Report

of the

Examination of

Ambac Assurance Corporation

New York, New York

As of December 31, 2016

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
Theodore K. Nickel, *Commissioner*

Wisconsin.gov

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: ociinformation@wisconsin.gov
Web Address: oci.wi.gov

February 27, 2018

Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

AMBAC ASSURANCE CORPORATION
New York, New York

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Ambac Assurance Corporation (hereinafter also Ambac or the company) was conducted in 2012 and 2013 as of December 31, 2011. The current examination covered the intervening period ending December 31, 2016, and included a review of such 2017 and 2018 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the “Financial Data” section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Investment Review

The Capital Markets Bureau of the NAIC was engaged by the Office of the Commissioner of Insurance to perform a review of the company’s invested assets portfolio as of December 31, 2016. The results of that review were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the findings of the review.

II. HISTORY AND PLAN OF OPERATION

Ambac Assurance Corporation is a Wisconsin-domiciled insurer authorized to transact surety and financial guaranty insurance. Financial guaranty insurance functions as a form of credit enhancement that provides benefits both to debt issuers and to investors. Financial guaranty insurance was designed to benefit an issuer by providing a higher credit rating on a credit obligation, enabling a debt security to be offered in financial markets at reduced interest rates, and providing an issue with broader marketability. Insurance benefits for an investor can include protection from loss of principal and interest on debt security investments, enhanced marketability, and market price stability for debt securities. The company has operated as a financial guaranty insurer, and its principal business was the guaranty of timely payment of principal and periodic interest when due on credit obligations. It has not written any new business since early 2008.

The company's present corporate organization was created from a corporate restructuring executed on June 18, 1985, under the supervision of the Wisconsin Office of the Commissioner of Insurance (OCI). Under the 1985 restructuring, the business of the company's predecessor legal entity, American Municipal Bond Assurance Corporation (AMBAC), was transferred to a previously existing successor legal entity, AMBAC Indemnity Corporation, which was subsequently renamed Ambac Assurance Corporation.

AMBAC was incorporated in Wisconsin in 1970 and was originally established as a subsidiary of the former MGIC Investment Corporation (MGICIC; the pre-1985 MGIC Investment Corporation). AMBAC was the nation's first financial guaranty insurer of municipal bond securities. In 1981, the underwriting operations of AMBAC were moved to New York, New York, from Milwaukee, Wisconsin. Ownership of MGICIC and its subsidiaries, including AMBAC, was purchased by the holding company Baldwin-United Corporation (Baldwin) in 1982. At the time of the purchase, Baldwin was primarily a life insurance holding company that was relying on single premium deferred annuities for growth. It became financially impaired in 1983 due primarily to problems in the single premium deferred annuity market coupled with the corporate debt from the purchase of MGICIC. Baldwin filed petition for voluntary reorganization under Chapter 11 of the Federal Bankruptcy Code.

In 1984, the Commissioner approved a Plan of Acquisition (the Plan) whereby the ongoing successful business enterprise of AMBAC could be protected from the bankruptcy of Baldwin and be continued in a successor legal entity. Pursuant to the Plan, the holding company AMBAC, Inc., was formed in 1984 to facilitate the transfer of the municipal bond insurance business of AMBAC. AMBAC, Inc., purchased the then existing insurer Verex Indemnity Corporation, which was incorporated in Wisconsin on February 25, 1970, under the name CMI Credit Insurance, Inc., and renamed Verex Indemnity Corporation on January 25, 1979. On June 27, 1985, AMBAC changed its name to WMBIC Indemnity Corporation (WMBIC), and on June 28, 1985, Verex Indemnity Corporation changed its name to AMBAC Indemnity Corporation. Effective June 28, 1985, AMBAC Indemnity Corporation acquired the assets and assumed the liabilities of the municipal bond business of WMBIC. Pursuant to the order of the Commissioner, WMBIC entered into liquidation proceedings immediately following the transfer of business to AMBAC Indemnity Corporation.

AMBAC, Inc., was initially established for the express purpose of acquiring and capitalizing an insurance company that would be the successor to AMBAC. At the time of the formation of AMBAC Indemnity Corporation in 1985, the voting capital stock of AMBAC, Inc., was owned by the following participating investors:

Citibank, NA	86.9%
Management of WMBIC Indemnity Corporation	5.4
Xerox Corporation	4.4
Stephens, Inc.	3.3
Total	100.0%

Subsequent to the formation of AMBAC, Inc., Citibank, NA, acquired all of the ownership interest of AMBAC, Inc. On April 29, 1991, AMBAC, Inc., was renamed Citicorp Financial Guaranty Holdings, Inc. (CFGH), and subsequently another entity also known as AMBAC, Inc., was incorporated as a wholly owned subsidiary of CFGH. CFGH sold its equity interest in AMBAC, Inc., through two public stock offerings on the New York Stock Exchange, in which 50.3% of the capital stock of AMBAC, Inc., was sold in July of 1991 and the remaining 49.7% of the capital stock was sold in January of 1992.

On July 11, 1997, the name of AMBAC, Inc., was changed to Ambac Financial Group, Inc. (hereinafter also Ambac Financial), the present name of the holding company, and the name of AMBAC Indemnity Corporation was changed to Ambac Assurance Corporation, the name presently used by the insurance company.

While the company began first as a reinsurer of municipal bond insurance and then an originator when it obtained its triple-A rating from independent rating agencies, in the 1990s it began to offer financial guarantees for other forms of debt through new branches of its business. In 1992, it added a Financial Services Division to offer investment products to municipalities, including guaranteed investment contracts. In 1994, it added a Specialized Finance Division, which provided guarantees on collateralized debt obligations of asset-backed securities (CDOs of ABS) and other private structured financing, including residential mortgage-backed securities (RMBS). During the late 1990s, Ambac also began to guaranty the credit default swaps entered into by its subsidiary, Ambac Credit Products, LLC. Ambac also expanded many aspects of its business internationally on a direct basis and through various affiliates. By 2006, municipal bond insurance had become less than half of the company's net premium.

Although the guarantees underwritten by the Specialized Finance Division were typically offered on debt classified as investment grade by one or more nationally recognized statistical rating organizations, insuring these categories of private investments carried greater risk for Ambac in that the amount of risk was more difficult to price through premiums. Rather than evaluating the likelihood that a single municipality would default on any given obligation, Ambac was dealing with the possibility that any number of individuals would default on credit card payments, mortgages, leases, student and auto loans, and operating assets such as aircraft, vehicle fleets, franchise fees, royalties, and intellectual property that were bundled into the asset pools that secured the guaranteed debt obligations.

Ambac's financial outlook started to deteriorate in 2007, as the effects of subprime lending practices of 2004 through 2006 began to resonate through the financial sector. A sizable portion of the trillions of dollars of CDOs outstanding in the broader marketplace at the time the subprime crisis hit were backed by subprime RMBS. With the cooling of the U.S. real estate market rapidly accelerating into a housing bust, numerous other markets for human and capital resources were negatively affected as financial contagion spread.

Ambac remained rated triple-A by the three major independent rating agencies until January 18, 2008, when the first of a series of downgrades began. Without this rating, the company was no longer able to offer profitable, competitive insurance terms and stopped underwriting all new business. The last new business that the company wrote was in early 2008.

The company made significant efforts in 2008 to improve its capital position. Though the company continued to make certain dividend payments to Ambac Financial, it also received $1.3 billion in new capital from Ambac Financial as a result of a $1.5 billion first quarter 2008 equity offering by Ambac Financial. Ambac also exercised a series of puts at the end of 2008 and in early 2009 that allowed it to issue new preferred stock priced at $800 million. The counterparties that were required to buy these preferred shares were trusts that had been set up and funded for this purpose over time, with the last trusts created in 2002. Ambac had paid put option fees to the trusts for each year that it did not exercise these options. Despite the added capital in 2008, the company's surplus decreased 53% for the year as affiliated unregulated companies also incurred significant losses that affected the company. The decrease in surplus kept the company from regaining its triple-A rating from independent rating agencies. Throughout 2009 the company continued to see expanding losses on policies and from subsidiaries.

During 2008 and 2009, the Office of the Commissioner of Insurance and its advisory team conferred extensively with representatives of Ambac and many policyholders regarding Ambac's increase in present and projected claims payments, the deterioration of its claims-paying resources, various options to protect the interest of the public and the policyholders, and the pros and cons of each option. During that time, OCI non-disapproved Ambac's requests to commute a number of policies at a fraction of their total projected impairments in order to reduce the potential liabilities facing Ambac. OCI and its advisors also conducted in-depth reviews of the company's books of business and policies and the risks associated with them and monitored Ambac's deteriorating financial condition. Based on this lengthy and careful review, OCI worked with Ambac to craft and implement a multi-step restructuring plan designed to maximize its claims-paying resources and to equitably allocate them to compensate actual economic losses of policyholders.

On March 24, 2010, Ambac established Ambac Assurance Corporation Segregated Account (hereinafter also the Segregated Account) and allocated to it certain policies that it had written, primarily policies related to credit derivatives, residential mortgage-backed securities, and other structured finance transactions. On the same date, the Wisconsin Office of the Commissioner of Insurance filed a petition with the Circuit Court of Dane County, Wisconsin, to put the Segregated Account into rehabilitation, which was approved by the Court.

