. If the terms of the Transaction Documents at any time permit termination, extinguishment or retirement of an Insured Obligation or a trust or indenture, then in such event the Trustee shall, at its election, either (a) continue to serve as Trustee on the same terms and conditions set forth in the Transaction Documents but at rates authorized by the Rehabilitator, or (b) assign all of its rights and obligations under such Transaction Documents to a trustee/agent designated by the Rehabilitator. Where possible, upon termination, extinguishment or retirement of an Insured Obligation or a trust or indenture, it is not the intention of the Rehabilitator to continue the services required of a Trustee beyond those services necessary to effectuate the Plan, including, but not limited to, the effectuation of Recovery Amounts, Reimbursement Amounts, Reconciliations, Payments and Deferred Payments.

EXHIBIT A

DEFINITIONS

Capitalized terms used in these Payment Guidelines shall have the following meanings, unless otherwise defined herein:

“AAC” means Ambac Assurance Corporation.

“Accretion Amounts” means, in respect of any Insured Obligation or any Permitted Claim which has a related Pre-Record Date Deferred Amount or Junior Deferred Amount outstanding, on any Bond Distribution Date on which such Pre-Record Date Deferred Amount or Junior Deferred Amount is to be calculated, accretion on such outstanding Pre-Record Date Deferred Amount or Junior Deferred Amount at the Accretion Rate from the immediately preceding Bond Distribution Date to the Effective Date.

“Accretion Rate” means, in respect of any Pre-Record Date Deferred Amount or Junior Deferred Amount, a rate compounded monthly (using 30/360 day count convention) to produce an effective annual rate of 5.1%, except that in Undercollateralized transactions, the portion of any Pre-Record Date Deferred Loss Amount attributable to the unpaid principal loss or balance of an Insured Obligation shall accrete at an effective annual rate, as determined by the Rehabilitator on a periodic basis, equal to the greater of (i) the monthly Accretion Rate, as calculated above, less the applicable Bond Interest Rate (as adjusted from time to time), and (ii) zero.

“ACP” means Ambac Credit Products, LLC.

“Act” means the Wisconsin Insurers Rehabilitation and Liquidation Act, Wis. Stat. § 645.01 *et. seq.*

“Allocation Schedule” shall have the meaning given to such term in the Amended Proof of Policy Claim Form.

“Alternative Resolution” means the process defined in Section 4.5 of the Plan pursuant to which the Rehabilitator may negotiate a resolution of certain Claims.

“Amendments” means the amendments to the Plan dated June 12, 2014.

“Approval Order” means the Decision approving the Plan, including any Findings of Fact and Conclusions of Law that may be required by the Rehabilitator in his sole and absolute discretion.

“Beneficial Holder(s)” means, in respect of any Insured Obligation, the beneficial holder(s) of such Insured Obligation insured by a Policy.

“Bond Distribution Date” means, in respect of an Insured Obligation, the monthly date on which scheduled interest and/or principal payments are due, or would be due (absent any acceleration, termination, extinguishment or legal final maturity of such Insured Obligation),

from the issuer of the relevant Insured Obligation to the Beneficial Holders of such Insured Obligation, or, if payment of scheduled interest and/or principal in relation to any such Insured Obligation is not or would not have been due on a monthly basis, each Payment Date.

“Bond Interest Rate” means, in respect of any Insured Obligation subject to Undercollateralization, on any Bond Distribution Date on which Accretion Amounts are to be calculated, the applicable annualized interest rate that a Holder would be entitled to receive on such Bond Distribution Date for the relevant Insured Obligation in accordance with, and subject to, the terms and conditions of the relevant Transaction Documents relating to such Insured Obligations.

“Business Day” means a day other than a Saturday, Sunday or any other day on which commercial banks in New York, New York are authorized or required by law to close.

“Cash” means legal tender of the United States of America payable in immediately available funds, such as a wire transfer, bank or cashier’s check, or its equivalent in foreign currency for any transactions denominated in such foreign currency.

“Certain Multi-CUSIP Policies” means Policies that insure multiple Insured Obligations under a transaction where Payments made by the Segregated Account are to be allocated by a Holder to Beneficial Holders of different Insured Obligations in the order and priority prescribed by the Transaction Documents. An example showing the reallocation of Deferred Loss Amounts for Certain Multi-CUSIP Policies is attached hereto as Exhibit E.

“Claim” means any right to payment from the Segregated Account, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, equitable, legal, secured, or unsecured, that arises prior to the Effective Date.

“Claim Period” shall have the meaning given to such term in the Proof of Policy Claim Form.

“Claim Schedule” shall have the meaning given to such term in the Proof of Policy Claim Form.

“Commissioner” means the Commissioner of Insurance of the State of Wisconsin.

“Confirmation Order” means the Decision and Final Order Confirming the Rehabilitator’s Plan of Rehabilitation, with Findings of Fact and Conclusions of Law, entered by the Court on January 24, 2011.

“Cooperation Agreement” means the Cooperation Agreement, by and between the Segregated Account, the Rehabilitator, AAC and Ambac Financial Group, Inc., effective March 24, 2010, as amended as of March 14, 2012, and as further amended, supplemented or modified from time to time.

“CUSIP” means, in respect of any security, the security as identified by the number allocated to such security pursuant to the Committee on Uniform Securities Identification Procedures.

“Deferred Loss Amount” means, with respect to each Insured Obligation in respect of which a Policy Claim has been Permitted and an Interim Payment made or deemed to be made, the Deferred Amount excluding the aggregate of all Accretion Amounts relating to such Insured Obligation.

“Deferred Payment” means a Payment of all or any portion of a Deferred Amount to be made in accordance with these Payment Guidelines, except Payment of the Pre-Record Date Deferred Amount Consideration and the Final Post-Record Date Payment to be paid pursuant to the Plan.

“Deferred Payment Amount” means, in connection with any Deferred Payment, the amount, in Cash, paid in respect of the Deferred Amount established for such Permitted Policy Claim.

“Deferred Payment Date” means the Payment Date of any Deferred Payment or the date of any Junior Deferred Payment.

“Deferred Payment Notice” means any notice filed by the Rehabilitator with the Court and posted on the Website to announce a Deferred Payment, which notice shall identify the Deferred Payment Percentage and announce the anticipated Deferred Payment Date.

“Deferred Payment Percentage” means the percentage of each Deferred Amount to be satisfied in a Deferred Payment, as announced by the Rehabilitator.

“Determination Date” means the eleventh (11th) day of each month, or earlier (or, if any such day is not a Business Day, the immediately following Business Day), subject to change in the sole and absolute discretion of the Rehabilitator or the Management Services Provider.

“Disallowed Claim” means a Claim that has been determined by the Rehabilitator or the Management Services Provider to constitute a Duplicate Claim or a Late Claim, or that the Rehabilitator or the Management Services Provider has otherwise determined should not be Permitted, in each case in accordance with the provisions of the Original Payment Guidelines or these Payment Guidelines.

“Disclosure Statement” means the Disclosure Statement Accompanying the Plan filed with the Court on September 25, 2017, as amended, modified or supplemented from time to time.

“Disputed Claim” means a Claim as to which an Objection has been raised by the Rehabilitator or the Management Services Provider and which has not been released, satisfied, terminated, commuted or otherwise extinguished or become a Permitted Claim or a Disallowed Claim.

“DTC” means The Depository Trust Company, a clearing agency registered with the Securities and Exchange Commission or any successor entity thereto.

“Duplicate Claim” means any Claim with respect to which the Rehabilitator or the Management Services Provider has determined, in their sole and absolute discretion, that (i) the payment obligation of the Segregated Account under the provisions of the underlying instrument or contract giving rise to such Claim or (ii) the underlying risk of loss insured pursuant to the provisions of the Policy or other Transaction Document(s) giving rise to such Claim is the subject of, or is, a Pending Claim, Disputed Claim, Late Claim, Disallowed Claim or a Permitted Claim.

“Effective Date” means the day on which the Plan is effective, as determined, and announced by the Rehabilitator, in accordance with Article 5 of the Plan.

“Eligibility Distribution Date” means a date to be set by the Rehabilitator in his sole discretion; *provided that* that such date is intended to be as close as reasonably practicable to the Effective Date, but shall be no later than one business day prior to the Effective Date.

“General Account” means the general account of AAC.

“General Claims” means all Claims which are not Administrative Claims or Policy Claims, and are not otherwise entitled to priority under the Act or an order of the Court, including, but not limited to, any Claim submitted under a reinsurance agreement allocated to the Segregated Account, as identified in Exhibit F to the Plan of Operation.

“Holder” means any Person (other than a Beneficial Holder) holding (i) a Claim, including, in the case of a Policy Claim, the named beneficiary of the related Policy, and including any trustee submitting claims in accordance with the Original Payment Guidelines or these Payment Guidelines, (ii) a Deferred Amount, or (iii) a Junior Deferred Amount.

“Injunction” means the Order for Temporary Injunctive Relief entered by the Court on March 24, 2010, made permanent by the Confirmation Order, and the related Order Granting Rehabilitator’s Motion to Confirm and Declare the Scope of the Relief Issued Under this Court’s Prior Order for Injunctive Relief, dated September 12, 2012.

“Insured Obligation” means in respect of any Policy Claim, an obligation guaranteed by the Segregated Account under or pursuant to the relevant Policy or Policies. A Policy may provide financial guaranty insurance in respect of more than one Insured Obligation, each Insured Obligation as identified by its CUSIP, if any.

“Interim Cash Payment Rules” means the Rules Governing the Submission, Processing and Partial Payment of Policy Claims of the Segregated Account of Ambac Assurance Corporation in Accordance with the June 4, 2012 Interim Cash Payment Order, filed with the Court and effective August 1, 2012, together with any amendments or supplements thereto.

“Interim Payment” means, with respect to each Policy Claim determined to be a Permitted Policy Claim, the Payment of the amount equal to the then applicable Interim Payment Percentage of the Permitted Policy Claim Amount, made in accordance with these Payment

Guidelines. With respect to each Policy Claim deemed Permitted in accordance with the Interim Cash Payment Rules and Section 2.18 of the Original Payment Guidelines, the payment made to the Holder of such Permitted Policy Claim in accordance with the Interim Cash Payment Rules or such guidelines as applicable.

