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DANE COUNTY, WI
2010CV001576

EXHIBIT 27

Second Listening Session Related to the Segregated Account of Ambac Assurance Corporation

Held by Special Deputy Commissioner Daniel Schwartz

August 24, 2017

Prepared Remarks

AMBAC SEGREGATED ACCOUNT
SECOND LISTENING SESSION

Presentation Participants:

Daniel Schwartzer, *OCI Special Deputy Commissioner*

Neil Flanagan, *Jefferies, LLC*

John Finerty, *Michael, Best & Friedrich LLP*

Dennis McGettigan, *Gordian Group*

INTRODUCTION

Thank you for your interest and for participating in this 2nd Rehabilitator Listening Session pertaining to the rehabilitation of the Segregated Account of Ambac Assurance Corporation. We are holding this 2nd listening session today not only to continue to provide a forum for communication between the Rehabilitator and the policy beneficiaries and other stakeholders of the Segregated Account and the General Account, but to specifically discuss AAC's proposed Exchange Transaction and our effort for a conclusion of this rehabilitation.

We intend this communication to be consistent with the Rehabilitator's statements to the Rehabilitation Court and to the general public. As such, our interaction today will be summarized and posted on the website maintained on behalf of the Rehabilitator: ambacpolicyholders.com

We would like to solicit your feedback and commentary that you believe is useful for us as we move through this process.

Our remarks may contain some forward-looking statements which are based on current expectations and are subject to uncertainty and changes in circumstances, and as such, they are not guarantees of future performance or events nor should they be understood to qualify the broad discretion that has been granted the commissioner to manage the rehabilitation from the

rehabilitation court, and as such, the rehabilitator disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise.

At the time of our last listening session on July 12, 2016, we indicated the effort to stabilize and manage the Segregated Account had been successful enough for the Rehabilitator to now explore strategies to achieve an exit from Rehabilitation. In addition, we also indicated our very clear goal to have a durable and orderly exit from Rehabilitation. We have also been very consistent in our preference for a consensual transaction that would allow the Segregated Account to exit, so long as the transaction met OCI's strict durability standards, and that it was in the best interest of policyholders.

As you are all aware, recently, AAC and five major stakeholders presented OCI with a proposed consensual transaction to accomplish such an exit from rehabilitation.

We will summarize the Transaction in just a moment, but allow me to provide some general thoughts as to why we have supported the transaction and why we are now moving forward to request the court adopt this Amended Plan that will allow the Segregated Account to exit from Rehabilitation.

First, it is the responsibility of the Rehabilitator and the Office of the Commissioner of Insurance (OCI) to protect the interests of policy beneficiaries in both the Segregated Account, as well as the General Account of AAC. It is also the responsibility of the Rehabilitator to take into account other stakeholders affected by this Rehabilitation. On balance, it is in our opinion that the Transaction protects policy beneficiaries in both accounts, as well as these other stakeholders.

Since 2010, General Account policyholders have received full payment (100 cents) on any claims presented to AAC, while Segregated Account policyholders have only received less than

half (45 cents) of total value of the claims presented along with a Deferred Amounts (DPO) for the majority of their claim (55 cents). In addition, these DPO's are to be paid at a date that is uncertain. This Transaction recognizes this inequity and offers cash and secured notes of 81 cents and 12.5 cents of existing tradeable (marketable) surplus notes for previously adjudicated (or crystalized) claims. For all future claims (non-crystalized), these same Segregated Account policyholders will receive full payment (100 cents) for presented claims.

Prolonging the Rehabilitation of the Segregated Account would: continue to treat these policyholders differently than General Account policyholders; prevent payment and conclusion of crystalized claims; and, continue to prevent full payment of non-crystalized claims for the foreseeable future. This disparity in treatment would not be in the best interest of policyholders.

After careful review and consideration by OCI, myself, and the advisory team, we have endorsed this plan and will begin the process of moving it forward with a court filing to occur in the coming weeks.

OCI believes that the Transaction is in the best interest of all policyholders and stakeholders generally, and provides for a durable exit from Rehabilitation. We believe this Transaction, including the consideration to be provided to the Deferred Amount holders and General Account Surplus note holders, is superior to maintaining the status quo over many years in the hope of achieving a better result.

We will now review the upcoming court calendar and respond to a number of questions submitted in advance of today's session.

Litigation disclaimer. The Consensual Transaction is subject to Rehabilitation Court's approval. Specifically, the Rehabilitation is governed by chapter 645 of the Wisconsin Statutes. Pursuant to the authority granted by the statutes, this Court previously approved the

Plan and a First Amended Plan and, in so doing, retained jurisdiction. Under § 6.01 of the First Amended Plan, the Court may “modify this Plan” and “enter an order closing these Proceedings.” We will be filing for court approval shortly and will therefore defer any questions for now that seek the specific basis for the Rehabilitator’s legal conclusions. As we will discuss generally, in the Rehabilitator’s judgment, the Consensual Transaction provides a basis for a durable exit in the best interests of policyholders.