Ambac Financial filed for Chapter 11 reorganization on November 8, 2010, in the United States Bankruptcy Court for the Southern District of New York. During the bankruptcy proceeding, it continued to do business as debtor-in-possession and continued to make filings with the U.S. Securities and Exchange Commission. Ambac Financial emerged from bankruptcy on May 1, 2013.

Ambac is the principal operating company of Ambac Financial and provides various operating functions and services on behalf of its affiliates pursuant to numerous intercompany relationships and agreements. Further discussion of the company's holding company organization, description of the significant affiliates of Ambac, and description of intercompany transactions and agreements is included in the section of this report captioned "Affiliated Companies."

In 2016, the company received direct premium related to its 2008 and prior business in the following states:

New York	$16,686,625	33.6%
California	5,168,416	10.4
Massachusetts	5,049,940	10.2
Minnesota	3,196,835	6.5
Delaware	2,995,577	6.0
Colorado	2,149,691	4.3
All others	14,384,174	29.0
Total	$49,631,258	100.0%

The company is licensed in all U.S. states (except Tennessee), the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. Ambac's license has been suspended in several states. The company provided financial guaranty insurance on investment grade municipal and structured finance debt obligations. The insurance coverages written by the company generally guaranty timely payment for principal and interest payments on insured credit obligations when contractually due.

Ambac acquired business through issuers and their financial advisors or through investment bankers who were in contact with the company and who wanted insurance. The company also obtained business through its active involvement in credit markets and participated in competitive bidding with other insurers for prospective business. The company's insurance policies were not offered or sold though insurance agents, and its marketing operations did not employ a sales force of licensed insurance agents. The company used countersignature agents in those states that required a resident agent to countersign policies and had appointed agents for countersignature purposes.

The company's financial guaranty business was conducted in three primary markets: the U.S. public finance market, generally known as municipal bonds; the U.S. structured finance and asset-backed securities market, including mortgage-backed securities, collateralized debt obligations, student loans, and other securitized aggregations of loans; and the international market, generally sovereign or related debt.

The company is no longer rated by any nationally recognized statistical rating organizations.

The following table is a summary of the net insurance premiums written by the company in 2016. The financial experience of the company is discussed in the "Financial Data" section of this report.

Line of Business	**Direct Premium**	**Reinsurance Assumed**	**Reinsurance Ceded**	**Net Premium**
Financial guaranty	$49,895,541	$1,210	$4,426,342	$45,470,409
Surety	(264,283)	0	0	(264,283)
Total All Lines	$49,631,258	$1,210	$4,426,342	$45,206,126

The company is not writing any new business and has not written any since 2008. The direct premium reported is the ongoing receipt of contractually required payments by policyholders.

During the period under examination, Ambac has been and continues to be subject to certain notable prescribed accounting practices and permitted accounting practices.

The NAIC's Statement of Statutory Accounting Principles (SSAP) No. 60, "Financial Guaranty Insurance," paragraph 8, allows for a deduction from loss reserves for the time value of money by application of a discount rate equal to the average rate of return on the admitted assets of the financial guaranty insurer as of the date of the computation of the reserve. Guided by SSAP No. 97, "Investments in Subsidiary, Controlled and Affiliated Entities," paragraph 13(e), and SSAP No. 5R, "Liabilities, Contingencies and Impairments of Assets – Revised," Ambac records probable losses on subsidiaries, whose obligations it has guaranteed, at a discount for the time value of money. The company's average rate of return on its admitted assets for the year ended December 31, 2016, was 7.63%. A material portion of its rate of return is due to holdings of Ambac-insured securities, most of which were purchased at a discount under distressed market conditions. OCI has directed the company to utilize a prescribed discount rate of 5.1% for the purpose of discounting both its loss reserves and its estimated impairment losses on subsidiary guaranties, based on OCI's expert independent advisory team's good-faith estimate of Ambac's expected long-run rate of return.

SSAP No. 41, "Surplus Notes." paragraph 4, states that proceeds received by the issuer of surplus notes must be in the form of cash or other admitted assets having readily determinable values and liquidity satisfactory to the commissioner of the state of domicile. Under statutory accounting principles, surplus notes issued in conjunction with commutations or the settlement of claims would be valued at zero upon issuance. In a letter dated July 28, 2010, OCI has directed the company, beginning with the quarterly period ended June 30, 2010, to record surplus notes issued in connection with commutations and the settlement of liabilities at full par value upon issuance as in these instances the surplus notes do not represent a contribution of capital, but rather a distribution of value from the common and preferred shareholders of the company. The holders of surplus notes issued in connection with commutations and the settlement of liabilities have a claim against surplus senior to the preferred and common shareholders of the company. This treatment is intended to provide for greater transparency for the holders of securities with differing claim priorities upon surplus. In a letter dated April 14, 2011, OCI directed the company, beginning with the quarterly period ended March 31, 2011, to record junior surplus notes issued in connection with commutations and the settlement of liabilities at full par value upon issuance. In a letter dated December 19, 2014, OCI directed the company, beginning with the period ended December 31, 2014, to reclassify all senior surplus notes as a write-in liability in view of the Amended Plan of Rehabilitation approved by the Dane County Circuit Court on June 11, 2014, which made it unequivocally clear that the senior surplus notes of both the General Account and Segregated Account were of equal priority with policyholder deferred payment obligations. The General Account has paid its claims in cash, in full, and on time, and issued surplus notes in connection with Ambac's global commutation of its CDO of ABS commutation in 2010.

SSAP No. 43R, "Loan-backed and Structured Securities," paragraph 35, states that when an other-than-temporary impairment has occurred, the amount of the other-than-temporary impairment recognized as a realized loss shall equal the difference between the investment's amortized cost basis and the present value of cash flows expected to be collected, discounted at the loan-backed or structured security's effective interest rate. In a letter dated July 22, 2014, OCI issued a prescribed accounting practice, effective June 11, 2014, with regard to the carrying value of investments in Ambac-insured policies that were allocated to the Segregated Account; this prescribed practice exempts the company from evaluating such investments for other than temporary impairments and requires all such investments be reported at amortized cost regardless of its NAIC risk designation. As previously noted, a material portion of the company's rate of return is due to holdings of Ambac-insured securities, most of which were purchased at a discount to par. This prescribed accounting practice is intended to recognize that the company continues to maintain statutory loss reserves without adjustment for the economic effects of its ownership of the insured investment securities, improve transparency to the users of the statutory financial statements and to minimize operational risks.

By its approval of the terms of the Aggregate Excess of Loss Reinsurance Agreement by and between the General Account and the Segregated Account effective March 24, 2010, OCI has prescribed an accounting practice related to the total liabilities and total surplus of the Segregated Account that are reported as discrete components of the General Account's liabilities and surplus. Pursuant to this prescribed accounting practice, the results of the Segregated Account are not included in the General Account's statutory financial statements to the extent that the General Account's policyholders' surplus is or would be less than a minimum surplus amount of $100,000,000. Payments to the Segregated Account by the General Account under the Reinsurance Agreement are not capped provided that the General Account's policyholders' surplus is at or above the minimum surplus amount of $100,000,000.

On December 27, 2012, OCI issued a permitted accounting practice effective December 31, 2012, to allow the company to report its purchased Ambac-insured securities, with coverage under financial guaranty policies that were allocated to the Segregated Account, as a write-in item for invested assets instead of the line item for bonds. In a letter dated May 8, 2017, OCI extended this permitted accounting practice to holdings of Ambac-insured securities with coverage under financial guaranty policies that remained in the General Account. The company reports holdings, acquisitions, and dispositions of such securities with this office on a confidential basis in a format consistent with Schedule D. This permitted practice only impacts the balance sheet line item and Schedule D reporting. This permitted practice has no impact on the valuation of the securities to which it applies. This permitted practice was issued to prevent other participants in the illiquid sectors of the market (e.g., residential mortgage-backed securities and Puerto Rico bonds) to use price data Ambac would report in its published Schedule D in a manner that would negatively impact Ambac's ability to negotiate optimal prices with such market participants, the vast majority of whom have no publication requirements with respect to their purchase and sale data.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. All directors are elected annually to serve a one-year term. Officers are elected annually. Some of the members of the company's board of directors are also members of other boards of directors in the holding company group. Non-officer board members receive annual stipends, meeting fees (if the number of meetings exceeds a certain threshold), and fees for serving as chairs. In 2016, the annual stipend was $200,000 and the fee for serving as a committee chair was $25,000 for Ambac directors who did not also serve on the holding company board. There were no additional meeting fees paid in 2016.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expiry
Diane B. Glossman New Hope, Pennsylvania	Retired Managing Director and Head of Bank and Brokerage Research UBS Equity Research	2018
Alexander D. Greene Armonk, New York	Former Managing Partner and Head of U.S. Private Equity Brookfield Asset Management	2018
Thomas P. Gybel New York, New York	Private consultant	2018
Ian D. Haft Greenwich, Connecticut	Partner, Vice President and Secretary Cornwall Asset Management LP	2018
David L. Herzog St. Albans, Missouri	Retired Executive Vice President and Chief Financial Officer American International Group, Inc.	2018
Claude LeBlanc New York, New York	President and Chief Executive Officer Ambac Financial Group, Inc.	2018
Claude J. Prieur Chicago, Illinois	Retired Chief Executive Officer CNO Financial Group, Inc.	2018
Jeffrey S. Stein Chappaqua, New York	Chairman Ambac Financial Group, Inc.	2018
Gary H. Stern Minneapolis, Minnesota	Retired President and Chief Executive Officer Federal Reserve Bank of Minneapolis	2018