“Interim Payment Amount” means the amount, in Cash, of any Interim Payment made by the Segregated Account to the Holder of a Permitted Policy Claim.

“Interim Payment Percentage” means the percentage of a Permitted Policy Claim Amount to be paid by an Interim Payment, as determined by the Rehabilitator in his sole and absolute discretion, which percentage is, for all Policies, 45%, and which may be increased from time to time by the Rehabilitator pursuant to these Payment Guidelines.

“IPP Notice” means any notice filed by the Rehabilitator with the Court and posted on the Website to announce an increase to the Interim Payment Percentage, which notice shall identify the new Interim Payment Percentage and announce the anticipated date that such increase will take effect.

“Junior Deferred Amount” means, with respect to each Permitted General Claim: (A) as of the Payment Date immediately following the date on which such General Claim became Permitted, the amount, in dollars, equal to the amount of the Permitted General Claim less any Junior Deferred Payment Amount paid with respect to such Permitted General Claim since the immediately preceding Payment Date, less any Recovery Amount or other recovery or salvage paid to or received by the Holder in respect of such Permitted General Claim since the immediately preceding Payment Date, less any amounts due and unpaid to AAC and/or the Segregated Account by the Holder of such Permitted General Claim since the immediately preceding Payment Date and less any amounts set off pursuant to Sections 4.2 and/or 4.3 hereof; and (B) as of each Payment Date following the first Payment Date, the amount, in dollars, equal to the Junior Deferred Amount as of the immediately preceding Payment Date plus any Accretion Amounts accrued since the immediately preceding Payment Date, less any Junior Deferred Payment Amount paid with respect to such Permitted General Claim since the immediately preceding Payment Date, less any Recovery Amount or other recovery or salvage paid to or received by the Holder in respect of such Permitted General Claim since the immediately preceding Payment Date, less any amounts due and unpaid to AAC and/or the Segregated Account by the Holder of such Permitted General Claim since the immediately preceding Payment Date and less any amounts set off pursuant to Sections 4.2 and/or 4.3 hereof.

“Junior Deferred Payment” means a Payment of all or any portion of a Junior Deferred Amount, made in accordance with these Payment Guidelines.

“Junior Deferred Payment Amount” means the amount, in Cash, of any Junior Deferred Payment made by the Management Services Provider on behalf of the Segregated Account to each Holder of a Permitted General Claim in respect of the Junior Deferred Amount established for such Permitted General Claim.

“Junior Deferred Payment Notice” means any notice filed by the Rehabilitator with the Court and posted on the Website to announce a Junior Deferred Payment, which notice shall

identify the Junior Deferred Payment Percentage and announce the anticipated Payment Date for the Junior Deferred Payment.

“Junior Deferred Payment Percentage” means the percentage of each Junior Deferred Amount to be paid by a Junior Deferred Payment.

“Junior Surplus Notes” means any junior surplus notes issued by the Segregated Account.

“Late Claim” means any Claim determined pursuant to the procedure set forth in the Original Payment Guidelines or these Payment Guidelines, as applicable, to not have been submitted in compliance with the Claim Requirements and with respect to Pre-Record Date Policy Claims, by the earlier of (x) November 30, 2017 or (y) the date that such Claim would be a “Late Claim” pursuant to the First Amended Plan and the Original Payment Guidelines. Any Claim that, on or before the date of the issuance of these Payment Guidelines would be a “Late Claim” pursuant to the terms of the Original Payment Guidelines, shall be a Late Claim under the Plan and these Payment Guidelines. For the avoidance of doubt, the earliest date on which a Claim may be submitted to the Claims Administrator for consideration as a Permitted Claim is the earlier of (x) the Bond Distribution Date and (y) the date that the right to payment arises under the Insured Obligation that gives rise to a Claim.¹

“Management Services Agreement” means the Management Services Agreement between the Segregated Account and AAC, as Management Services Provider, effective March 24, 2010, as amended, supplemented or modified from time to time.

“Management Services Provider” means AAC or any successor Management Services Provider under the Management Services Agreement.

“Objection” means any dispute or objection with respect to a Claim, as contemplated by Section 4.1 of these Payment Guidelines.

“OCI” means the Office of the Commissioner of Insurance of the State of Wisconsin.

“Opposition Period” means the thirty (30) day period during which the Holder of a Claim may oppose a Reconciliation Notice under Section 2.5 of these Payment Guidelines, or the period through December 1, 2017, during which the Rehabilitator or the Management Services Provider may raise an Objection under Section 4.1, or the thirty (30) day period during which a Holder may dispute a Subsequent Adjustment under Section 4.3, as the case may be.

“Original Payment Guidelines” means the Payment Guidelines for the First Amended Plan, as amended, dated June 12, 2014.

“Paying Agent” means any paying agent retained by the Claims Administrator on or after the Effective Date, in the sole and absolute discretion of the Claims Administrator for the purpose of making any Payment in accordance with the Plan and these Payment Guidelines.

¹ NTD: Removal of claims deadline for Post-Record Date Policy Claims will require a conforming change to the Plan.

“Payment” means a payment made by or on behalf of the Segregated Account, in accordance with the Plan, the First Amended Plan, the Original Payment Guidelines, these Payment Guidelines, an order of the Court, or pursuant to the direction of the Special Deputy Commissioner, on account of Deferred Amounts or Permitted Claims, including, but not limited to, Cash, Senior Secured Notes, SA SSNs, SA JSNs, Interim Payments, Supplemental Payments, Deferred Payments, Junior Deferred Payments, Special Policy Payments and/or payments made (as applicable) in conjunction with an Alternative Resolution, as well as any transfer of Pre-Record Date Deferred Amount Consideration by AAC or the Segregated Account in respect of a Pre-Record Date Deferred Amount received by AFG or a Sponsoring Holder in the Initial Exchange pursuant to Section 3.3(c) of the Plan. For the avoidance of doubt, the term Payment does not include securities transferred by AFG or a Sponsoring Holder pursuant to the Initial Exchange.

“Payment Date” means the date during each month on which Policy Claims, arising before the Effective Date, and which have been Permitted by the Claims Administrator on the immediately preceding Determination Date, are scheduled to be paid in accordance these Payment Guidelines. The Payment Date for all Claims Permitted after the issuance of these Payment Guidelines shall be the eleventh (11th) day of each such month (or, if any such day is not a Business Day, the immediately following Business Day), or such other date as may be defined in these Payment Guidelines; *provided that* all Payments of the Pre-Record Date Deferred Amount Consideration to be distributed pursuant to the Plan and these Payment Guidelines shall be completed on the Effective Date or as soon as reasonably practicable following the Effective Date.

“Pending / Pending Claim” means a Claim (i) submitted in accordance with all of the requirements of the Plan and these Payment Guidelines, including without limitation, in the case of a Policy Claim, Sections 1.2, 1.3 and 1.4 of these Payment Guidelines; (ii) which is under evaluation by the Rehabilitator or the Management Services Provider; and (iii) which is not, or has not become, a Permitted Claim, a Disputed Claim, a Late Claim, a Duplicate Claim or a Disallowed Claim.

“Permitted / Permitted Claim” means a Claim (other than a Late Claim, a Disputed Claim, a Pending Claim, a Duplicate Claim or a Disallowed Claim) submitted in compliance with the provisions of the First Amended Plan and the Original Payment Guidelines, the Plan and these Payment Guidelines, to the extent determined by the Claims Administrator to be a matured, non-contingent, due and payable obligation according to the provisions of the applicable Policy and/or any other underlying instrument(s) or contract(s) giving rise to or governing such Claim. Permitted Claims shall not include any Claim in respect of (i) any interest on such Claim to the extent accruing or maturing on or after the Petition Date, (ii) punitive, consequential, special or exemplary damages, (iii) any fine, penalty, tax or forfeiture, including, but not limited to, default or penalty interest purported to be imposed on the Claim or on the related Insured Obligation, if any, that would violate the Injunction, or (iv) in the sole and absolute discretion of the Claims Administrator, as applicable, that portion of any loss for which indemnification is provided by other benefits or advantages recovered or recoverable by the Holder or any Beneficial Holder, including without limitation, any cash deposits, reserves or other defeasance or reinsurance instruments made available to such Holder or Beneficial Holder. In addition, a Permitted Claim shall not include any Claim in respect of which the Holder, or any party to the transaction

relating thereto, is in violation of the Plan, the Injunction, the Original Payment Guidelines, these Payment Guidelines, or any other order of the Court relating to the Segregated Account.

“Permitted General Claim Amount” means, with respect to each Permitted General Claim, the amount of the Permitted General Claim, as determined pursuant to these Payment Guidelines.

“Permitted Policy Claim Amount” means, with respect to each Permitted Policy Claim, the amount of the Permitted Policy Claim, as determined pursuant to these Payment Guidelines.

“Person” means an individual, a person, a corporation, a partnership, a limited liability company, an association, a joint stock company, an estate, a trust, an unincorporated organization, a government or any political subdivision thereof, or any other entity.

“Petition Date” means March 24, 2010, the date on which OCI commenced the Proceeding.

“Plan” means the Second Amended Plan of Rehabilitation for the Segregated Account dated September 25, 2017 and all supplements and Exhibits hereto, and as the same may be further amended or modified as set forth herein and in accordance with the Act. All references to the “Plan” used herein are to the Second Amended Plan.

“Plan of Operation” means the Plan of Operation of the Segregated Account, as amended, modified and/or supplemented from time to time.

“Policy/Policies” means one or more financial guaranty insurance policy or policies, surety bond(s) or other similar guarantee(s) allocated to the Segregated Account pursuant to the Plan of Operation.

“Policy Claim” means any Claim under a Policy or Policies in respect of an Insured Obligation (as identified by CUSIP, if any).