Exit Standards. Pursuant to § 645.01 of the statutes, the purpose of these Rehabilitation proceedings is to protect “insureds, creditors, and the public generally.” See WIS. STAT. § 645.01(3). The Rehabilitator has determined that the proposed Second Amended Plan and Consensual Transaction fully satisfy the statutory purpose behind Ch. 645. Further, the Rehabilitator may terminate a rehabilitation proceeding when “rehabilitation has been accomplished and the grounds for rehabilitation under s. 645.31 no longer exist.” Wis. Stat. § 645.35(2). The Consensual Transaction meets that statutory standard because the Consensual Transaction provides consideration that effectively pays the principal amounts of policy claims in full (with a combination of cash and other consideration), and pays future policy claims in full, and in cash.

Court Calendar. On July 19, 2017, the Rehabilitation Court issued 2 hearing notices. First, the Court scheduled this Rehabilitation for a 3 day trial. The trial will be an evidentiary hearing at which the Rehabilitator and its primary financial advisor will present arguments and evidence that support the Rehabilitator’s decision to approve the Consensual Transaction and why the Court should allow plan amendments necessary to carry out the Transaction. In evaluating the Rehabilitator’s proposed Second Amended Plan, the circuit court must afford “great weight deference to the commissioner’s interpretation and application of the statutes governing the

rehabilitation of an insurer and other related statutes the commissioner is charged with administering.” Given the great weight afforded the Rehabilitator’s decisions, the Court must uphold the rehabilitator’s plan “unless the rehabilitator abused his or her discretion.” That will be the issue for trial.

The Court also set a pre-trial hearing for November 30, 2017 at 8:30. At that hearing, the Rehabilitator expects the Court will address the order of proof and set other ground rules for the hearing, and make any other preliminary rulings, or final rulings if applicable, on any objections to the Rehabilitator’s Motion. Interested parties may appear at the Pretrial Conference by telephone by calling the Court and obtaining approval prior to the Pretrial Conference date. If no Objections to the Motion are filed (or they are otherwise resolved or withdrawn), the Pretrial Conference may be converted to a final Confirmation Hearing and the Court may take evidence from the Rehabilitator in support of its Motion. If the Court finds sufficient grounds to grant the Motion and confirm the Second Amended Plan at the Pretrial Conference, the Court may grant the Rehabilitator’s Motion without further notice and hearing.

Questions submitted in advance of the listening session.

How did OCI make the determination that the proposed transaction is durable?

Immediately prior to the announcement of the Transaction, we advised OCI that the Transaction provided for a durable exit, which means that we expect that AAC will be able to pay all future policy claims in full while also maintaining a sufficient buffer, or “margin of safety” as determined by OCI. The margin of safety is a minimum level of excess financial resources available to AAC to meet unexpected adverse changes in the performance of AAC, occurring during the life of the Rehabilitator’s Financial Projections, which as you know extend through 2054. Using the Rehabilitator’s Financial Projections, AAC’s proposed transaction met the margin of safety requirement set by OCI in July, and we are in the process of updating that analysis for the upcoming court filings.

As part of those Court filings, we expect to provide projected financial statements and related metrics such as pro forma claims paying resources and the projected margin of safety under the Transaction for each of our four scenarios, so you can evaluate the financial health of AAC post transaction across a range of loss and remediation assumptions. As you know, the Rehabilitator’s advisory team has been charged with developing independent projections for many years now, and these projections have typically been relatively conservative, in keeping with the role of the rehabilitator. We believe that the conservatism incorporated in the projection extends beyond conservative loss estimates to other assumptions as well.

How was the 6.5% discount determined?

The 6.5% discount in respect of Deferred Amounts and Surplus Notes was determined in the negotiations between AAC and the Ad Hoc Group – and was not a requirement of the Rehabilitator. This discount is just one of many compromises made by the parties as part of the overall agreement, and should be considered in that context. For example, AFG agreed to:

- Accept a lesser consideration package comprised solely of Secured Notes and Surplus Notes – **and no cash** – as part of the Transaction, and
- Accept stringent transfer restrictions with respect to \$60 million (or more than 55%) of the aggregate amount of Surplus Notes AFG is expected to receive or retain in the transaction

It is also important to realize that the Secured Note, without which the transaction would not be possible, can only be issued with AAC's consent – and is therefore essential to allow for payment in full of all future Segregated Account claims.

It is also worth noting that members of the Ad Hoc Group made other concessions as well. For example, the Ad Hoc Group agreed to the transfer restrictions in the RESA without compensation, which allows for Surplus Note holders and Deferred Amount beneficiaries who are not a part of the Ad Hoc Group to benefit from the subsequent bump in prices for these instruments.