Officers of the Company

The officers serving at the time of this examination are as follows:

Officer	Office	2016 Compensation
Claude LeBlanc	President and Chief Executive Officer	$ 0*
Rhonta S. Smith	Senior Managing Director and Chief of Staff	0**
David Trick	Executive Vice President, Chief Financial Officer, and Treasurer	1,848,952
Stephen M. Ksenak	Senior Managing Director and General Counsel	1,377,903
Robert B. Eisman	Senior Managing Director and Chief Accounting Officer	898,225
David P. Barranco	Senior Managing Director and Head of Risk Management	878,859
Michael F. Reilly	Senior Managing Director, Chief Administrative Officer, and Chief Information Officer	863,215
William J. White	First Vice President and Secretary	441,042

* Claude LeBlanc began his employment with the company effective January 1, 2017.
** Rhonta S. Smith began her employment with the company effective May 17, 2017.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Audit and Risk Assessment Committee	Compensation Committee
David L. Herzog, Chair	Claude J. Prieur, Chair
Thomas P. Gybel	Diane B. Glossman
Ian D. Haft	Alexander D. Greene
Claude J. Prieur	Ian D. Haft

The Audit and Risk Assessment Committee normally holds its meetings in conjunction with the same committee of Ambac Financial Group, Inc., for the selection of the independent auditors, approval of the scope of the annual audit by the independent auditors and internal auditors, the review of audit findings and accounting and control policies, assessment of the adequacy of internal controls and risk management, quality of Ambac's financial disclosures, and compliance with Ambac's Code of Business Conduct.

IV. AFFILIATED COMPANIES

Ambac Assurance Corporation is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart.

Organizational Chart
As of December 31, 2016

- Ambac Financial Group, Inc. (Delaware)
  - Ambac Asset Management, Inc. (Delaware)
  - Ambac Assurance Corporation (Wisconsin, NAIC No. 18708)
    - Ambac Assurance Corporation Segregated Account (Wisconsin, NAIC No. 13763) (Note #1)
      - Ambac Credit Products, LLC (Delaware)
      - Ambac Conduit Funding, LLC (Delaware)
        - Juneau Investments, LLC (Delaware) (Note #2)
    - Ambac Assurance UK Limited (United Kingdom)
    - Ambac Capital Corporation (Delaware)
      - AE Global Holdings, LLC (Delaware) (Note #3)
        - AE Global Asset Funding, LLC (Delaware)
        - AE Global Investments, LLC (Delaware)
      - Ambac Capital Funding, Inc. (Delaware)
      - Ambac Investments, Inc. (Delaware)
    - Ambac Financial Services, LLC (Delaware)
    - Ambac Japan Co., Ltd. (Japan)
    - Connie Lee Holdings, Inc. (Delaware)
      - Everspan Financial Guarantee Corp. (Wisconsin, NAIC No. 24961)
    - Ortley Investments, LLC (Delaware)
    - Phoenix Holdings Fund LLC (Delaware)
      - Aztec Holdings Portfolio I, LLC (Delaware)
      - Archer Holdings Portfolio I, LLC (Delaware)
      - Bearcat Holdings Portfolio I, LLC (Delaware)
      - Osprey Holding I LLC (Delaware)
      - Osprey Holdings II, LLC (Delaware)
      - Triton Real Estate Holdings I LLC (Delaware)

Note #1: Ambac Assurance Corporation Segregated Account is an optional segregated account of Ambac Assurance Corporation established pursuant to s. 611.24, Wis. Stat.

Note #2: Juneau Investments, LLC, is 99% owned by Ambac Conduit Funding, LLC and 1% owned by Ambac Assurance Corporation Segregated Account.

Note #3: AE Global Holdings, LLC, is 50% owned by Ambac Assurance Corporation and 50% owned by Assured Guaranty US Holdings Inc.

Ambac Financial Group, Inc.

Ambac Financial Group, Inc. was incorporated on April 29, 1991, in the state of Delaware and is the parent holding company for the Ambac Financial Group. Ambac Financial filed a voluntary petition for Chapter 11 reorganization on November 8, 2010, and emerged from bankruptcy on May 1, 2013. Prior to reorganization, Ambac Assurance Corporation had taken over the provision of most administrative services that had previously been provided by Ambac Financial. All employees of the group, with the exception of those employed by Ambac Assurance UK Limited, are employed by Ambac Assurance Corporation. None of the direct or indirect subsidiaries of Ambac Financial are actively engaged in issuing new financial guaranty insurance or other financial investment and service products for either public or private business sectors. Ambac Financial Services, LLC, still enters into interest rate derivative contracts, particularly swaps, to economically hedge against the impact of rising interest rates elsewhere in the group.

As of December 31, 2016, Ambac Financial's audited GAAP basis consolidated financial statements reported assets of $22,635,702,423, liabilities of $20,657,677,762, and total stockholders' equity of $1,978,024,661. Operations in 2016 provided reported net income of $74,843,228.

Ambac Assurance Corporation Segregated Account in Rehabilitation

The Segregated Account was created by Ambac on March 24, 2010, and put into rehabilitation on that day. It is being managed by Daniel J. Schwartzer, a Special Deputy Commissioner of the Wisconsin Office of the Commissioner of Insurance, under the supervision of Judge Richard G. Niess of the Circuit Court for Dane County, Wisconsin. Ambac was contracted to provide operations services for the Segregated Account. Most policies allocated to the Segregated Account were policies that were not municipal bond policies.

As of December 31, 2016, the Segregated Account reported assets of $8,196,047, liabilities of $(373,091,363), surplus of $381,287,410, and net income of $0. The negative liability exists because the General Account's reinsurance policy provides coverage on $374,036,566 in surplus notes issued in satisfaction of claims. As of December 31, 2016, the Segregated Account had disbursed $3,789,751,251 to policyholder trustees and claim submitting agents, including the issuance of $53,000,000 in surplus notes at par value, on $6,783,898,119 of permitted policy claims and amounts paid or permitted to bondholders under commutations.

Ambac Credit Products, LLC

Ambac Credit Products, LLC (ACP), is a limited liability company formed in the state of Delaware. ACP provided credit default swaps, a largely unregulated product designed to provide protection against default of the referenced entity similar to financial guaranty insurance, in the global financial markets. The swap contracts required ACP to make scheduled payments of principal and interest upon the occurrence of certain defined credit events related to underlying obligations. ACP's swap agreements were issued to counterparties who were seeking to mitigate credit risk. Structured credit derivatives issued by ACP are insured by Ambac.

As of December 31, 2016, ACP's unaudited GAAP basis financial statements reported assets of $113,003,076, liabilities of $18,248,906, and stockholders' equity of $94,754,170. Operations in 2016 provided reported net income of $16,330,061.

Ambac Conduit Funding, LLC, and Subsidiary Juneau Investments, LLC

Through Aleutian Investments, LLC (Aleutian), and Juneau Investments, LLC (Juneau), Ambac provided funding for issuers of debt obligations. Typically, Aleutian and Juneau purchased the debt obligations and issued medium term notes (which were insured by Ambac) to raise proceeds with which to purchase debt obligations. The debt obligations were acquired from the issuers by Ambac Conduit Funding, Inc., which in turn, sold the debt obligations to Aleutian and Juneau, as applicable. Aleutian was dissolved in 2015.

As of December 31, 2016, Ambac Conduit Funding, LLC's unaudited GAAP basis financial statements reported assets of $7,319,498, liabilities of $2,127, and stockholders' equity of $7,317,371. Operations in 2016 provided reported net income (loss) of $(1,306,486).

Ambac Assurance UK Limited

Ambac Assurance UK Limited (Ambac UK) was incorporated under the laws of England and Wales on September 11, 1996. The United Kingdom Financial Services Authority curtailed Ambac UK's license in 2009. The company was allowed to runoff the financial guaranty obligations it had issued. The company had both a reinsurance agreement and a net worth maintenance agreement with Ambac that were commuted on September 28, 2010, in light of: the establishment and rehabilitation of the Segregated Account; and the concerns of Ambac UK about the amount of reinsurance premium due and that reinsurance obligations thereunder were legally subordinate to Ambac's direct policyholder claims. Ambac provides investment management and management services to Ambac UK.

As of December 31, 2016, Ambac UK's unaudited financial statements in accordance with GAAP reported assets of $1,366,544,368, liabilities of $746,831,952, and a shareholders' equity of $619,712,416. Operations in 2016 provided reported total income recognized for the year of $1,683,522.

Ambac Capital Corporation and Subsidiaries

Ambac Capital Corporation (ACC) was incorporated under the laws of Delaware on September 16, 1994. ACC's activities were administering the remaining investment agreements to asset-backed, structured finance and municipal issuers through its wholly owned subsidiary, Ambac Capital Funding, Inc. In general, investment agreements were customized for each investor to provide a guaranteed interest coupon and ultimate return of principal in accordance with their requirements. Each investment agreement was insured by Ambac under a financial guaranty insurance policy. The last investment agreement expired in March 2017.