“Pre-Record Date Deferred Amount” means, with respect to each Insured Obligation (identified by its CUSIP, if any) in respect of which a Pre-Record Date Policy Claim has been Permitted and/or established by the Segregated Account, and an Interim Payment made, the amount calculated as a Deferred Amount pursuant to the procedures set forth in these Payment Guidelines or the Original Payment Guidelines, as applicable, in respect of Permitted Policy Claims based on events, occurrences and circumstances occurring or existing prior to the Record Date (x) including any and all Accretion Amounts and (y) less any Recovery Amounts received up to and including the Effective Date in respect of such Insured Obligation and which have not otherwise previously reduced the Pre-Record Date Deferred Amount in respect of such Insured Obligation.

“Pre-Record Date Deferred Amount Consideration” means the Cash and Senior Secured Notes to be distributed to Holders of Pre-Record Date Deferred Amounts pursuant to Section 2.2 of the Plan.

“Pre-Record Date Reconciliation” means the reconciliation of Pre-Record Date Deferred Loss Amounts relating to Permitted Pre-Record Date Policy Claims, and any Recovery Amounts, and/or Payments relating thereto, in accordance with the procedure set forth in Section 2.5 of these Payment Guidelines.

“Proceeding” means the legal proceeding, currently styled as In the Matter of the Rehabilitation of: Segregated Account of Ambac Assurance Corporation, Case No. 10 CV 1576, pending in the Court.

“Proof of Policy Claim Form” means the forms attached to these Payment Guidelines as Exhibit B to be used by the Holders of relevant Policy Claims and Post-Effective Date Policy Claims to submit such claims to the Management Services Provider or AAC, as applicable, in accordance with these Payment Guidelines, and with respect to Post-Effective Date Policy Claims, the relevant Transaction Documents, as such forms may be amended and/or supplemented from time to time in the sole and absolute discretion of the Rehabilitator.

“Reconciliation Date” means December 29, 2017.

“Reconciliation Notice” means the notice delivered by the Management Service Provider no later than December 29, 2017, pursuant to Section 2.5 of these Payment Guidelines, to Holders of Permitted Policy Claims. Reconciliation Notices shall indicate the Management Services Provider’s calculation, as of the Reconciliation Date, of the Pre-Record Date Deferred Loss Amount, taking into consideration any Recovery Amounts, Reimbursement Amounts, or Payments.

“Reconciliation Opposition Period” means the thirty (30) day period that runs from the delivery of the Reconciliation Notice during which a Holder may send to the Management Services Provider a written response disputing the Reconciliation Notice. If no response is sent by the Holder within the Reconciliation Opposition Period, the Pre-Record Date Reconciliation shall be deemed final as of the Reconciliation Date, and no further dispute resolution shall be permitted.

“Recovery Amount” means, in respect of any Insured Obligation (identified by CUSIP, if any) or any General Claim, the amount of any payments, recoveries, reimbursements or other assets or benefits (excluding any Payments made under the Plan, the Interim Cash Payment Rules or these Payment Guidelines) which the Rehabilitator, in his sole and absolute discretion, determines that the Holder of a Permitted Policy Claim relating to such Insured Obligation or a Beneficial Holder, or the Holder of a General Claim, has received, collected or recovered and that satisfies an obligation of the Segregated Account under the Plan with respect to Deferred Loss Amounts or Junior Deferred Amounts. Such amounts shall include, without duplication, double-counting or limitation, the amount of any payments, recoveries, reimbursements or other assets or benefits (excluding any Payments made under the Plan, the Interim Cash Payment Rules or these Payment Guidelines) that:

- (i) such Holder of a Permitted Policy Claim relating to such Insured Obligation, Beneficial Holder, or Holder of a General Claim has received, collected or

recovered from a Person that is not AAC or the Segregated Account (other than scheduled principal and/or interest on the collateral for such Insured Obligation);

- (ii) reduce, or are permitted to reduce, any amount of overdue and unpaid interest and/or principal that is insured under the relevant Policy;
- (iii) such Holder of a Permitted Policy Claim relating to such Insured Obligation or Beneficial Holder has received, collected or recovered in respect of such Insured Obligation that AAC, the Segregated Account or ACP would have been entitled to receive, collect, recover, or receive the benefit of, had it paid 100% of the Permitted Policy Claim relating to such Insured Obligation in Cash (rather than as contemplated herein);
- (iv) reduce the principal or interest on any such Insured Obligation after the final scheduled distribution date or maturity date of such Insured Obligation;
- (v) in the case of a Write Down Transaction, constitute amounts recovered in respect of allocated losses and that write the bond principal balance up;
- (vi) such Holder of a Permitted Policy Claim relating to such Insured Obligation or Beneficial Holder has received, collected or recovered pursuant to or in connection with any settlement of RMBS Remediation Claims, Alternative Resolution or pursuant to any judgment rendered by a court of competent jurisdiction in respect of such Claims; and/or
- (vii) reduce the Undercollateralization if such Insured Obligation relates to a transaction other than a Write Down Transaction and such transaction is subject to Undercollateralization.

“Reimbursement Amount” means the amount of any payments, recoveries, reimbursements or other assets that AAC is entitled to receive, collect or recover in its capacity as insurer, surety, credit support provider, credit enhancer, credit default swap counterparty or similar capacities, or as assignee or subrogee, under any Policy, any related Transaction Document with respect to the underlying obligation or Insured Obligation under such Policy, or any third party settlement or reinsurance agreement, but excluding premium payments under any Policy and, in the sole and absolute discretion of the Rehabilitator, payments made under expense-related agreements to which AAC is a party. For the avoidance of doubt, if, instead of being received, collected or recovered by AAC, any Reimbursement Amounts are received, collected or recovered by the Holder of a Permitted Policy Claim or a Beneficial Holder, such Reimbursement Amounts may be treated as Recovery Amounts under the Plan, subject to AAC’s right to collect such Reimbursement Amounts from the Holder(s) under Section 2.13 of these Payment Guidelines.

“Reinsurance Agreement” means the Aggregate Excess of Loss Reinsurance Agreement between the Segregated Account and AAC, entered into as of the Petition Date, as amended, modified or supplemented from time to time.

“Resolution” shall have the meaning given to such term in Section 2.5, 4.1, or 4.3 of these Payment Guidelines, as applicable.

“RMBS Remediation Claims” means claims asserted by AAC and/or the Segregated Account in connection with Policies insuring residential mortgage backed securities, including but not limited to claims for breach of loan-level representations and warranties, fraudulent inducement and breach of contract.

“Secured Note” means the Secured Note issued by AAC to the Segregated Account on the Petition Date, as amended, modified or supplemented from time to time.

“Segregated Account Operational Documents” means the documents and agreements pertaining to the establishment and operation of the Segregated Account, including, but not limited to, the Plan of Operation, the Secured Note, the Reinsurance Agreement, the Management Services Agreement and the Cooperation Agreement, each as amended, modified or supplemented from time to time.

“Special Deputy Commissioner” means the Special Deputy Commissioner of the Segregated Account appointed by order of the Court.

“Special Policy Payment” means a Payment made by or on behalf of the Segregated Account for the purpose of distributing proceeds from the settlement or other resolution of RMBS Remediation Claims.

“Special Policy Payments Order” means the Court’s February 13, 2014, Order Granting 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.

“Subsequent Adjustment” means any adjustment made in accordance with Section 4.3 of these Payment Guidelines.

“Subsequent Adjustment Notice” means the written notice of any Subsequent Adjustment made in accordance with Section 4.3 of these Payment Guidelines, which notice shall indicate the adjustment to be made and the reasons for doing so.

“Supplemental Payment” means any Payment made in accordance with Section 2.16 of these Payment Guidelines, or deemed to be made in accordance with Section 2.18 of the Original Payment Guidelines to the Holder of a Permitted Policy Claim in excess of the Interim Payment and/or any Deferred Payment made on account of such Permitted Policy Claim in order to maximize Reimbursement Amounts. Supplemental Payments shall not include Recovery Amounts.

“Supplemental Payments Order” means the Court’s August 2, 2013 Order Granting Rehabilitator’s Motion for Approval to Make Supplemental Cash Payments as to Certain Policy Claims for the Purpose of Maximizing Reimbursements for the Benefit of all Policyholders.

“Surplus Notes” means any surplus notes issued by the Segregated Account, other than the Junior Surplus Notes.

“Transaction Documents” means any agreements relating to Policies, including any credit derivative transaction agreements (including credit default swaps), interest rate or currency rate swap agreements, basis swap agreements, total return swap agreements, indentures, trust deeds, collateral management or administration agreements, credit or loan agreements, residential mortgage-backed security transaction documents, guarantee investment certificates, custodial account agreements, note purchase agreements, or other financing or transaction documents of any kind. Transaction Documents shall also include any contracts with ACP, Ambac Conduit Funding, LLC, and Juneau Investments, LLC.

“Trustee” means a Holder acting in its capacity as trustee and/or agent on behalf of and for the benefit of Beneficial Holders.

“Undercollateralization/Undercollateralized” means, with respect to any transaction, the amount by which the outstanding principal balance of all Insured Obligations relating to such transaction exceeds the outstanding principal balance of the collateral securing all such Insured Obligations. An example showing the disbursement of Interim Payments, the creation of Deferred Loss Amounts and Accretion Amounts and the application of Recovery Amounts in Undercollateralized transactions is attached hereto as Exhibit D.

“Website” means the website established by the Rehabilitator for policyholders at www.ambacpolicyholders.com, which makes available for viewing and download the key documents described herein and in the Disclosure Statement, including, but not limited to, the Plan and the Segregated Account Operational Documents.

“Wis. Stat. § ” The Wisconsin Statutes (2011-12), as amended.

“Write Down Transactions” means any transactions for which the Transaction Documents require the outstanding principal balance of the Insured Obligations to be reduced as a result of the allocation of realized losses to such Insured Obligations. An example showing the disbursement of Interim Payments, the creation of Deferred Loss Amounts and Accretion Amounts and the application of Recovery Amounts in Write Down Transactions is attached hereto as Exhibit C.

