STATE OF WISCONSIN : CIRCUIT COURT : DANE COUNTY

In the Matter of the Rehabilitation of:

SEGREGATED ACCOUNT OF AMBAC ASSURANCE CORPORATION	**Case No. 10 CV 1576** **Hon. Richard G. Niess**

DECEMBER 11, 2017 ADDENDUM TO THE AMENDED DISCLOSURE STATEMENT

Dated: December 11, 2017.

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The following is an addendum to the Disclosure Statement filed on September 22, 2017, as updated on December 11, 2017. The only sections included are those which contain updates, including sections VII-IX, and corresponding exhibits D, E, F and G.

VII. THE REHABILITATOR'S FINANCIAL PROJECTIONS

The Rehabilitator and his financial advisors have developed detailed financial projections (the "**Rehabilitator's Financial Projections**") to aid in the administration of the Rehabilitation and, in this instance, assist in the evaluation of the Proposed Transaction.[1] The Rehabilitator's Financial Projections were initially developed prior to the Petition Date and have been periodically updated and revised since that time. These Projections have served as both (i) a decision-making tool for the Rehabilitator and his advisors and (ii) a mechanism by which the Rehabilitator can apprise Holders of Policy Claims of potential recoveries available under certain financial and operating scenarios under the Proposed Transaction.

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

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

The updated Rehabilitator's Financial Projections assume that the Proposed Transaction will be consummated on March 31, 2018, compared with the prior assumption of December 31, 2017. This change reflects the current Court schedule, which eliminates the possibility of a December 31, 2017 consummation and remains consistent with the deadlines incorporated in the RESA. Further, the mechanics of the model requires that pro forma adjustments associated with the

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

Transaction be calculated at a quarter-end. In addition, consistent with standard practice, we have rolled forward the starting point of the Rehabilitator's Financial Projections to June 30, 2017 (compared with the March 31, 2017 starting point employed in the prior filing), although we continue to make pro forma adjustments for material subsequent transactions consummated after this date.

In addition to the foregoing adjustments, the Rehabilitator's Financial Projections reflect material changes that have occurred in AAC's financial condition since the Amended Disclosure Statement dated September 22, 2017 was filed, including but not limited to:

1. Incorporating net benefits associated with certain de-risking and value creation transactions consummated since September 22, 2017;
2. Updating loss allocation expenses to reflect amounts expected to be incurred by AAC in the course of settling claims, such as attorney's fees; and
3. Increasing losses associated with AAC's Puerto Rico exposures.

These updates create ripple effects through the Projections, resulting in changes in projected recoveries under the Transaction, projected tax and tolling payments, projected liquidity and projected investment income.

VIII. THE REHABILITATOR'S LOSS PROJECTIONS

A. Overview

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

Two distinct sets of loss estimates, a "base case" and a "stress case," have been developed, based on financial data for the period ending June 30, 2017, as adjusted for certain subsequent events. Present value calculations, including the loss estimates described herein, employ the prescribed statutory discount rate of 5.1%. These loss estimates are presented herein on a "gross" basis, meaning that these estimates do not reflect the effect of AAC's ownership of AAC-insured securities, and thus are comparable to the estimate of claims-paying resources detailed above. Actual losses attributable to General Account and/or Segregated Account policies may exceed these base case and stress case loss estimates, perhaps materially, and such estimates do not represent a cap on prospective losses.

Base and stress case loss projections are often developed by aggregating AAC's second-worst and worst-case loss estimates, respectively, for each exposure for which a loss is projected, although this methodology has been adjusted in respect of certain policies where the Rehabilitator determined that the second-worst and worst-case loss estimates should be revised. In addition, certain adjustments have been made to exposure-level loss estimates to reflect

(i) evolving risk assessments and (ii) material events subsequent to June 30, 2017. In light of such adjustments (as well as other factors), we do not believe that the estimates contained herein would differ materially if more recent data were incorporated.

The base case losses for the General Account and the Segregated Account, before any R&W Recoveries, as of June 30, 2017, are estimated to be $1.7 billion and $4.5 billion, respectively. The base case Segregated Account loss estimate includes (i) $3.7 billion in accrued but unpaid claims (including accretion), (ii) $0.5 billion in projected RMBS losses, and (iii) $0.3 billion in projected losses associated with student loan credits and other Segregated Account exposures.

The stress case losses for the General Account and the Segregated Account, before any R&W Recoveries, as of June 30, 2017, are estimated to be $2.0 billion and $4.6 billion, respectively. The stress case Segregated Account loss estimate includes (i) $3.7 billion in gross accrued but unpaid claims (including accretion), (ii) $0.5 billion in projected RMBS losses, and (iii) $0.3 billion in projected losses associated with student loan credits and other Segregated Account exposures.

Excluding AAC's holdings of Surplus Notes, AAC had $1.3 billion of Surplus Notes outstanding (including accrued and unpaid interest) as of June 30, 2017.[2] The Surplus Notes are not included in the base case and stress case losses detailed above. AAC's Surplus Note obligations (including accrued but unpaid interest) affect both the financial condition of the Segregated Account and prospective recoveries for Segregated Account policy beneficiaries.