As of December 31, 2016, ACC's unaudited GAAP basis consolidated financial statements reported assets of $90,430,330, liabilities of $278,846,048, and stockholders' (negative) equity of $(188,415,718). Operations in 2016 provided reported net income of $20,145,106.

Ambac Financial Services, LLC

Ambac Financial Services, LLC (AFS), was established as a limited partnership in 1994 and was reorganized as a limited liability company under the laws of Delaware on December 30, 2003. AFS provides interest rate swaps and other derivative financial products to states, municipalities and their authorities, and other entities for which Ambac has written financial guaranty insurance on senior debt obligations. Interest rate swaps are used by credit issuers to manage interest rate risks in connection with their credit financing transactions. AFS has used derivative instruments to economically hedge the interest rate risk embedded in the investment and insured portfolios. The obligations both of AFS and of its counterparties under the financial products issued by AFS are guaranteed by Ambac.

As of December 31, 2016, AFS' unaudited GAAP basis financial statements reported assets of $280,391,520, liabilities of $1,083,086,475, and member's (negative) equity of $(802,694,956). Operations in 2016 provided reported net reported income (loss) of $(52,753,133).

Ambac Japan Co., Inc.

From 1995 to 2001, Ambac and MBIA Insurance Corporation (MBIA) were engaged in a joint venture in which they collaborated in marketing, underwriting, and execution of financial guaranty insurance in the international capital markets. As part of the joint venture, Ambac and MBIA formed Ambac Japan Co., Inc. (Ambac Japan), in 1999 to provide marketing, general management, market information, and administrative services to Ambac and MBIA in connection with the two companies' efforts to develop the financial guaranty insurance market in Japan. Ambac and MBIA each owned 50% of Ambac Japan. In 2001, MBIA and Ambac terminated the joint venture. Ambac purchased MBIA's 50% ownership interest in Ambac Japan. Ambac Japan Co., Inc., was liquidated in 2017.

As of December 31, 2016, Ambac Japan's unaudited GAAP basis financial statements reported assets of $47,861, liabilities of $14,446, and stockholders' equity of $33,415. Operations in 2016 provided reported net income (loss) of $(25,821).

Connie Lee Holdings, Inc.

Connie Lee Holdings, Inc. (CL Holdings), serves as the intermediate holding company parent of Everspan Financial Guarantee Corp. (hereinafter also Everspan). CL Holdings was originally incorporated on February 12, 1987, under the name College Construction Loan Insurance Association. CL Holdings was established by Congress as a private for-profit stock corporation in the District of Columbia, mandated to acquire and capitalize a wholly owned insurance company to provide financial guaranty insurance for credit securities issued by higher education institutions. CL Holdings was later redomiciled to Delaware. Ownership of CL Holdings was acquired by Ambac effective December 18, 1997. On September 5, 2017, Connie

Lee Holdings, Inc., was dissolved and ownership interests in Everspan were transferred to Ambac Assurance Corporation.

As of December 31, 2016, CL Holdings' unaudited GAAP basis consolidated financial statements reported assets of $235,868,057, liabilities of $1,301,871, and stockholders' equity of $234,566,186. Operations in 2016 provided reported net income of $3,495,644.

Everspan Financial Guarantee Corp.

Everspan Financial Guarantee Corp. is a Wisconsin-domiciled insurer authorized to write surety and financial guaranty insurance business. Everspan discontinued writing new business in 1997 at the time CL Holdings was purchased by Ambac, and its entire portfolio of risks for financial guaranty insurance business is in runoff. The business plan of Everspan is to maintain its present status as an inactive insurer and to runoff its remaining book of business. The insurer only has one policy remaining on the books, which is scheduled to expire in December 2018.

Everspan was incorporated on January 11, 1968, as Sentry Indemnity Company and was acquired by College Construction Loan Insurance Association (CCLIA) in 1987. CCLIA was established as a government-sponsored enterprise authorized by Congress under Title VII of the Higher Education Act, with a mandated mission of providing credit enhancement for higher education financings. Everspan operated from 1968 through 1997 as a financial guaranty insurer for debt securities issued by colleges, universities, health care institutions, and similar institutions. Ownership of Everspan was acquired by Ambac through CL Holdings effective December 18, 1997.

As of December 31, 2016, Everspan's audited statutory basis financial statements reported admitted assets of $230,081,618, liabilities of $2,428,037, and policyholders' surplus of $227,653,581. Operations in 2016 provided reported net income of $4,756,301. Everspan was examined concurrently with Ambac and a separate report has been issued.

Phoenix Holdings Fund LLC and Subsidiaries

In October 2015, Ambac Assurance created Phoenix and its subsidiaries to invest in residential real estate owned properties sourced from Ambac Assurance-insured RMBS transactions. During 2017 Aztec Holdings Portfolio I, LLC, and Bearcat Holdings Portfolio I, LLC, were liquidated.

As of December 31, 2016, the unaudited GAAP basis financial statements reported assets of $6,166,761, liabilities of $0, and stockholders' equity of $6,166,761. Operations in 2016 provided reported net income (loss) of $(833,237).

Agreements with Affiliates

Affiliated reinsurance agreements are discussed in the "Reinsurance" section of the examination report. A brief summary of the other agreements follows:

1. Tax-Sharing Agreement – The domestic affiliates of Ambac Financial have all been part of a tax-sharing agreement since it first became effective July 18, 1991, or since they became part of the group. Since then, the agreement has been amended three times. Under the agreement, Ambac Financial annually files a consolidated federal income tax return on behalf of itself and its subsidiaries. Each subsidiary pays Ambac Financial the federal income tax they would owe if the subsidiary had filed separately. This amount is due no later than the due date of the consolidated federal income tax return for the taxable period. This agreement was replaced by an amended and restated agreement that was signed on March 14, 2012. The agreement was effective as of March 14, 2012, but remained subject to early termination until the IRS settlement was closed. The restated agreement was amended as of April 29, 2013. The amendments to the restated agreement primarily concern details about the allocation of the use of certain net operating loss carryforwards (NOLs) among the affiliated companies. Because the NOLs are material assets of Ambac and post-bankruptcy Ambac Financial, the companies have made a serious effort to protect the NOLs from any adverse tax consequences and to make the best use of the NOLs.

2. Expense-Sharing and Cost-Allocation Agreement – Originally effective January 1, 1997, Ambac and certain of its subsidiaries and affiliates entered into an expense-sharing and cost-allocation agreement. It was updated January 1, 2007, and was terminated and replaced by another agreement effective March 14, 2012. Pursuant to the agreement, Ambac allocates a portion of its annual overhead expenses incurred to the participating subsidiaries and affiliates. Ambac also allocates to each respective subsidiary and affiliate direct costs incurred by Ambac that are paid on behalf of the respective subsidiary and affiliate. Estimated allocated and direct costs are to be billed within 20 days of the end of the month and paid within 5 days thereafter. An actual cost true-up is due on a quarterly basis within 55 days of the end of the quarter and payment is due within 60 days of the end of the quarter.

3. Asset Management Agreement – Effective December 18, 1997, Ambac Assurance Corporation will supervise and direct the investment of the assets of Everspan Financial Guarantee Corp. Everspan agrees to reimburse Ambac Assurance Corporation for any direct out-of-pocket costs and expenses incurred in connection with rendering such services and pay on the fifteenth business day of the first month of each quarter a fee to Ambac Assurance Corporation equal to 25% of 0.1% of the weighted average outstanding balance of the assets managed hereunder during the prior year.

4. Mediation Agreement – Ambac Financial, Ambac, the Segregated Account, the Rehabilitator of the Segregated Account, OCI, and the creditors' committees in Ambac Financial's bankruptcy case entered into the mediation agreement in September 2011. Pursuant to the mediation agreement, Ambac Financial will use its best efforts to preserve the use of NOLs for the benefit of the Ambac subgroup, including, but not limited to, refraining from taking any

action that would result in, and taking such affirmative steps as are appropriate to avoid, any event that results in a deconsolidation of the insurance companies and their subsidiaries from Ambac Financial tax group. The mediation agreement also provides for sharing by Ambac and Ambac Financial of the expenses incurred in connection with litigation with the IRS. Pursuant to the mediation agreement, Ambac Assurance transferred $30,000,000 and the Segregated Account issued a $350,000,000 junior surplus note to Ambac Financial on May 1, 2013. Ambac is required under the mediation agreement to undertake commercially reasonable efforts to transfer to Ambac Financial, upon its reasonable request, a more than insignificant amount of trade or business, subject to the satisfaction of certain requirements, including certain favorable determinations to be made by OCI and the receipt of a favorable opinion as to certain tax issues. OCI agreed in the mediation agreement to allow Ambac to repurchase surplus notes, preferred stock or other securities or other consideration issued pursuant to the Segregated Account rehabilitation plan upon the reasonable request of Ambac, subject to OCI making certain favorable determinations. The mediation agreement also contains broad releases among the parties thereto.