EXHIBIT B

PROOF OF POLICY CLAIM FORM

PROOF OF POLICY CLAIM FORM ¹

Date: [_____]

Ambac Assurance Corporation,
*as Management Services Provider of
the Segregated Account of Ambac Assurance Corporation*
One State Street Plaza
New York, NY 10004
Attention: Claims Processing
Email: claimsprocessing@ambac.com
Facsimile: (212) 208-3404

Reference Policy Number: [_____]

Reference is made to (i) the Payment Guidelines for Plan of Rehabilitation Effective [] (the "Payment Guidelines"), (ii) the attached claim schedule, which includes detailed information about the Policy Claim made pursuant to this Proof of Policy Claim Form (the "Claim Schedule"), (iii) the Policy issued by Ambac Assurance Corporation ("Ambac"), identified above and on the Claim Schedule (the "Policy"), with respect to the Insured Obligation identified on the Claim Schedule, and (iv) the attached Allocation Schedule, which sets out the application of any Cash paid by the Segregated Account in respect of the preceding Policy Claim (if any) submitted by the Holder in respect of the Policy. Terms capitalized herein and not otherwise defined shall have the meanings ascribed to such terms in or pursuant to the Payment Guidelines or the Policy, as the case may be, unless the context otherwise requires.

The undersigned hereby certifies as follows:

1. The undersigned is a Holder under the Policy and is entitled, pursuant to the provisions of the Policy, to submit a Claim for the "Total Claim Amount" set forth on the Claim Schedule with respect to the Insured Obligations (the "Total Claim Amount").
2. The information set forth on the Claim Schedule and the Allocation Schedule is true, correct and complete.
3. The Total Claim Amount is due for Payment pursuant to the terms of the Policy and the Transaction Documents relating to or governing the Insured Obligation.
4. The undersigned has not previously made a Claim or demand for Payment under the Policy in respect of amounts due on the Insured Obligations on the "Distribution Date" indicated on the Claim Schedule, except as otherwise

¹ All Policy Claims relating to the same Insured Obligation and Policy must be submitted using this Proof of Policy Claim Form (and Claim Schedule), with a separate Proof of Policy Claim Form (and Claim Schedule) being used for each Claim Period (as defined in the Claim Schedule).

specified in an addendum to this Proof of Policy Claim Form submitted by the Holder herewith and[/or] as specified in the Claims or demands for Payment submitted to Ambac in the form specified by the Policy, copies of which are attached hereto pursuant to paragraph 7.

5. *[Complete for the first Policy Claim made after the Effective Date in respect of the Policy or if the Holder wishes to alter the payment instructions previously provided to the Management Services Provider: The undersigned hereby requests that any portion of the Total Claim Amount to be paid by the Segregated Account in Cash be made to the following account by bank wire transfer of federal or other immediately available funds:*

Bank Name: [_____]
ABA #: [_____]
Acct #: [_____]
Reference: [_____]

OR If the Holder has provided account details previously and these are not changing, please include the following: The undersigned hereby requests that any portion of the Total Claim Amount to be paid by the Segregated Account in Cash be paid by bank wire transfer of federal or other immediately available funds to the account notified by the undersigned to the Segregated Account and the Management Services Provider pursuant to the Proof of Policy Claim Form dated as of [] and relating to the Policy.]

6. *[Complete the following if the Holder is a Trustee and/or agent for the Beneficial Holder of the Insured Obligation:]* The undersigned hereby agrees and confirms that, following receipt of any Cash Payment by the Segregated Account in respect of the Total Claim Amount, (A) it shall (i) cause such funds to be distributed in accordance with the provisions of the Transaction Documents relating to the Insured Obligations, and (ii) maintain an accurate record of such distributions with respect to the Insured Obligations and the corresponding Claim on the Policy and proceeds thereof, and (B) the Cash paid by the Segregated Account in respect of the preceding Policy Claim (if any) submitted by the Holder in respect of the Policy was applied as set forth in the Allocation Schedule.
7. *[If the Policy requires the Holder to submit a claim or demand for payment in a specified form or to have satisfied certain conditions, include the following:]*
[The undersigned has duly completed and submitted to Ambac a claim or demand for Payment in the form specified by the Policy, a copy of which is attached hereto, and all other conditions to the receipt of the Total Claim Amount have been satisfied, and the amount claimed therein is equal to the Total Claim Amount.]

Without prejudice to (i) the terms and provisions of the Policy and any other related Transaction Documents and (ii) any assignment previously executed, whether pursuant to a Proof of Policy Claim Form or otherwise, the undersigned *[include the following, if applicable:]*

[, in its capacity as Trustee and on behalf of the Beneficial Holders of the Insured Obligation], hereby assigns to Ambac all of its rights, title and interests [*include the following, if applicable:*] [, including rights, title and interests held by it on behalf of the Beneficial Holders of the Insured Obligation,] with respect to the Insured Obligations, to the extent of any Payments by the Segregated Account with respect to such Insured Obligations; the foregoing assignment is in addition to, and not in limitation of, rights of subrogation and/or reimbursement otherwise available to Ambac or the Segregated Account in respect of such Payments. The undersigned shall take such action and deliver such instruments as may be reasonably requested or required by Ambac or the Segregated Account to effectuate the purpose or provisions of the foregoing assignment.

Any oral or written communications to the Holder in respect of this Proof of Policy Claim Form and the Policy Claim made hereunder may be addressed to one of the following persons:

1. [*insert name*], [*address*], [*phone number*] and [*email*]
2. [*insert name*], [*address*], [*phone number*] and [*email*]²

ANY PERSON WHO KNOWINGLY AND WITH INTENT TO DEFRAUD THE SEGREGATED ACCOUNT, THE REHABILITATOR OR OTHER PERSON FILES A STATEMENT OF CLAIM CONTAINING ANY MATERIALLY FALSE INFORMATION OR CONCEALS FOR THE PURPOSE OF MISLEADING, INFORMATION CONCERNING ANY FACT MATERIAL THERETO, COMMITS A FRAUDULENT ACT, WHICH MAY BE SUBJECT TO CIVIL AND/OR CRIMINAL PENALTY.

[_____],
as Holder

By: _____
Name:
Title:

² *Contact details for at least 2 persons at the Holder must be provided. At least 1 contact person must be authorized to discuss operations and settlement matters. The person responsible for operations/settlements should be clearly identified.*

POLICY CLAIM PAYMENT - ALLOCATION SCHEDULE

Holder:
Deal name:
Policy #:

Total Claim Amount for Policy Claim:
Cash received in respect of Policy Claim:
Claim Period*:
Payment application date**:

Insured Obligations by CUSIP (if applicable): **Payment applied against Principal:** **Payment applied against Interest:** **Total Claim Payment applied:**

XXXXX
XXXXX

Total

* Claim Period is the period in respect of which the Policy Claim was submitted pursuant to the Claim Schedule.
For a Deferred Payment, the Claim Period can be identified as "Deferred Payment."

**Payment application date is the date the Policy Claim Payment was paid by the Holder to the Beneficial Holders.

The Holder hereby certifies that the information contained in this Allocation Schedule to be true, correct and up-to-date.

For and on behalf of
[INSERT NAME OF HOLDER]
Name:
Title:
Date:

EXHIBIT C

EXAMPLE FOR WRITE DOWN TRANSACTIONS

WRITE DOWN EXAMPLE ¹

The example below is intended to provide a simplified illustration of how Permitted Policy Claims will be paid under the Plan and the Payment Guidelines. For present purposes, it is assumed that there is one Policy insuring only one series of Insured Obligations, secured by one pool of mortgage loan collateral, in a write down transaction, where the outstanding principal balance of the Insured Obligations is reduced by realized losses on the mortgage loans (“Write Down Transaction”). The example covers a period of four months and commences in month one, when the first Claim under the Policy is submitted to the Segregated Account in accordance with the Payment Guidelines.

Shown below are the monthly calculations and Payments associated with Permitted Policy Claims under the Payment Guidelines, including Interim Payments (initially at a 25% Interim Payment Percentage), the creation of Deferred Amounts (including Deferred Loss Amounts and Accretion Amounts), and the effect of Recovery Amounts.

Month One - Submission of a Policy Claim

In month one, the Beginning Bond Balance and Beginning Collateral Balance for this transaction are both \$1,000 (A1) and (B1). Principal collections received during the month from payments on the underlying mortgage loans (“Intrinsic Principal”) are \$20 (C1). During the month, the collateral suffers a \$100 realized loss (D1), resulting in a Policy Claim submission of \$100 (“Month One Policy Claim”). The Month One Policy Claim is not Permitted in month one (E1) because it will not have been determined to be a Permitted Policy Claim under the Payment Guidelines. Consequently, there are no Payments in respect of the Month One Policy Claim.

The payment of Intrinsic Principal (\$20) and the \$100 realized loss reduces the Beginning Bond Balance by \$120, resulting in an Ending Bond Balance of \$880 (H1). Together, the \$20 Intrinsic Principal and the \$100 realized loss reduce the Beginning Collateral Balance by \$120, leaving an Ending Collateral Balance of \$880 (I1).

WRITE DOWN TRANSACTION		(Deferred Amount; Accretion; and Recovery Example)												
Month	Description	Beginning Bond Balance A1	Beginning Collateral Balance B1	Intrinsic Principal C1	Collateral Realized Loss D1	Permitted Policy Claim Amount E1	Interim Payment Amount F1	Recovery Amount G1	Ending Bond Balance H1	Ending Collateral Balance I1	Beginning Deferred Amount J1	Accretion Amount K1	Deferred Loss Amount L1	Ending Deferred Amount M1
1	\$20 Intrinsic principal payment; \$100 claim amount	\$ 1,000	\$ 1,000	\$ 20	\$ 100	0	0	0	\$ 880	\$ 880	0	0	0	0
Calculations									A1 - C1 - D1	B1 - C1 - D1				

¹ Capitalized terms and expressions not defined or explained herein have the meanings given to such terms in the Payment Guidelines. Amounts used in this example are representative only, and do not reflect any actual claims and are based on assumptions that may not be applicable to any particular policy. The calculations, and events specified in the example are based on assumptions made for illustrative purposes only and may not reflect what may occur in reality or in the future. The Rehabilitator will make determinations in respect of payments by the Segregated Account in his sole and absolute discretion, in accordance with the Plan and the Payment Guidelines.