Finally, continuation of the Status Quo would not necessarily allow for payment in full of the Deferred Amounts and Surplus Notes even on a nominal basis. In any event, we believe that whether or not payment in full of all Deferred Amounts and Surplus Notes will occur may not be determined for many years to come. We would contrast this uncertainty with the certainty

provided by the Transaction, in which the parties receive 40 cents on the dollar in cash and 41 cents on the dollar in Secured Notes upon consummation.

Lastly, and most importantly, while the Transaction does include a discount for both stakeholders who have surplus notes, and for DPO policyholders, on balance, the discount does not prevent holders from receiving full payment on their principal claims or obligations. The discount merely affects only a portion of the accretion that added to the outstanding balance of the claim or obligation.

After accounting for the discount, holders still receive, on average, more than 60% of accretion currently accrued and projected to accrue through the closing of the transaction using a 5.1% accretion rate. The Rehabilitator believes that, on balance, this is a reasonable amount of accretion, given the low interest rate environment of the last 8 years. Remember that the federal discount rate has averaged .85% and inflation has been low at 1.06%. Other aspects of the plan were also taken into account, including the anticipated payment of all outstanding deferred policy amounts.

How does the Rehabilitator's projections address potential adverse outcomes in the Commonwealth of Puerto Rico?

We acknowledge that the Puerto Rico situation is uncertain, and is likely to remain so for some time. The complexity and novelty of the Puerto Rico situation argues for an extended workout period – and which we have reflected in projections that contemplate an extended moratorium on principal and interest payments, as we have incorporated in the Projections.

We acknowledge the possibility of considerable losses associated with AAC's Puerto Rico exposures, and this has been reflected in our Projections. For example, it was noted that the most recent Annual Report, filed on June 5, showed recoveries for Segregated Account holders declining in three of four scenarios versus the prior year's report. The reason for this year-over-year decline was a substantial increase in our Puerto Rico loss estimates. Had Puerto Rico loss estimates remained at the levels contained in the 2016 Annual Report, recoveries in this year's report would have increased across the board.

This underscores the relative risk of the General Account and the Segregated Account insured portfolios. The Segregated Account was created to remediate the financially hazardous risks associated with the policies allocated to it – and, such risks have been remediated to the extent practical, such that today, prospective Segregated Account losses are lower and are less volatile than prospective General Account losses.

It is important to recognize that AAC is exposed five different “single risks” in respect of Puerto Rico, and that potential losses associated with such exposures may be interdependent. For example, if a worse-than-expected outcome occurs with respect to one single risk (say, for instance, the COFINA indenture is invalidated), the adverse outcome could possibly be offset to some extent by lower than expected losses with respect to other AAC-insured exposures.

We have taken the foregoing factors – and many others – into account in developing our loss estimates.

How does the current court schedule relate to proceedings in Puerto Rico?

As to the timing of the Transaction *vis a vis* certain dates in the Puerto Rico proceedings, we previously noted that we expect the Puerto Rico workout to progress slowly over a protracted period of time and this assumption is reflected in our projections. We do not expect to have clarity on Puerto Rico a few days after the hearing schedule. We believe the Transaction is in the best interest of policy holders generally based on the facts and circumstances as they exist today, and we believe that the public good is best served by moving ahead now and not waiting until the uncertainties surrounding Puerto Rico are resolved, whenever - or if - that occurs.

Please explain the adequacy of AAC's reserves under certain hypothetical scenarios.

First, we do not comment on AAC's financial statements, or the adequacy of their reserves.

Second, it is important to note the Rehabilitator and his advisory team have been developing independent, conservative projections, including loss estimates, for many years now – and it is these projections that have been used to evaluate the Transaction.

At this time we will open up the listening session to questions. Please note that we are not in a position to answer questions about ongoing litigation in this forum.

Concluding Remarks

In the Rehabilitator's opinion, this transaction and outcome – receipt of 93.5 cents per dollar today on outstanding obligations and payment in full on prospective claims – is superior to maintaining the status quo (including partial payment on future claims) for perhaps for as long as 37 years in the hope of achieving a better result, and is in the best interest of policyholders.

Accordingly, it is OCI's view that the public interest would not be served by continuing the Rehabilitation, but rather by concluding the proceedings. Of course, OCI will provide oversight and supervision in a manner consistent with AAC's business circumstances and financial wherewithal.

From the onset, it was made clear the best consumer protection OCI and the Rehabilitator could provide was for durability of any exit transaction. In addition to weighing the transaction on the most significant stress case scenario, the Rehabilitator has also built in a material margin of safety above and beyond the projected losses contained in its stress case scenarios. This margin of safety provides for additional financial wherewithal to support the viability of AAC after consummation of the Transaction.

We look forward to working with all of you as we move forward.