5. Installment Premium Agreement – Pursuant to an agreement dated September 15, 1998, Ambac Assurance Corporation may guaranty obligations of Ambac Credit Products, LLP. In exchange for the financial guaranty, Ambac Credit Products, LLP, makes quarterly payments to Ambac Assurance Corporation in the amount of 0.03% of the outstanding notional amount multiplied by the actual number of days elapsed. This agreement was replaced by an amended agreement that was signed on August 7, 2012. In exchange for the financial guaranty, Ambac Credit Products, LLP, makes quarterly payments to Ambac Assurance Corporation in the amount of 0.10% of the outstanding notional amount multiplied by the actual number of days elapsed over 360 days.

6. Insurance and Indemnity Agreements – Ambac had guaranteed the timely payment of principal and interest on obligations under investment and repurchase agreements; swaps; and evidences of indebtedness issued by affiliates pursuant to insurance and indemnity agreements involving Ambac Financial Services, LLC. OCI agreed that when Ambac charges similar rates and uses similar underwriting criteria when insuring affiliates as would be applied to non-affiliates it would constitute "insurance contracts entered into in the ordinary course of the insurer's business" and would not require prior reporting to OCI. Most of these risks are now part of the Segregated Account. All investment and repurchase agreements have been satisfied.

7. Loans – Ambac continues to provide loans to Ambac Financial Services, LLC, and Ambac Capital Corporation.

8. Keepwell Agreement – In an agreement, dated June 8, 2017, Ambac Assurance Corporation undertakes to provide Ambac Financial Services, LLC, such funds as needed to honor all of the obligations in respect of any Swap Agreement by Ambac Financial Services, LLC.

9. Asset Management Agreement – Effective February 25, 2016, Ambac Assurance Corporation will administer the business activities and provide service to support the day to day operations of Phoenix Holdings Fund LLC. Ambac Assurance Corporation will perform or cause to be performed asset management services which include administrative, financial, planning, management, and other related services for Phoenix Holdings Fund LLC. Phoenix Holdings Fund LLC will pay to Ambac Assurance Corporation an asset management fee of 1.75% of the maximum commitment amount and reimburse Ambac Assurance Corporation for all reasonable travel and other out of pocket expenses and Phoenix Holdings Fund LLC will be liable for any third party costs or expenses.

10. Master Framework Services Agreement – In an agreement dated June 12, 2017, Ambac Assurance Corporation and Ambac Assurance UK Limited may provide certain services to each other. Ambac Assurance Corporation provides Human Resource, Information and Technology, Financial Control, and Treasury services for Ambac Assurance UK Limited.

Ambac Assurance UK Limited performs Portfolio Risk Management Services for the benefit of Ambac Assurance Corporation. Charges under the agreement are based on costs incurred.

11. Plan of Operation – The Segregated Account adopted a plan of operation which identifies the financial guaranty and reinsurance policies that have been segregated to the Segregated Account and also includes:

    a. A Management Services Agreement whereby Ambac provides the operations and management services for the Segregated Account under the direction of the Special Deputy Commissioner. This includes IT services; credit exposure management; treasury services; accounting, finance and regulatory services; taxation; management information; risk management; loss management; internal audit services; and business continuity services.

    b. A Cooperation Agreement which commits Ambac and the Segregated Account to shared decision-making, authority, information, tax compliance, and expenses in a confidential manner to reflect the common interests of the companies. This agreement was last amended effective March 14, 2012.

    c. A secured note initially for $2 billion with a 4.5% annual interest rate given by Ambac to the Segregated Account to support the liabilities associated with the policies moved to the Segregated Account at the time it was established. The note is due on March 24, 2050, but is subject to mandatory prepayment based on claims that are being paid and administrative and other necessary expenses incurred. If Ambac does not have sufficient liquid assets or has a surplus below $100 million, it does not have to make such claims payments.

    d. In addition, Ambac has executed an Aggregate Excess of Loss Reinsurance Agreement with the Segregated Account that covers any claims outstanding after the secured note has been exhausted by the Segregated Account, to the extent that the reinsurance payments do not bring Ambac surplus below $100 million.

V. AMBAC ASSURANCE CORPORATION SEGREGATED ACCOUNT

As part of a restructuring and with the approval of the Wisconsin Office of the Commissioner of Insurance, Ambac established an optional segregated account pursuant to s. 611.24, Wis. Stat., effective March 24, 2010, for the purpose of segregating certain segments of its liabilities, and consenting to the subsequent rehabilitation of the Segregated Account under ch. 645, Wis. Stat., later that same day. It is being managed by a Special Deputy Commissioner who reports to the Wisconsin Commissioner of Insurance, in his capacity as Rehabilitator. The rehabilitation is under the supervision of Judge Richard G. Niess of the Circuit Court of Dane County, Wisconsin.

Policies allocated to the Segregated Account are primarily those policies with material projected impairments, including the policies insuring RMBS and certain CDOs of ABS policies, as well as certain other policies with provisions that could result in loss of control rights or demands to pay non-economic, accelerated damages at the expense of other policyholders of Ambac. Ambac allocated to the Segregated Account all liabilities it assumed as reinsurer under reinsurance agreements except for risks assumed from Everspan.

To support the Segregated Account, Ambac issued to it a $2 billion secured note with a final maturity date of March 24, 2050, and provided an aggregate excess of loss reinsurance agreement limited by the available surplus of the General Account of Ambac. Ambac also allocated to the Segregated Account its limited liability interest in Ambac Credit Products, LLC, Ambac Conduit Funding, LLC, Aleutian Investments, LLC, and Juneau Investments, LLC. The $2 billion secured note was completely drawn down by May 20, 2014. Aleutian Investments, LLC, was dissolved on March 31, 2015.

All assets within the Segregated Account will be available exclusively for satisfying liabilities attributable to the Segregated Account. Pursuant to s. 611.24 (3) (b), Wis. Stat., any income, gains and losses, whether or not realized, from assets and investments attributable to the Segregated Account, if any, will be credited to or charged against the Segregated Account without regard to other income, gains or losses of Ambac's General Account.

Ambac was appointed as a Management Services Provider to the Segregated Account under a Management Services Agreement for so long as such agreement is in effect. Nothing prevents the Segregated Account from retaining additional service providers. In addition, pursuant to the terms of a Cooperation Agreement, Ambac and the Segregated Account have agreed on certain matters related to decision-making, information-sharing, tax compliance, and allocation of expenses.

On March 13, 2014, the Rehabilitator announced the receipt of favorable rulings from the IRS regarding certain tax issues associated with potential amendments to the rehabilitation plan for the Segregated Account.

On April 21, 2014, the Rehabilitator filed a motion in the Circuit Court of Dane County, Wisconsin, for approval of certain proposed amendments (the “Amendments”) to the plan of rehabilitation. The Rehabilitator’s motion for approval of the amendments was approved by the Rehabilitation Court on June 11, 2014. The Amendments modify the mechanism for handling claims under the rehabilitation plan. Instead of a combination of cash payments and interest-bearing surplus notes pursuant to the original plan, holders of Permitted Policy Claims would receive a combination of cash payments (“Interim Payments”) and deferred amounts will be established equal to the remaining balance of such claims (“Deferred Amounts”). Payments of Deferred Amounts will be made at such times as the Rehabilitator deems appropriate, in his sole discretion, based on an analysis of estimated liabilities, available claims-paying resources and other considerations relevant to equitable treatment of claims and the best interests of policyholders. With the exception of adjustments for certain under-collateralized transactions, Deferred Amounts will accrete at an effective annual rate of 5.1%. Permitted General Claims will be entitled to Junior Deferred Amounts accreting at 5.1% per year, instead of junior surplus notes bearing interest at 5.1%, as specified by the original rehabilitation plan.

In conjunction with amending the rehabilitation plan, the Rehabilitator increased Interim Payments. The 25% level specified in the original rehabilitation plan was increased to the level of 45%. Hence, the rehabilitation plan, as amended, provides that, (i) holders of Permitted Policy Claims will receive Interim Payments in cash equal to 45% of their claims, and (ii) the

Segregated Account will record Deferred Amounts on its books in favor of the respective holders in an amount equal to 55% of such claims, which will accrete at an effective annual rate of 5.1%.

To maintain parity among policyholders, the Rehabilitator effectuated a Deferred Payment to provide that policyholders that had received 25% cash payments on Permitted Policy Claims since the Interim Payments began on September 20, 2012, received an equalizing payment in cash in an amount equal to 26.67% of such holders' Deferred Amounts, including the value of Accretion. The Amendments require proportionate redemptions on Segregated Account Surplus Notes, as and when payments are made on Deferred Amounts, including the equalizing payment referenced above. Pursuant to the terms of the Settlement Agreement entered into by Ambac Assurance Corporation and various settling counterparties on June 7, 2010, Ambac Assurance Corporation is also required to make proportionate redemptions on its Surplus Notes if the Segregated Account redeems any Segregated Account Notes.

Procedures for submitting claims have been communicated to the applicable trustees and are posted on the Web site, ambacpolicyholders.com. Counterparties on credit default swaps may not trigger and submit mark-to-market claims, but may submit scheduled payment claims.

Ambac Assurance Corporation's General Account is not obligated to make payments on the secured note or the aggregate excess of loss reinsurance agreement it provided to the Segregated Account if its surplus as regards to policyholders is (or would be) less than $100,000,000.