Month Two – Interim Payment and Creation of Deferred Amount

In month two, the Beginning Bond Balance is \$880 (A2) and the Beginning Collateral Balance is \$880 (B2). Intrinsic Principal for month two is \$35 (C2). During the month the collateral suffers an \$80 realized loss (D2), resulting in a Policy Claim submission of \$80 (“Month Two Policy Claim”).

The Month Two Policy Claim is not Permitted in month two because it will not have been determined to be a Permitted Policy Claim under the Payment Guidelines. Consequently, there are no Payments in respect of the Month Two Policy Claim.

The Month One Policy Claim is determined by the Rehabilitator to be a Permitted Policy Claim (E2). An Interim Payment of \$25 (F2) is made, an amount equal to 25% of the Month One Policy Claim. In addition, a Deferred Loss Amount of \$75 (L2) is established in respect of the Month One Policy Claim. There are no Accretion Amounts in month two in respect of any Permitted Policy Claim (K2).

The payment of Intrinsic Principal (\$35) and the \$80 realized loss together reduce the Beginning Bond Balance for the month by \$115, leaving an Ending Bond Balance of \$765 (H2). (The Interim Payment in respect of the Month One Policy Claim (\$25) does not reduce the Beginning Bond Balance for the month because it represents payment of an amount in respect of losses that reduced the principal balance of the bonds in prior periods.) Application of the \$35 Intrinsic Principal and the \$80 realized loss reduces the Beginning Collateral Balance for the month by \$115, leaving an Ending Collateral Balance of \$765 (I2).

WRITE DOWN TRANSACTION (Deferred Amount; Accretion; and Recovery Example)														
Month	Description	Beginning Bond Balance	Beginning Collateral Balance	Intrinsic Principal	Collateral Realized Loss	Permitted Policy Claim Amount	Interim Payment Amount	Recovery Amount	Ending Bond Balance	Ending Collateral Balance	Beginning Deferred Amount	Accretion Amount	Deferred Loss Amount	Ending Deferred Amount
		A1	B1	C1	D1	E1	F1	G1	H1	I1	J1	K1	L1	M1
1	\$20 intrinsic principal payment; \$100 claim amount	\$ 1,000	\$ 1,000	\$ 20	\$ 100	0	0	0		\$ 880	\$ 880	0	0	0
Calculations									A1 - C1 - D1	B1 - C1 - D1				
2	\$35 intrinsic principal payment; \$80 claim amount; 25% month 1 Interim Payment; 75% Deferred Amount created	\$ 880	\$ 880	\$ 35	\$ 80	\$ 100	\$ 25	0	\$ 765	\$ 765	0	0	\$ 75	\$ 75
Calculations		H1	I1			D1	E2 x 25%		A2 - C2 - D2 + F2 - F2	B2 - C2 - D2	M1		E2 - F2	J2 + K2 + L2 - G2

Month Three – Accretion on Deferred Amounts in respect of Month One Policy Claim

In month three, the Beginning Bond Balance is \$765 (A3) and the Beginning Collateral Balance is \$765 (B3). Intrinsic Principal for month three is \$25 (C3). During the month the collateral suffers a \$100 realized loss (D3), resulting in a Policy Claim submission of \$100 (“Month Three Policy Claim”).

The Month Three Policy Claim is not Permitted in month three because it will not have been determined to be a Permitted Policy Claim under the Payment Guidelines. Consequently, there are no Payments in respect of the Month Three Policy Claim.

The Beginning Deferred Amount in month three is \$75 (J3).

The Month Two Policy Claim is determined by the Rehabilitator to be a Permitted Policy Claim (E3). An Interim Payment of \$20 (F3) is made, an amount equal to 25% of the Month Two Policy Claim. In addition, a Deferred Loss Amount of \$60 (L3) is established in respect of the Month Two Policy Claim.

The Accretion Amount in month three is \$0.31 (K3), which represents the effective annual rate of 5.1% on the Beginning Deferred Amount of \$75 (J3).

The Ending Deferred Amount for month three is \$135.31 (M3), which is the sum of: (i) the Beginning Deferred Amount of \$75 (J3) established in respect of the Month One Policy Claim, (ii) the Accretion Amount of \$0.31 (K3) and (iii) the Deferred Loss Amount of \$60 (L3) established in respect of the Month Two Policy Claim.

The payment of month three Intrinsic Principal (\$25) and the \$100 realized loss together reduce the Beginning Bond Balance for the month by \$125, leaving an Ending Bond Balance of \$640 (H3). (The Interim Payment in respect of the Month Two Policy Claim (\$20) does not reduce the Beginning Bond Balance for the month.) Application of the \$25 Intrinsic Principal and the \$100 realized loss reduces the Beginning Collateral Balance by \$125, leaving an Ending Collateral Balance of \$640 (I3).

WRITE DOWN TRANSACTION (Deferred Amount; Accretion; and Recovery Example)														
Month	Description	Beginning Bond Balance	Beginning Collateral Balance	Intrinsic Principal	Collateral Realized Loss	Permitted Policy Claim Amount	Interim Payment Amount	Recovery Amount	Ending Bond Balance	Ending Collateral Balance	Beginning Deferred Amount	Accretion Amount	Deferred Loss Amount	Ending Deferred Amount
		A1	B1	C1	D1	E1	F1	G1	H1	I1	J1	K1	L1	M1
1	\$20 intrinsic principal payment; \$100 claim amount	\$ 1,000	\$ 1,000	\$ 20	\$ 100	0	0	0	\$ 880	\$ 880	0	0	0	0
Calculations									A1 - C1 - D1	B1 - C1 - D1				
2	\$35 intrinsic principal payment; \$80 claim amount; 25% month 1 Interim Payment; 75% Deferred Amount created	\$ 880	\$ 880	\$ 35	\$ 80	\$ 100	\$ 25	0	\$ 765	\$ 765	0	0	\$ 75	\$ 75
Calculations		H1	I1		D1	E2 x 25%			A2 - C2 - D2 + F2 - F2	B2 - C2 - D2	M1		E2 - F2	J2 + K2 + L2 - G2
3	\$25 intrinsic principal payment; \$100 claim amount; 25% month 2 Interim Payment; ending Deferred Amount of \$135.32 (including \$0.32 accretion amount)	\$ 765	\$ 765	\$ 25	\$ 100	\$ 80	\$ 20	0	\$ 640	\$ 640	\$ 75	\$ 0.31	\$ 60	\$ 135.31
Calculations		H2	I2		D2	E3 x 25%			A3 - C3 - D3 + F3 - F3	B3 - C3 - D3	M2	J3 x (4.98%/12)	E3 - F3	J3 + K3 + L3 - G3

Month Four – Effect of Recovery Amounts

In month four, the Beginning Bond Balance is \$640 (A4) and the Beginning Collateral Balance is \$640 (B4). Intrinsic Principal for month four is \$30 (C4). The transaction receives \$60 (G4) as a Recovery Amount in respect of realized losses incurred in prior months. During the month the collateral suffers an \$80 realized loss (D4), resulting in a Policy Claim submission of \$80 (“Month Four Policy Claim”).

The Month Four Policy Claim is not Permitted in month four, because it will not have been determined to be a Permitted Policy Claim under the Payment Guidelines. Consequently, there are no Payments in respect of the Month Four Policy Claim.

In month four, the Beginning Deferred Amount is \$135.31 (J4).

The Month Three Policy Claim is determined by the Rehabilitator to be a Permitted Policy Claim (E4). An Interim Payment of \$25 (F4) is made, an amount equal to 25% of the Month Three Policy Claim. In addition, a Deferred Loss Amount of \$75 (L4) is established in respect of the Month Three Policy Claim.

The Accretion Amount in month four is \$0.56 (K4), which represents the effective annual rate of 5.1% on the Beginning Deferred Amount of \$135.31 (J4).

The Ending Deferred Amount for month four is \$150.87 (M4), which is equal to: (a) *the sum* of (i) the Beginning Deferred Amount of \$135.31 (J4), (ii) the Accretion Amount of \$0.56 (K4), and (iii) the Deferred Loss Amount of \$75 (L4) established in respect of the Month Three Policy Claim (which sum is \$210.87), *reduced* by (b) the \$60 Recovery Amount (G4) realized in month four.

The payment of month four Intrinsic Principal (\$30) and the \$80 realized loss together reduce the Beginning Bond Balance by \$110, leaving an Ending Bond Balance of \$530 (H4). (Neither the Interim Payment in respect of the Month Three Policy Claim (\$25) nor the Recovery Amount realized in month four (\$60) reduces the Beginning Bond Balance for the month.) Application of the \$30 Intrinsic Principal, and the \$80 realized loss reduces the Beginning Collateral Balance by \$110, leaving an Ending Collateral Balance of \$530 (I4).²

WRITE DOWN TRANSACTION (Deferred Amount; Accretion; and Recovery Example)														
Month	Description	Beginning Bond Balance	Beginning Collateral Balance	Intrinsic Principal	Collateral Realized Loss	Permitted Policy Claim Amount	Interim Payment Amount	Recovery Amount	Ending Bond Balance	Ending Collateral Balance	Beginning Deferred Amount	Accretion Amount	Deferred Loss Amount	Ending Deferred Amount
		A1	B1	C1	D1	E1	F1	G1	H1	I1	J1	K1	L1	M1
1	\$20 intrinsic principal payment; \$100 claim amount	\$ 1,000	\$ 1,000	\$ 20	\$ 100	0	0	0	\$ 880	\$ 880	0	0	0	0
Calculations									A1 - C1 - D1	B1 - C1 - D1				
2	\$35 intrinsic principal payment; \$80 claim amount; 25% month 1 Interim Payment; 75% Deferred Amount created	\$ 880	\$ 880	\$ 35	\$ 80	\$ 100	\$ 25	0	\$ 765	\$ 765	0	0	\$ 75	\$ 75
Calculations		H1	I1			D1	E2 x 25%		A2 - C2 - D2 + F2 - F2	B2 - C2 - D2	M1		E2 - F2	J2 + K2 + L2 - G2
3	\$25 intrinsic principal payment; \$100 claim amount; 25% month 2 Interim Payment; ending Deferred Amount of \$135.32 (including \$.32 accretion amount)	\$ 765	\$ 765	\$ 25	\$ 100	\$ 80	\$ 20	0	\$ 640	\$ 640	\$ 75	\$ 0.31	\$ 60	\$ 135.31
Calculations		H2	I2			D2	E3 x 25%		A3 - C3 - D3 + F3 - F3	B3 - C3 - D3	M2	J3 x (4.98%/12)	E3 - F3	J3 + K3 + L3 - G3
4	\$30 intrinsic principal payment; \$80 claim amount; 25% month 3 Interim Payment; \$60 Recovery; ending Deferred Amount of \$150.90	\$ 640	\$ 640	\$ 30	\$ 80	\$ 100	\$ 25	\$ 60	\$ 530	\$ 530	\$ 135.31	\$ 0.56	\$ 75	\$150.87
Calculations		H3	I3			D3	E4 x 25%		A4 - C4 - D4 + F4 - F4 + G4 - G4	B4 - C4 - D4	M3	J4 x (4.98%/12)	E4 - F4	J4 + K4 + L4 - G4