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

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

A. General

Four iterations, or scenarios, of the Rehabilitator's Financial Projections were prepared to demonstrate the financial implications of the Proposed Transaction for various stakeholders under various operating assumptions. These projected financial statements are found in Exhibits D, E, F, and G. These scenarios have generally been developed to highlight a range of outcomes

[2] This total includes GA SSNs and SA SSNs but excludes SA JSNs.

in relation to a relevant range of three primary factors, i.e., future loss development, RMBS Litigation proceeds, and the prospective realization of AUK's residual value by AAC. Given the risks inherent in AAC's insured portfolio and other matters facing the company, the range of actual outcomes may differ from those highlighted below materially.

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

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

Effective Consideration Summary, per $100 Outstanding

	Third Parties	AFG
Cash	$40.0	$0.0
Senior Secured Notes	$41.0	$52.0
Surplus Notes	$12.5	$43.1
Total	$93.5	$95.0

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

The foregoing effective consideration summary reflects the assumption of the SA SSNs (held by AFG) following the Merger.[3]

C. Investment Portfolio Assumptions

The reinvestment rate is assumed to be 4.3% in 2017, and is expected to rise gradually to 5.1% in 2020, and remain at that level until the end of the Projection Period. The majority of funds available for reinvestment are assumed to be invested in the high liquid or medium-liquid asset classifications.

D. Treatment of Surplus Notes

For purposes of this analysis, the Rehabilitator's Financial Projections do not contemplate any future payments in respect of the Surplus Notes outstanding after the Effective Date other than the initial interest payment contemplated under the RESA, as any future distributions on the Surplus Notes will be based upon OCI's review of the facts and circumstances existing at the

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

time of any future distribution request. Instead, recovery projections for the Surplus Notes and the Tier 2 Notes are based on the level of residual claims-paying resources available to satisfy such obligations at the end of the Projection Period. Furthermore, to the extent that any claims-paying resources are available after distributions are made in respect of Surplus Notes, such funds would be available to the Junior Surplus Notes.

E. Scenario One

Scenario One contemplates (i) the Rehabilitator's base case loss estimates for both the General and Segregated Accounts, (ii) realization of RMBS Litigation proceeds equal to 100% of the nominal cash flows employed in Ambac's GAAP financial statements as of June 30, 2017, and (iii) the high end of our valuation range for AUK ($350 million assuming a 5.1% discount rate), with dividends from AUK to AAC assumed to commence in 2036. Under Scenario One, all post-transaction Policy Claims would be paid in full, the new Senior Secured Notes would be paid in full, the Tier 2 Notes would be paid in full, holders of Surplus Notes would be paid in full, and Junior Surplus Notes would receive a 42.1% nominal recovery. See Exhibit D.

F. Scenario Two

Scenario Two contemplates (i) the Rehabilitator's base case loss estimates for both the General and Segregated Accounts, (ii) realization of R&W Recoveries equal to 87% of the nominal cash flows employed in Ambac's GAAP financial statements as of June 30, 2017, and (iii) the low end of our valuation range for AUK ($300 million assuming a 5.1% discount rate), with dividends from AUK to AAC assumed to commence in 2036. Under Scenario Two, all post-transaction Policy Claims would be paid in full, the new Senior Secured Notes would be paid in full, the Tier 2 Notes would be paid in full, and the Surplus Notes would receive an 8.1% nominal recovery. The Junior Surplus Notes would receive no recovery. See Exhibit E.

G. Scenario Three

Scenario Three contemplates (i) the Rehabilitator's stress case loss estimates for both the General and Segregated Accounts, (ii) realization of R&W Recoveries equal to 100% of the nominal cash flows employed in Ambac's GAAP financial statements as of June 30, 2017, and (iii) the high end of our valuation range for AUK ($350 million assuming a 5.1% discount rate), with dividends from AUK to AAC assumed to commence in 2036. Under Scenario Three, all post-transaction Policy Claims would be paid in full, the new Senior Secured Notes would be paid in full, and the Tier 2 Notes would be paid in full. Holders of Surplus Notes would receive a 73.1% nominal recovery. Holders of Junior Surplus Notes would receive no recovery (in nominal terms) of their then-outstanding claim. See Exhibit F.

H. Scenario Four

Scenario Four contemplates (i) the Rehabilitator's stress case loss estimates for both the General and Segregated Accounts, (ii) realization of R&W Recoveries equal to 87% of the nominal cash flows employed in Ambac's GAAP financial statements as of June 30, 2017, and (iii) the low end of our valuation range for AUK ($300 million assuming a 5.1% discount rate), with dividends from AUK to AAC assumed to commence in 2036. Under Scenario Four, all post-transaction Policy Claims would be paid in full, the new Senior Secured Notes would be paid in full, the Tier 2 Notes would receive a 61.4% recovery, and the Surplus Notes and Junior Surplus Notes would receive no recovery. See Exhibit G.

Exhibit D

Projected Financial and Operating Results Associated with Scenario 1

Exhibit E

Projected Financial and Operating Results Associated with Scenario 2

Exhibit F

Projected Financial and Operating Results Associated with Scenario 3

Exhibit G

Projected Financial and Operating Results Associated with Scenario 4