As of December 31, 2016, the Ambac Assurance Corporation Segregated Account reported assets of $8,196,047, liabilities of $(373,091,363), and surplus as regards policyholders of $381,287,410. Operations in 2016 provided reported net income of $0 due to the Segregated Account's agreements with Ambac. The negative liability exists because the General Account's reinsurance policy provides coverage on $374,036,566 in surplus notes issued in satisfaction of claims. As of December 31, 2016, the Segregated Account had disbursed approximately $3,184,000,000 to policyholder trustees and claim submitting agents, and approximately another $606,000,000 in commutation payments, including the issuance of $53,000,000 in surplus notes at par value, on $6,783,898,119 of permitted policy claims and amounts paid or permitted to bondholders under commutations. As an entity in a formal rehabilitation proceeding, the Segregated Account was not within the scope of examination.

On January 22, 2018, the Circuit Court of Dane County, Wisconsin, approved the second amended plan of rehabilitation for the Segregated Account. The plan is intended to facilitate the Segregated Account's exit from rehabilitation and its merger with and into the General Account of Ambac Assurance Corporation.

VI. REINSURANCE

The company's reinsurance portfolio and strategy are described below. The company's reinsurance contracts contained proper insolvency provisions.

Ceding Contracts

The company cedes exposure with respect to certain municipal bonds and structured finance credits to Sompo Japan Nipponkoa Insurance Inc. under a surplus share reinsurance agreement and a facultative reinsurance agreement.

The company cedes financial guaranty insurance business, including exposure with respect to municipal bonds and structured finance credits, to Assured Guaranty Reinsurance International, Ltd., under a surplus share reinsurance agreement and a facultative reinsurance agreement.

The company cedes exposure with respect to municipal bonds, mortgage backed securities, and asset backed securities to Assured Guaranty Corporation under two facultative reinsurance agreements: a pro rata reinsurance agreement, and a surplus share reinsurance agreement. Assured Guaranty Corporation also assumed obligations that previously were ceded under a quota share agreement to AXA Re Finance.

Assuming Contracts

Everspan Financial Guarantee Corp., an affiliated company, cedes a portion of the risks on its existing book of business pursuant to a December 18, 1997, excess of loss reinsurance agreement with Ambac. This agreement specifies that Ambac will accept 100% of the company's incurred losses in excess of a specified, variable attachment point defined as policyholder's annual statement statutory surplus less $75 million. The attachment point was $152,653,581 on December 31, 2016. Everspan Financial Guarantee Corp. only has one obligation remaining, which matures in December 2018 and is not expected to go into default.

Assured Guaranty Corporation cedes certain financial guaranty policies pursuant to a January 1, 2008, financial guaranty facultative reinsurance agreement with Ambac. The last policy under the agreement will mature in the year 2037.

The company also has a reinsurance and retrocession agreement with the Segregated Account whereby it ceded specified policies to the Segregated Account, and it issued to the Segregated Account an interest-bearing note payable for $2 billion. The company has already paid off the note by making payments on claims. Ambac will continue to pay Segregated Account claims under the agreement until all such claims have been paid, subject to the maintenance of Ambac’s surplus at $100 million.

VII. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2016, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

Ambac Assurance Corporation
Assets
As of December 31, 2016

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$2,376,707,425	$	$2,376,707,425
Stocks:			
Common stocks	450,229,157	222,534,623	227,694,534
Cash, cash equivalents, and short-term investments	347,950,869		347,950,869
Other invested assets	142,940,297	6,166,763	136,773,534
Receivables for securities	1,256,863	81,276	1,175,587
Write-ins for invested assets:			
Investments in Ambac-insured bonds with policies allocated to the Segregated Account	2,317,421,572		2,317,421,572
Inter-company loans with affiliates, net of valuation allowance	6,876,081		6,876,081
Investment income due and accrued	22,630,785		22,630,785
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	238,118		238,118
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	1,759,803		1,759,803
Reinsurance:			
Amounts recoverable from reinsurers	(349,352)		(349,352)
Other amounts receivable under reinsurance contracts	3,289		3,289
Electronic data processing equipment and software	637,289	637,289	
Furniture and equipment, including health care delivery assets	1,279,333	1,279,333	
Receivable from parent, subsidiaries, and affiliates	3,576,357	358,852	3,217,505
Write-ins for other than invested assets:			
Prepaid assets	1,956,040	1,956,040	
Total assets excluding separate accounts, segregated accounts and protected cell assets	5,675,113,926	233,014,176	5,442,099,750
From separate accounts, segregated accounts and protected cell assets	9,199,825	1,003,778	8,196,047
Total Assets	$5,684,313,751	$234,017,954	$5,450,295,797

Ambac Assurance Corporation
Liabilities, Surplus, and Other Funds
As of December 31, 2016

Losses		$2,373,072,757
Loss adjustment expenses		67,687,631
Other expenses (excluding taxes, licenses, and fees)		45,292,165
Taxes, licenses, and fees (excluding federal and foreign income taxes)		2,987,148
Current federal and foreign income taxes		28,256,409
Borrowed money and interest thereon		103,308,059
Unearned premiums		488,442,116
Ceded reinsurance premiums payable (net of ceding commissions)		672,453
Amounts withheld or retained by company for account of others		60,209
Payable to parent, subsidiaries, and affiliates		805,281
Payable for securities		24,783
Write-ins for liabilities:		
Mandatory contingency reserve for adverse losses		391,802,404
Deferred gain on sales of securities to subsidiaries		31,751,513
Liabilities allocated to Ambac Assurance Corporation Segregated Account		(4,568,933,391)
Liabilities assumed from Ambac Assurance Corporation Segregated Account		4,981,931,121
Liabilities of Ambac Assurance Corporation Segregated Account		(373,091,363)
Surplus notes		874,749,306
Estimated impairment losses on guarantees of subsidiary liabilities		25,000,000
Total Liabilities		4,473,818,601
Common capital stock	$ 82,000,000	
Preferred capital stock	26,411,000	
Gross paid in and contributed surplus	3,550,774,306	
Unassigned funds (surplus)	(2,682,708,110)	
Surplus as Regards Policyholders		976,477,196
Total Liabilities and Surplus		$5,450,295,797

Ambac Assurance Corporation
Summary of Operations
For the Year 2016

Underwriting Income		
Premiums earned		$204,603,570
Deductions:		
Losses incurred	$(45,509,331)	
Loss adjustment expenses incurred	47,860,617	
Other underwriting expenses incurred	93,232,766	
Total underwriting deductions		95,584,052
Net underwriting gain (loss)		109,019,518
Investment Income		
Net investment income earned	273,253,693	
Net realized capital gains (losses)	41,469,019	
Net investment gain (loss)		314,722,712
Other Income		
Write-ins for miscellaneous income:		
Other miscellaneous income	4,424,021	
Estimated provision for uncollectible intercompany loan with affiliate*	(36,353,048)	
Change in liabilities allocated to Ambac Assurance Corporation Segregated Account	(46,703,711)	
Settlements of liabilities allocated to Ambac Assurance Corporation Segregated Account	320,916,724	
Change in liabilities assumed from Ambac Assurance Corporation Segregated Account	50,029,409	
Settlements of liabilities assumed from Ambac Assurance Corporation Segregated Account	(318,540,150)	
Loss on purchases of Surplus Notes and deferred payment on previously called Surplus Notes	(7,498,924)	
Total other income		(33,725,679)
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		390,016,551
Dividends to policyholders		0
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		390,016,551
Federal and foreign income taxes incurred		30,964,742
Net Income		$359,051,809

* This estimated provision relates to loans made in support of Ambac Financial Services, LLC, and Ambac Capital Funding, Inc.

Ambac Assurance Corporation

Cash Flow
For the Year 2016

Premiums collected net of reinsurance			$ 45,515,798
Net investment income			120,317,066
Miscellaneous income			(2,075,979)
Total			163,756,885
Benefit- and loss-related payments		$(1,301,292,173)	
Commissions, expenses paid, and aggregate write-ins for deductions		415,249,357	
Federal and foreign income taxes paid (recovered)		78,342,973	
Total deductions			(807,699,843)
Net cash from operations			971,456,728
Proceeds from investments sold, matured, or repaid:			
Bonds	$1,614,872,736		
Other invested assets	50,431,452		
Net gains (losses) on cash, cash equivalents, and short-term investments	(710)		
Miscellaneous proceeds	226,478,478		
Total investment proceeds		1,891,781,956	
Cost of investments acquired (long-term only):			
Bonds	2,128,711,557		
Other invested assets	180,611,223		
Miscellaneous applications	295,133,857		
Total investments acquired		2,604,456,637	
Net cash from investments			(712,674,681)
Cash from financing and miscellaneous sources:			
Surplus notes, capital notes		(19,550,008)	
Borrowed funds		(29,481,703)	
Other cash provided (applied)		(658,819)	
Net cash from financing and miscellaneous sources			(49,690,530)
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			209,091,517
Cash, cash equivalents, and short-term investments:			
Beginning of year			138,859,352
End of Year			$347,950,869

Ambac Assurance Corporation
Compulsory and Security Surplus Calculation
December 31, 2016

Assets*		$5,450,295,797
Less security surplus of insurance subsidiaries		2,800,000
Less liabilities		4,473,818,601
Adjusted surplus		973,677,196
Annual premium:		
Lines other than accident and health	$45,206,126	
Premiums ceded to unauthorized reinsurers	4,077,083	
Total	49,283,209	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		9,856,641
Compulsory Surplus Excess (Deficit)		$963,820,555
Adjusted surplus (from above)		$973,677,196
Security surplus (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)		13,700,730
Security Surplus Excess (Deficit)		$959,976,466

*The company's investment portfolio consists of a number of securities which have an NAIC rating of between 3 and 6. If these securities were omitted from assets for purposes of determining compliance with the Compulsory and Security Surplus requirement pursuant to s. 620.23 (1) (a), Wis. Stat. and s. 620.21 (1), Wis. Stat., the amount of the adjusted surplus would decline. Due to the fact that the company has special permission for the purchase of Ambac-insured securities, they are being included in the calculation of the excess Compulsory and Security Surplus.