² The month four Ending Bond Balance of \$530 (H4) reconciles with the month one Beginning Bond Balance of \$1,000 (A1) as follows:

Month one Beginning Bond Balance (\$1,000, A1) MINUS: (i) the sum of all payments of Intrinsic Principal (C1 + C2 + C3 + C4 = \$110); (ii) the sum of all Interim Payments (F2 + F3 + F4 = \$70); (iii) the sum of all Recovery Amounts (G4 = \$60); (iv) the Month Four Policy Claim (\$80, D4), which is not yet a Permitted Policy Claim; and (v) the month four Deferred Loss Amount (\$150, M4 without considering accretion), EQUALS the month four Ending Bond Balance (\$530, H4).

EXHIBIT D

EXAMPLE FOR UNDERCOLLATERALIZED TRANSACTIONS

UNDERCOLLATERALIZED EXAMPLE ¹

The example below is intended to provide a simplified illustration of how Permitted Policy Claims will be paid under the Plan and the Payment Guidelines. For present purposes, it is assumed that there is one Policy insuring only one series of Insured Obligations, secured by one pool of mortgage loan collateral, in an undercollateralizing transaction, where the outstanding principal balance of the Insured Obligations is not reduced by realized losses on the mortgage loans (“Undercollateralized Transaction”). The example covers a period of four months and commences in month one, when the first Claim under the Policy is submitted to the Segregated Account in accordance with the Payment Guidelines.

Shown below are the monthly calculations and Payments associated with Permitted Policy Claims under the Payment Guidelines, including Interim Payments (initially at a 25% Interim Payment Percentage), the creation of Deferred Amounts (including Deferred Loss Amounts and Accretion Amounts) and the effect of Recovery Amounts.

Month One - Submission of a Policy Claim

In month one, the Beginning Bond Balance and Beginning Collateral Balance for this transaction are both \$1,000 (A1) and (B1). Principal collections received during the month from payments on the underlying mortgage loans (“Intrinsic Principal”) are \$20 (C1). During the month, the collateral suffers a \$100 realized loss (D1), resulting in a Policy Claim submission of \$100 (“Month One Policy Claim”). The Month One Policy Claim is not Permitted in month one (E1) because it will not have been determined to be a Permitted Policy Claim under the Payment Guidelines. Consequently, there are no Payments in respect of the Month One Policy Claim.

The payment of Intrinsic Principal reduces the Beginning Bond Balance by \$20, resulting in an Ending Bond Balance of \$980 (H1). Together, the \$20 Intrinsic Principal and the \$100 realized loss reduce the Beginning Collateral Balance by \$120, leaving an Ending Collateral Balance of \$880 (I1).

UNDERCOLLATERALIZED TRANSACTION (Deferred Amount; Accretion; and Recovery Example)														
Month	Description	Beginning Bond Balance	Beginning Collateral Balance	Intrinsic Principal	Collateral Realized Loss	Permitted Policy Claim Amount	Interim Payment Amount	Recovery Amount	Ending Bond Balance	Ending Collateral Balance	Beginning Deferred Amount	Accretion Amount	Deferred Loss Amount	Ending Deferred Amount
		A1	B1	C1	D1	E1	F1	G1	H1	I1	J1	K1	L1	M1
1	\$20 intrinsic principal payment; \$100 principal loss claim amount	\$ 1,000	\$ 1,000	\$ 20	\$ 100	0	0	0	\$ 980	\$ 880	0	0	0	0
Calculations									A1 - C1 - F1 - G1	B1 - C1 - D1				

¹ Capitalized terms and expressions not defined or explained herein have the meanings given to such terms in the Payment Guidelines. Amounts used in this example are representative only, and do not reflect any actual claims and are based on assumptions that may not be applicable to any particular policy. The calculations, and events specified in the example are based on assumptions made for illustrative purposes only and may not reflect what may occur in reality or in the future. The Rehabilitator will make determinations in respect of payments by the Segregated Account in his sole and absolute discretion, in accordance with the Plan and the Payment Guidelines.

Month Two – Interim Payment and Creation of Deferred Amount

In month two, the Beginning Bond Balance is \$980 (A2) and the Beginning Collateral Balance is \$880 (B2). Intrinsic Principal for month two is \$35 (C2). During the month the collateral suffers an \$80 realized loss (D2), resulting in a Policy Claim submission of \$80 (“Month Two Policy Claim”).

The Month Two Policy Claim is not Permitted in month two because it will not have been determined to be a Permitted Policy Claim under the Payment Guidelines. Consequently, there are no Payments in respect of the Month Two Policy Claim.

The Month One Policy Claim is determined by the Rehabilitator to be a Permitted Policy Claim (E2). An Interim Payment of \$25 (F2) is made, an amount equal to 25% of the Month One Policy Claim. In addition, a Deferred Loss Amount of \$75 (L2) is established in respect of the Month One Policy Claim. There are no Accretion Amounts in month two in respect of any Permitted Policy Claim (K2).

The payment of Intrinsic Principal (\$35) and the Interim Payment in respect of the Month One Policy Claim (\$25) together reduce the Beginning Bond Balance for the month by \$60, leaving an Ending Bond Balance of \$920 (H2). Application of the \$35 Intrinsic Principal and the \$80 realized loss reduces the Beginning Collateral Balance for the month by \$115, leaving an Ending Collateral Balance of \$765 (I2).

UNDERCOLLATERALIZED TRANSACTION (Deferred Amount; Accretion; and Recovery Example)														
Month	Description	Beginning Bond Balance	Beginning Collateral Balance	Intrinsic Principal	Collateral Realized Loss	Permitted Policy Claim Amount	Interim Payment Amount	Recovery Amount	Ending Bond Balance	Ending Collateral Balance	Beginning Deferred Amount	Accretion Amount	Deferred Loss Amount	Ending Deferred Amount
		A1	B1	C1	D1	E1	F1	G1	H1	I1	J1	K1	L1	M1
1	\$20 intrinsic principal payment; \$100 principal loss claim amount	\$ 1,000	\$ 1,000	\$ 20	\$ 100	0	0	0	\$ 980	\$ 880	0	0	0	0
Calculations									A1 - C1 - F1 - G1	B1 - C1 - D1				
		A2	B2	C2	D2	E2	F2	G2	H2	I2	J2	K2	L2	M2
2	\$35 intrinsic principal payment; \$80 principal loss claim amount; 25% month 1 Interim Payment; 75% Deferred Amount created	\$ 980	\$ 880	\$ 35	\$ 80	\$ 100	\$ 25	0	\$ 920	\$ 765	0	0	\$ 75	\$ 75
Calculations		H1	I1			D1	E2 x 25%		A2 - C2 - F2 - G2	B2 - C2 - D2	M1		E2 - F2	J2 + K2 + L2 - G2

Month Three – Accretion on Deferred Amounts in respect of Month One Policy Claim

In month three, the Beginning Bond Balance is \$920 (A3) and the Beginning Collateral Balance is \$765 (B3). Intrinsic Principal for month three is \$25 (C3). During the month the collateral suffers a \$100 realized loss (D3), resulting in a Policy Claim submission of \$100 (“Month Three Policy Claim”).

The Month Three Policy Claim is not Permitted in month three because it will not have been determined to be a Permitted Policy Claim under the Payment Guidelines. Consequently, there are no Payments in respect of the Month Three Policy Claim.

The Beginning Deferred Amount in month three is \$75 (J3).

The Month Two Policy Claim is determined by the Rehabilitator to be a Permitted Policy Claim (E3). An Interim Payment of \$20 (F3) is made, an amount equal to 25% of the Month Two Policy Claim. In addition, a Deferred Loss Amount of \$60 (L3) is established in respect of the Month Two Policy Claim.

The Accretion Amount in month three is \$0.31 (K3), which represents the effective annual rate of 5.1% on the Beginning Deferred Amount of \$75 (J3).

The Ending Deferred Amount for month three is \$135.31 (M3), which is the sum of: (i) the Beginning Deferred Amount of \$75 (J3) established in respect of the Month One Policy Claim, (ii) the Accretion Amount of \$0.31 (K3) and (iii) the Deferred Loss Amount of \$60 (L3) established in respect of the Month Two Policy Claim.

The payment of month three Intrinsic Principal (\$25) and the Interim Payment in respect of the Month Two Policy Claim (\$20) together reduce the Beginning Bond Balance for the month by \$45, leaving an Ending Bond Balance of \$875 (H3). Application of the \$25 Intrinsic Principal and the \$100 realized loss reduces the Beginning Collateral Balance by \$125, leaving an Ending Collateral Balance of \$640 (I3).

UNDERCOLLATERALIZED TRANSACTION (Deferred Amount; Accretion; and Recovery Example)														
Month	Description	Beginning Bond Balance	Beginning Collateral Balance	Intrinsic Principal	Collateral Realized Loss	Permitted Policy Claim Amount	Interim Payment Amount	Recovery Amount	Ending Bond Balance	Ending Collateral Balance	Beginning Deferred Amount	Accretion Amount	Deferred Loss Amount	Ending Deferred Amount
		A1	B1	C1	D1	E1	F1	G1	H1	I1	J1	K1	L1	M1
1	\$20 intrinsic principal payment; \$100 principal loss claim amount	\$ 1,000	\$ 1,000	\$ 20	\$ 100	0	0	0	\$ 980	\$ 880	0	0	0	0
Calculations									A1 - C1 - F1 - G1	B1 - C1 - D1				
		A2	B2	C2	D2	E2	F2	G2	H2	I2	J2	K2	L2	M2
2	\$35 intrinsic principal payment; \$80 principal loss claim amount; 25% month 1 Interim Payment; 75% Deferred Amount created	\$ 980	\$ 880	\$ 35	\$ 80	\$ 100	\$ 25	0	\$ 920	\$ 765	0	0	\$ 75	\$ 75
Calculations		H1	I1			D1	E2 x 25%		A2 - C2 - F2 - G2	B2 - C2 - D2	M1		E2 - F2	J2 + K2 + L2 - G2
		A3	B3	C3	D3	E3	F3	G3	H3	I3	J3	K3	L3	M3
3	\$25 intrinsic principal payment; \$100 principal loss claim amount; 25% month 2 Interim Payment; ending Deferred Amount of \$135.32 (including \$0.32 Accretion Amount)	\$ 920	\$ 765	\$ 25	\$ 100	\$ 80	\$ 20	0	\$ 875	\$ 640	\$ 75	\$ 0.31	\$ 60	\$ 135.31
Calculations		H2	I2			D2	E3 x 25%		A3 - C3 - F3 - G3	B3 - C3 - D3	M2	J3 x (4.98%/12)	E3 - F3	J3 + K3 + L3 - G3

Month Four – Effect of Recovery Amounts

In month four, the Beginning Bond Balance is \$875 (A4) and the Beginning Collateral Balance is \$640 (B4). Intrinsic Principal for month four is \$30 (C4). The transaction receives \$60 (G4) as a Recovery Amount in respect of realized losses incurred in prior months. During the month the collateral suffers an \$80 realized loss (D4), resulting in a Policy Claim submission of \$80 (“Month Four Policy Claim”).

The Month Four Policy Claim is not Permitted in month four, because it will not have been determined to be a Permitted Policy Claim under the Payment Guidelines. Consequently, there are no Payments in respect of the Month Four Policy Claim.

In month four, the Beginning Deferred Amount is \$135.31 (J4).

The Month Three Policy Claim is determined by the Rehabilitator to be a Permitted Policy Claim (E4). An Interim Payment of \$25 (F4) is made, an amount equal to 25% of the Month Three Policy Claim. In addition, a Deferred Loss Amount of \$75 (L4) is established in respect of the Month Three Policy Claim.

The Accretion Amount in month four is \$0.56 (K4), which represents the effective annual rate of 5.1% on the Beginning Deferred Amount of \$135.31 (J4).

The Ending Deferred Amount for month four is \$150.87 (M4), which is equal to: (a) the sum of (i) the Beginning Deferred Amount of \$135.31 (J4), (ii) the Accretion Amount of \$0.56 (K4), and (iii) the Deferred Loss Amount of \$75 (L4) established in respect of the Month Three Policy Claim (which sum is \$210.87), reduced by (b) the \$60 Recovery Amount (G4) realized in month four.

The payment of month four Intrinsic Principal (\$30), the Interim Payment in respect of the Month Three Policy Claim (\$25) and the Recovery Amount realized in month four (\$60), together reduce the Beginning Bond Balance by \$115, leaving an Ending Bond Balance of \$760 (H4). Application of the \$30 Intrinsic Principal, and the \$80 realized loss reduces the Beginning Collateral Balance by \$110, leaving an Ending Collateral Balance of \$530 (I4).²

UNDERCOLLATERALIZED TRANSACTION (Deferred Amount; Accretion; and Recovery Example)														
Month	Description	Beginning Bond Balance	Beginning Collateral Balance	Intrinsic Principal	Collateral Realized Loss	Permitted Policy Claim Amount	Interim Payment Amount	Recovery Amount	Ending Bond Balance	Ending Collateral Balance	Beginning Deferred Amount	Accretion Amount	Deferred Loss Amount	Ending Deferred Amount
		A1	B1	C1	D1	E1	F1	G1	H1	I1	J1	K1	L1	M1
1	\$20 Intrinsic principal payment; \$100 principal loss claim amount	\$ 1,000	\$ 1,000	\$ 20	\$ 100		0	0	\$ 980	\$ 880	0	0	0	0
Calculations									A1 - C1 - F1 - G1	B1 - C1 - D1				
		A2	B2	C2	D2	E2	F2	G2	H2	I2	J2	K2	L2	M2
2	\$35 Intrinsic principal payment; \$80 principal loss claim amount; 25% month 1 Interim Payment; 75% Deferred Amount created	\$ 980	\$ 880	\$ 35	\$ 80	\$ 100	\$ 25	0	\$ 920	\$ 765	0	0	\$ 75	\$ 75
Calculations		H1	I1			D1	E2 x 25%		A2 - C2 - F2 - G2	B2 - C2 - D2	M1		E2 - F2	J2 + K2 + L2 - G2
		A3	B3	C3	D3	E3	F3	G3	H3	I3	J3	K3	L3	M3
3	\$25 Intrinsic principal payment; \$100 principal loss claim amount; 25% month 2 Interim Payment; ending Deferred Amount of \$135.32 (including \$.32 Accretion Amount)	\$ 920	\$ 765	\$ 25	\$ 100	\$ 80	\$ 20	0	\$ 875	\$ 640	\$ 75	\$ 0.31	\$ 60	\$ 135.31
Calculations		H2	I2			D2	E3 x 25%		A3 - C3 - F3 - G3	B3 - C3 - D3	M2	J3 x (4.98%/12)	E3 - F3	J3 + K3 + L3 - G3
		A4	B4	C4	D4	E4	F4	G4	H4	I4	J4	K4	L4	M4
4	\$30 Intrinsic principal payment; \$80 claim amount; 25% month 3 Interim Payment; \$60 Recovery; ending Deferred Amount of \$150.90	\$ 875	\$ 640	\$ 30	\$ 80	\$ 100	\$ 25	\$ 60	\$ 760	\$ 530	\$ 135.31	\$ 0.56	\$ 75	\$150.87
Calculations		H3	I3			D3	E4 x 25%		A4 - C4 - F4 - G4	B4 - C4 - D4	M3	J4 x (4.98%/12)	E4 - F4	J4 + K4 + L4 - G4

² Note that in order to reconcile the Deferred Loss Amount (\$150 in month four (M4 without considering accretion)) to the Undercollateralized amount (\$230 (H4 minus I4)), the Month Four Policy Claim (\$80 (D4)), which will not yet have been determined to be a Permitted Policy Claim under the Payment Guidelines, must be added to the Deferred Loss Amount.

REALLOCATION OF DEFERRED LOSS AMOUNT EXAMPLE ¹

Pursuant to the Payment Guidelines, Deferred Loss Amounts are calculated and allocated to Insured Obligations, including multiple classes of Insured Obligations insured under a single Policy. Situations can arise where the Deferred Loss Amount with respect to a single Policy remains unchanged, but due to the priority of payments under the Transaction Documents, the Deferred Loss Amounts allocated to multiple classes of Insured Obligations under such Policy no longer reflect the losses that each such Insured Obligation has incurred. This could result in a situation where Deferred Loss Amounts are overstated for some Insured Obligations and understated for others. To ensure that any Deferred Payments will be applied accurately, the Rehabilitator may, in his sole and absolute discretion, reallocate Deferred Loss Amounts among classes of Insured Obligations insured by a single Policy to the extent necessary to ensure that the Deferred Loss Amounts reflect the actual losses allocated to the Insured Obligations under the Transaction Documents.

Upon reallocation of a Deferred Loss Amount from one Insured Obligation to another, there shall be no further accretion on such reallocated Deferred Loss Amount in respect of the Insured Obligation from which the Deferred Loss Amount was reallocated. However, Accretion Amounts that accrued prior to such transfer shall remain with the Beneficial Holders of the Insured Obligation from which the Deferred Loss Amount was reallocated, and will continue to accrete in accordance with the Payment Guidelines.

The example below is intended to provide a simplified illustration of how Deferred Loss Amounts may be allocated and reallocated among multiple classes of Insured Obligations insured by one Policy under the Plan and the Payment Guidelines in one set of circumstances.

For present purposes, it is assumed that: (i) there is one Policy insuring two classes of Insured Obligations, Class A1 and Class A2, (ii) principal amounts under the Transaction Documents are paid first to the Class A1 bond, the most senior Insured Obligation (until its balance is reduced to zero) and then to the Insured Obligation in next order of priority, the Class A2 bond (until its balance is reduced to zero) (a "Sequential Pay Transaction"), (iii) the Insured Obligations are secured by one pool of mortgage loan collateral, where the outstanding principal balance of the Insured Obligations is not reduced by realized losses on the mortgage loans (an "Undercollateralized Transaction"), (iv) initially, only the Class A1 bond has a Deferred Loss Amount and (v) there are no Deferred Payments made. The example covers a period of two months and commences in month one, when the first reallocation of Deferred Loss Amounts between different classes of Insured Obligations occurs.

¹ Capitalized terms and expressions not defined or explained herein have the meanings given to such terms in the Payment Guidelines. Amounts used in this example are representative only, and do not reflect any actual claims and are based on assumptions that may not be applicable to any particular policy. The calculations, and events specified in the example are based on assumptions made for illustrative purposes only and may not reflect what may occur in reality or in the future. The Rehabilitator will make determinations in respect of payments by the Segregated Account in his sole and absolute discretion, in accordance with the Plan and the Payment Guidelines.

Shown below are the monthly calculations and reallocation of Deferred Loss Amounts among two classes of Insured Obligations under the Payment Guidelines. The Deferred Loss Amounts are reallocated as a result of the payment in full of the most senior Insured Obligation in a Sequential Pay Transaction in accordance with the terms and conditions of the Transaction Documents.