Ambac Assurance Corporation
New York State Aggregate Risk Limit Calculation
December 31, 2016

Section		**Aggregate Net Liability**		**Aggregate Risk Limit**
A	Municipal Bonds and Investment Grade Utility First Mortgage Obligations	$89,687,959,791	0.33%	$298,959,866
B	Investment Grade Asset Backed Securities	3,338,473,129	0.67%	22,256,488
C	Collateralized Guaranties or Guaranties of Less than 7 years of:			
	Investment Grade Industrial Development Bonds	0	1.00%	0
	Other Investment Grade Obligations	0	1.00%	0
D	Other Investment Grade Obligations	0	1.50%	0
E	Non-investment Grade Consumer Debt Obligations and Asset Backed Securities	17,462,804,400	2.00%	349,256,088
F	Guaranties on Non-investment Grade Obligations Secured by First Mortgages on Commercial Real Estate and having a Loan to Value Ratio of less than 80%	0	2.50%	0
G	Other Non-investment Grade Obligations	0	4.00%	0
	Totals	$110,489,237,320		$ 670,472,441
	Surplus as Regards Policyholders			976,477,196
	Contingency Reserves			391,802,404
	Total			1,368,279,600
	Less Aggregate Risk Limit			670,472,441
	Excess of Surplus and Contingency Reserves Over Aggregate Risk Limit			$ 697,807,159

This schedule calculates the company's minimum capital requirements, based on calculation of aggregate risk limitation pursuant to Article 69 of the New York Insurance Laws. A Wisconsin-domiciled financial guaranty insurer is subject to Wisconsin minimum capital and surplus requirements pursuant to s. Ins 3.08 and ch. Ins 51, Wis. Adm. Code. Ambac is also subject to the minimum capital requirements of the New York Insurance Laws, which are more restrictive than Wisconsin requirements for certain segments of financial guaranty business. The New York aggregate risk limitation requirement serves as an industry standard for the evaluation of minimum capital requirements of a financial guaranty insurer, and is used as the minimum standard in Wisconsin. The risk limitation calculation is based on an insurer's guaranteed principal and interest in force on various classes of insured credit obligations.

Ambac Assurance Corporation
Analysis of Surplus
For the Five-Year Period Ending December 31, 2016

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2016	**2015**	**2014**	**2013**	**2012**
Surplus, beginning of year	$624,795,312	$100,000,000	$840,261,565	$100,000,000	$495,293,439
Net income	359,051,809	772,282,483	724,828,050	(235,557,208)	616,121,050
Change in net unrealized capital gains/losses	120,563,272	125,486,699	12,951,346	144,955,236	17,972,490
Change in net unrealized foreign exchange capital gains/losses	(103,211,506)	(38,147,623)	(35,450,814)	37,085,829	(7,528,665)
Change in nonadmitted assets	57,311,215	(148,980,533)	(93,226,045)	(34,025,988)	117,066,468
Change in surplus notes			(1,210,820,764)		(789,179,236)
Cumulative effect of changes in accounting principles				(5,755,455)	
Surplus adjustments:					
Paid in	3,328,845	891,677	189,495		
Write-ins for gains and (losses) in surplus:					
Mandatory contingency reserve for adverse losses, net of tax	(921,427)	(222,527,731)	(103,550,219)	463,499,210	(271,742,760)
Change in surplus of Ambac Assurance Corporation Segregated Account, excluding non-admitted assets	(84,464,114)	36,477,346	(34,366,024)	360,968,324	(2,223,590)
Unrealized gains (losses) in post-retirement benefit obligations	23,789	(687,006)	(816,590)	9,091,617	
Cumulative effect of prior period errors					(75,779,196)
Surplus, End of Year	$976,477,196	$624,795,312	$100,000,000	$840,261,565	$100,000,000

Ambac Assurance Corporation
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2016

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	2016	2015	2014	2013	2012
#1	Gross Premium to Surplus	5%	9%	70%	12%	113%
#2	Net Premium to Surplus	5	9	64	11	104
#3	Change in Net Premiums Written	(15)	(16)	(30)	(13)	(25)
#4	Surplus Aid to Surplus	1	1	14	2	21*
#5	Two-Year Overall Operating Ratio	0	0	440*	56	44
#6	Investment Yield	5.6	5.9	7.3*	7.3*	7.5*
#7	Gross Change in Surplus	56*	525*	(88)*	740*	(80)*
#8	Change in Adjusted Surplus	56*	524*	56*	740*	80*
#9	Liabilities to Liquid Assets	177*	164*	180*	123.0*	140*
#10	Agents' Balances to Surplus	0	0	0	0	0
#11	One-Year Reserve Development to Surplus	(84)	(537)	(34)	(200)	8
#12	Two-Year Reserve Development to Surplus	(1,043)	(96)	(357)	(6)	53*
#13	Estimated Current Reserve Deficiency to Surplus	(146)	76*	(549)	(109)	(1)

Ratio No. 4, "Surplus Aid to Surplus", was exceptional in 2012 because Ambac's General Account is not obligated to make payments under the reinsurance coverage it provides to Ambac's Segregated Account if the policyholders' surplus of the General Account is, or, after giving effect to the reinsurance, would be less than $100,000,000. As a result of this contractual provision, as of December 31, 2012, $163,687,180 of the Segregated Account's liabilities were not assumed by the General Account, thereby resulting in an exceptional result for this IRIS ratio.

Ratio No. 5, "Two-Year Overall Operating Ratio," is a measure of the profitability of an insurance company, which is the principal determinant of an insurer's financial stability and solvency. The exceptional result for 2014 was due to the Segregated Account increasing its interim cash payment percentage on permitted policy claims from 25% to 45%.

Ratio No. 6, "Investment Yield," was exceptional from 2012 to 2014 inclusive. The exceptional results for this ratio during this period were due to purchases of Ambac-insured bonds and a decline in the amount of borrowed money. Many of the Ambac-insured bonds purchased have higher yields due to market perceptions of their credit status.

Ratio No. 7, “Gross Change in Surplus,” is intended to be the ultimate measure of improvement or deterioration in an insurer’s financial condition during the year and was considered exceptional each year of the period under examination. In 2012, the adverse exceptional result reflected the serious and ongoing losses incurred by the company since the 2007 collapse in U.S. housing prices and the ensuing 2008 financial crisis. In 2013, the favorable exceptional result reflected a sizable release from the mandatory contingency reserve and favorable reserve development. In 2014, the adverse exceptional result was due to the Segregated Account increasing its interim cash payment percentage on permitted policy claims from 25% to 45%, which was paid by the General Account under the terms of its reinsurance agreement with the Segregated Account, and the reclassification of $1,210,820,764 in senior surplus notes from a component of capital to a write-in liability. In 2015, the favorable exceptional result was due to favorable development on residential mortgage-backed securities insured by Ambac occasioned by improved conditions in the U.S. housing market, and incorporation of a January 2016 cash settlement in the amount of $995,000,000 with JP Morgan Chase & Company and certain of its affiliates related to a representation and warranties dispute into the loss and loss adjustment expense estimate as of December 31, 2015. In 2016, the favorable exceptional result was due to favorable loss development, premium earnings, and realized and unrealized investment returns.

Ratio No. 8, “Change in Adjusted Policyholders’ Surplus,” measures the improvement or deterioration in the insurer’s financial condition based on operational results by factoring out changes in surplus notes, paid-in or transferred capital and surplus, and was considered exceptional each year of the period under examination. In all instances, the reasons for the exceptional results mirrored those for Ratio No. 7, “Gross Change in Surplus,” except that results for Ratio No. 8 were affected by substantial reductions in surplus notes in 2012 and 2014. In 2012, the company repurchased surplus notes with a total par value of $789,179,236 for an aggregate cash payment of $188,446,303 pursuant to call option agreements. In 2014,

$1,210,820,764 in senior surplus notes were reclassified from a component of capital to a write-in liability because an amendment to the Segregated Account's plan of rehabilitation had made it clear that these surplus notes were in the character of a liability and not a component of capital.

Ratio No. 9, "Liabilities to Liquid Assets," measures the company's ability to meet the financial demands that may be placed upon it and was considered exceptional each year of the period under examination. The exceptional results for the period under examination can be attributed to a decline in liquid assets due to loss payments and purchases of Ambac-insured bonds. In 2014, the exceptional result was exacerbated by the Segregated Account increasing its interim cash payment percentage on permitted policy claims from 25% to 45% and the reclassification of $1,210,820,764 in senior surplus notes from a component of capital to a write-in liability. In 2016, the exceptional result was exacerbated by reserve strengthening due to newly defaulted public finance credits, including Puerto Rico, and the cost of commutations for certain student loan credits.