Month One - Reallocation of Deferred Loss Amount among Insured Obligations of Sequential Pay Transaction

In month one, the Beginning Bond Balance for the Class A1 bond is \$90 and for the Class A2 bond is \$120 (A1). The Beginning Collateral Balance for this transaction is \$130 (B1), reflecting prior realized losses of \$80, resulting in the Transaction being undercollateralized by an equal amount. Principal collections received during the month from payments on the underlying mortgage loans ("Intrinsic Principal") are \$60 (E1). During the month, the collateral suffers no additional realized loss (G1), resulting in no Policy Claim for the month. There are no outstanding Permitted Policy Claims and the Rehabilitator has not declared a Deferred Payment, consequently, there are no Interim or Deferred Payments made on account of the Insured Obligations.

Because this is a Sequential Pay Transaction, Intrinsic Principal is paid first to the Class A1 senior bond to reduce the Beginning Bond Balance of the Class A1 bond by \$60, resulting in an Ending Bond Balance for the Class A1 bond of \$30 (I1) and since there is no additional Intrinsic Principal, there is no payment made to the Class A2 bond, leaving its Ending Bond Balance at \$120 (I1). The \$60 Intrinsic Principal reduces the Beginning Collateral Balance of \$130 by \$60, leaving an Ending Collateral Balance of \$70 (J1).

The Beginning Deferred Amount for the Class A1 bond is \$80 and for the Class A2 bond is \$0 (D1).

The Accretion Amount for month one for Class A1 is \$0.33 (K1), which represents accretion at the effective annual rate of 5.1% on the Beginning Deferred Amount of \$80 (D1). There is no Accretion Amount for Class A2 as it does not have any outstanding Deferred Amount.

At the beginning of the month, the Class A1 bond was \$80 undercollateralized (C1) and the Class A2 bond had no undercollateralization (C1). After the payment of Intrinsic Principal of \$60 to the Class A1 bond, the Class A1 bond's share of the \$80 undercollateralization is \$30 and the Class A2 bond's share of the \$80 undercollateralization is \$50.

The Deferred Loss Amount on the transaction as a whole has not been reduced by either Deferred Payments or Recovery Amounts, and remains unchanged at \$80. However, the allocation of the Deferred Loss Amount among the two classes of Insured Obligations must be modified due to the reduction in Bond Balance of the Class A1 bonds below the Class A1 bond Deferred Loss Amount. This reduction in Bond Balance of the Class A1 bond results in a shift in the allocation of the undercollateralization of the Transaction to the Class A2 bond, requiring a corresponding shift of the Deferred Loss Amount from the Class A1 bond to the Class A2 bond.

The Deferred Loss Amount allocated to the Class A1 Bond is reduced from \$80 to \$30 (L1), reflecting the receipt by the Class A1 bond of \$60 Intrinsic Principal and the reduction of its undercollateralization. The remaining \$50 of Deferred Loss Amount is allocated to the Class A2 bond (L1).

The Ending Deferred Amount for the Class A1 bond is \$30.33 (L1), which is the sum of: (i) the Beginning Deferred Amount of \$80 (D1), plus (ii) the Accretion Amount of \$0.33 (K1) minus (iii) the Deferred Loss Amount of \$50 reallocated to the Class A2 bond from the Class A1 bond.

The Ending Deferred Amount for the Class A2 bond is \$50 (L1), which is the sum of: (i) the Beginning Deferred Amount of \$0 (D1), plus (ii) the Accretion Amount of \$0 (K1) plus (iii) the Deferred Loss Amount of \$50 reallocated to the Class A2 bond from the Class A1 bond.

UNDERCOLLATERALIZED TRANSACTION (Reallocation of Deferred Amounts Example)												
Description	Beginning Bond Balance	Beginning Collateral Balance	Undercollateralization Allocation	Beginning Deferred Amounts	Intrinsic Principal	Intrinsic Principal Allocation	Collateral Realized Loss	Permitted Policy Claim Amount	Ending Bond Balance	Ending Collateral Balance	Accretion Amounts	Ending Deferred Amounts
	A1	B1	C1	D1	E1	F1	G1	H1	I1	J1	K1	L1
\$60 Intrinsic Principal payment; \$0 Collateral Realized Loss	\$90 Class A1 \$120 Class A2	\$ 130	\$80 Class A1 \$0 Class A2	\$80 Class A1 \$0 Class A2	\$ 60	\$60 Class A1 \$0 Class A2	-	-	\$30 Class A1 \$120 Class A2	\$ 70	\$.33 Class A1 \$0 Class A2	\$30.33 Class A1 \$50 Class A2
Calculations									A1 - E1	B1 - E1	D1 x (4.98%/12)	

Month Two - Reallocation of Deferred Loss Amount among Insured Obligations of Sequential Pay Transaction

In month two, the Beginning Bond Balance for Class A1 bond is \$30 and for Class A2 bond is \$120 (A2). The Beginning Collateral Balance for month two is \$70 (B2) and the Transaction is undercollateralized by \$80. Intrinsic Principal received is \$50 (E2). During the month, the collateral suffers no additional realized loss (G2), resulting in no Policy Claim for the month. There are no outstanding Permitted Policy Claims, consequently, there are no Payments made to the Insured Obligations in respect of either Permitted Policy Claims or Deferred Amounts.

Because this is a Sequential Pay Transaction, Intrinsic Principal is paid first to Class A1 senior bond reducing the Beginning Bond Balance of Class A1 bond by \$30, resulting in an Ending Bond Balance for the Class A1 bond of \$0 (I2). The remainder of Intrinsic Principal of \$20 is paid to the Class A2 bond reducing the Beginning Bond Balance of the Class A2 bond by \$20, resulting in an Ending Bond Balance for the Class A2 bond of \$100 (I2). The \$50 Intrinsic Principal reduces the Beginning Collateral Balance of \$70 by \$50, leaving an Ending Collateral Balance of \$20 (J2).

The Beginning Deferred Amount for the Class A1 bond is \$30.33 and for the Class A2 bond is \$50 (D2).

The Accretion Amount for month two for Class A1 bond is \$0.13 (K2), which represents accretion at the effective annual rate of 5.1% on the Beginning Deferred Amount of \$30.33 (D2) and the Accretion Amount for Class A2 bond is \$0.21 (K2), which represents accretion at the effective annual rate of 5.1% on the Beginning Deferred Amount of \$50 (D2).

At beginning of the month, the Class A1 bond was \$30 undercollateralized (C2) and the Class A2 bond was \$50 undercollateralized (C2). After the payment of Intrinsic Principal, the Class A1 bond is fully paid and the Class A2 bond is undercollateralized by \$80.

After the payment of the \$50 of Intrinsic Principal to the Class A1 bond and Class A2 bond, the undercollateralization of the transaction, as a whole, remains unchanged at \$80, but now resides solely with the Class A2 bond. The Deferred Loss Amount on the transaction as a whole remains unchanged at \$80. However, the Deferred Loss Amounts among the two Classes of Insured Obligations must be reallocated due to the reduction in Bond Balance of the Class A1 bond that has shifted the allocation of the undercollateralization of the Transaction to the Class A2 bond.

The Deferred Loss Amount allocated to the Class A1 Bond is reduced from \$30 to \$0 (L2), reflecting the receipt of the Class A1 bond of \$30 Intrinsic Principal. The Deferred Loss Amount of \$30 that was allocated to the Class A1 bond is reallocated to the Class A2 bond, increasing its Deferred Loss Amount from \$50 to \$80 (L2). The Accretion Amount for the Class A1 bond of \$0.46 remains with the Class A1 bond and is not reallocated (L2).

The Ending Deferred Amount for month two for Class A1 is \$0.46 (L2), which is the sum of: (i) the Beginning Deferred Amount of \$30.33 (D2), plus (ii) the Accretion Amount of \$0.13 (K2) minus (iii) the Deferred Loss Amount of \$30 reallocated to the Class A2 bond from the Class A1 bond.

The Ending Deferred Amount for month two for Class A2 is \$80.21 (L2), which is the sum of: (i) the Beginning Deferred Amount of \$50 (D2), plus (ii) the Accretion Amount of \$0.21 (K2) plus (iii) the Deferred Loss Amount of \$30 reallocated to the Class A2 bond from the Class A1 bond.

UNDERCOLLATERALIZED TRANSACTION (Reallocation of Deferred Amounts Example)												
Description	Beginning Bond Balance	Beginning Collateral Balance	Undercollateralization Allocation	Beginning Deferred Amounts	Intrinsic Principal	Intrinsic Principal Allocation	Collateral Realized Loss	Permitted Policy Claim Amount	Ending Bond Balance	Ending Collateral Balance	Accretion Amounts	Ending Deferred Amounts
	A1	B1	C1	D1	E1	F1	G1	H1	I1	J1	K1	L1
\$60 Intrinsic Principal payment; \$0 Collateral Realized Loss	\$90 Class A1 \$120 Class A2	\$ 130	\$80 Class A1 \$0 Class A2	\$80 Class A1 \$0 Class A2	\$ 60	\$60 Class A1 \$0 Class A2	-	-	\$30 Class A1 \$120 Class A2	\$ 70	\$.33 Class A1 \$0 Class A2	\$30.33 Class A1 \$50 Class A2
Calculations									A1 - E1	B1 - E1	D1 x (4.98%/12)	
	A2	B2	C2	D2	E2	F2	G2	H2	I2	J2	K2	L2
\$50 Intrinsic Principal payment; \$0 Collateral Realized Loss	\$30 Class A1 \$120 Class A2	\$ 70	\$30 Class A1 \$50 Class A2	\$30.33 Class A1 \$50 Class A2	\$ 50	\$30 Class A1 \$20 Class A2	-	-	\$0 Class A1 \$100 Class A2	\$ 20	\$.13 Class A1 \$.21 Class A2	\$.46 Class A1 \$80.21 Class A2
Calculations	I1	J1		L1					A2 - E2	B2 - E2	D2 x (4.98%/12)	