Ratio No. 12, "Two-Year Reserve Development to Surplus," measures a company's two-year loss reserve development as a percent of the prior years' policyholders' surplus and was considered exceptional in 2012. The exceptional result was due to adverse development on first lien residential mortgage-backed securities insured by the company.

Financial Experience of Ambac Assurance Corporation

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2016	$5,450,295,797	$4,473,818,601	$976,477,196	$359,051,809
2015	4,824,375,838	4,199,580,526	624,795,312	772,282,483
2014	4,464,307,527	4,364,307,527	100,000,000	724,828,050
2013	5,914,756,966	5,074,495,401	840,261,565	(235,557,208)
2012	5,808,198,462	5,708,198,462	100,000,000	616,121,050
2011	7,613,074,210	7,117,780,771	495,293,439	(835,795,278)

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2016	$49,632,468	$45,206,126	$204,603,570	1.1%	280.8%	281.9%
2015	58,458,872	53,194,967	307,920,254	(159.7)%	561.6%	401.9%
2014	69,616,398	63,629,824	254,396,998	(17.2)%	187.3%	170.1%
2013	97,361,632	90,315,666	355,024,697	145.2%	685.0%	830.2%
2012	112,522,797	104,020,637	442,141,391	157.6%	(619.9)%	(462.3)%
2011	150,249,373	138,927,950	372,088,139	251.8%	312.4%	564.2%

Due to its extensive exposure to risks on residential mortgage-backed securities and structured securities, including collateralized debt obligations, the 2007 collapse in U.S. housing prices and the ensuing 2008 financial crisis imposed losses on the company and left it without its triple-A rating from independent rating agencies. Since early 2008, the company has not written any new business.

The company's earned premium revenues are derived from earning current year coverage premiums on policies that were written in prior years, whether for public finance risks for which premiums were generally paid upfront for all policy coverage years and were recorded by the company as unearned premium liability, or for installment premiums on structured finance risks. Remaining unearned premiums that are available to be earned as premiums in future years equaled $488,442,116 as of December 31, 2016, as compared to $1,696,161,806 as of December 31, 2011.

Ambac has diligently worked to achieve commutations and has pursued litigation on representation and warranty issues with major financial institutions. The net par outstanding on insured securities has declined 70.9%, from $272.5 billion as of December 31, 2011, to

$79.3 billion as of December 31, 2016. Loss mitigation activities will continue over many years, since Ambac insures securities with maturities extending until 2055.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of capital and surplus reported by the company as of December 31, 2016, is accepted.

VIII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were no specific comments and recommendations in the previous examination report.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Report on Executive Compensation

The State of Wisconsin requires that each Wisconsin-domiciled insurer file a supplement to the annual statement titled “Report on Executive Compensation” pursuant to ss. 601.42 and 611.63 (4), Wis. Stat. This report includes the total annual compensation paid to each director, officer, and the four most highly paid members of executive management other than the officers. In addition, the report requires disclosure of all officers and employees whose compensation exceeds specified amounts based on year-end capital and surplus. Compensation reported should include all gross, direct, and indirect remuneration paid and accrued during the report year for the benefit of the individual, including wages, salaries, bonus, retirement benefits, deferred compensation, commissions, fees, and other forms of personal compensation. The examination noted that the Report on Executive Compensation filed by the company for the year 2016 did not include the amount paid by the company for medical insurance, vision insurance, dental insurance, or disability insurance. It is recommended that the company comply with s. 611.63 (4), Wis. Stat., by reporting all compensation received by officers or employees in accordance with the instructions stated on the Report on Executive Compensation.

IX. CONCLUSION

As of December 31, 2016, the company reported assets of $5,450,295,797, liabilities of $4,473,818,601, and policyholders' surplus of $976,477,196. Operations for 2016 produced a net income of $359,051,809. Policyholders' surplus has increased from $495,293,439 as of year-end 2011 to $976,477,196 as of year-end 2016. This represents an increase of 97.2% during the period under examination. The following schedule summarizes the cumulative increases and decreases to surplus from December 31, 2011, when policyholders' surplus was last verified by examination, to December 31, 2016:

Policyholders' Surplus, December 31, 2011	$ 495,293,439
Net income	2,236,726,184
Change in surplus notes	(2,000,000,000)
Change in net unrealized capital gains (losses)	421,929,043
Change in surplus of Ambac Assurance Corporation Segregated Account, excluding non-admitted assets	276,391,942
Change in net unrealized foreign exchange capital gains (losses)	(147,252,779)
Mandatory contingency reserve for adverse losses, net of tax	(135,242,927)
Change in non-admitted assets	(101,854,883)
Cumulative effect of prior period errors	(75,779,196)
Unrealized gains (losses) in post-retirement benefit obligations	7,611,810
Cumulative effect of change in accounting principles	(5,755,455)
Paid-in surplus adjustments	4,410,017
Policyholders' Surplus, December 31, 2016	$ 976,477,196

Due to its extensive exposure to risks on residential mortgage-backed securities and structured securities, including collateralized debt obligations, the 2007 collapse in U.S. housing prices and the ensuing 2008 financial crisis imposed huge losses on the company and left it without its triple-A rating from independent rating agencies. Since early 2008, the company has not written any new business.

The company's earned premium revenues are derived from earning current year coverage premiums on policies that were written in prior years, whether for public finance risks for which premiums were paid upfront for all policy coverage years and were recorded by the company as unearned premium liability, or for installment premiums on structured finance risks. Remaining unearned premiums that are available to be earned as premiums in future years equaled $488,442,116 as of December 31, 2016, as compared to $1,696,161,806 as of December 31, 2011.

Ambac has diligently worked to achieve commutations and has pursued litigation on representation and warranty issues with major financial institutions. The net par outstanding on insured securities has declined 70.9%, from $272.5 billion as of December 31, 2011, to $79.3 billion as of December 31, 2016. Loss mitigation activities will continue over many years, since Ambac insures securities with maturities extending until 2055.

The examination resulted in no adjustments to policyholders' surplus or reclassifications to the balance sheet. There was one recommendation made regarding the reporting of executive compensation as a result of the current examination of the company.

X. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 44 - Report on Executive Compensation—It is recommended that the company comply with s. 611.63 (4), Wis. Stat., by reporting all compensation received by officers or employees in accordance with the instructions stated on the Report on Executive Compensation.

XI. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Junji M. Nartatez	Insurance Financial Examiner
Sheng Vang	Insurance Financial Examiner
John E. Litweiler	Insurance Financial Examiner-Advanced, Exam Planning & Quality Control Specialist
David A. Jensen	Insurance Financial Examiner-Advanced, Information Systems Audit Specialist
Jerry C. DeArmond	Insurance Financial Examiner-Advanced, Loss Reserve Specialist

Respectfully submitted,

Stephanie A. Falck, CFE
Examiner-in-Charge

XII. SUBSEQUENT EVENTS

On July 19, 2017, Ambac Financial Group, Inc., and Ambac Assurance Corporation reached a consensual agreement (hereinafter also Transaction) with certain creditors holding large positions in Ambac Assurance Corporation's outstanding senior surplus notes and deferred payment obligations of the Segregated Account. The Transaction allows Segregated Account policyholders to receive payment in full on all future presented claims, and settles currently outstanding obligations at 93.5 cents on the dollar comprised of:

- 40 cents on the dollar in cash,
- 41 cents on the dollar in tradable senior secured notes,
- 12.5 cents on the dollar in surplus notes.

Wisconsin's Office of the Commissioner of Insurance believes the Transaction is in the best interests of all policy beneficiaries and stakeholders and provides for a durable exit from rehabilitation for the Segregated Account. The Wisconsin Commissioner of Insurance, in his capacity as Rehabilitator, believes this Transaction, including the consideration to be provided to the deferred payment obligation holders and the senior surplus note holders, is superior to maintaining the status quo and continuing the rehabilitation over many years in the hope of achieving a better result. As part of the Transaction, the Segregated Account will merge with and into the General Account of Ambac Assurance Corporation. Ambac Assurance Corporation's General Account has paid all valid General Account policy claims in full. This treatment will continue following the Segregated Account's exit from rehabilitation and merger with and into the General Account.

Through his counsel, the Wisconsin Commissioner of Insurance, in his capacity as Rehabilitator, filed a motion with the Circuit Court for Dane County, Wisconsin, for approval of the Transaction and the final order and discharge in the matter of the rehabilitation of the Segregated Account on September 25, 2017. A hearing on this motion was scheduled for January 4 and 5, 2018. On January 22, 2018, the Circuit Court of Dane County, Wisconsin, approved the second amended plan of rehabilitation for the Segregated Account. The plan is intended to facilitate the Segregated Account's exit from rehabilitation and its merger with and into the General Account of

Ambac Assurance Corporation. On February 12, 2018, the Transaction was consummated with 99% participation of the creditors and on the same date the Segregated Account merged with and into the General Account of Ambac Assurance Corporation. It is anticipated that the Rehabilitator will apply to Judge Richard G. Niess of the Circuit Court of Dane County, Wisconsin, for a Final Order and Discharge sometime in 2018.