The information contained herein should be read in conjunction with the documents Ambac Financial Group, Inc. ("AFG" and, together with its consolidated subsidiaries, the "Company") files with the Securities and Exchange Commission (the "SEC"), as well as statutory financial information of Ambac Assurance Corporation ("AAC") that is publicly available, including the Company's audited consolidated financial statements and the related notes included in AFG's Form 10-K for the year ended December 31, 2016, AFG's unaudited consolidated financial statements and the related notes included in the AFG's Form 10-Q for the period ended September 30, 2017, AAC's audited statutory financial statements and the related notes for the year ended December 31, 2016 and AAC's unaudited interim statutory financial statements and the related notes for the period ended September 30, 2017. You should carefully consider the risk factors set forth below, as well as the other information referred to above and the risks and uncertainties discussed in "Part I-Item 1A—Risk Factors" of AFG's Form 10-K for the year ended December 31, 2016, as such risk factors may be updated by AFG's quarterly and current reports that AFG has filed or may file with the SEC after the date hereof. Capitalized terms used herein without definition have the meanings ascribed to them in the Company's press release dated January 11, 2018. Amounts assume that the effective date ("Effective Date") of the Rehabilitation Plan Amendment occurs on the business day following the Expiration Time of the Exchange Offers.

RECENT DEVELOPMENTS

Puerto Rico

Federal tax reform legislation (commonly known as the "Tax Cuts and Jobs Act") was signed into law on December 22, 2017. The Tax Cuts and Jobs Act effectively treats Puerto Rico (as referred to herein, the "Commonwealth") the same as any other foreign tax jurisdiction and otherwise makes it less attractive for U.S. taxpayers to move certain operations abroad by, among other things, imposing U.S. federal income tax on a current basis with respect to certain earnings of controlled foreign corporations ("CFCs"). This will likely diminish the Commonwealth's relative attractiveness as a location for foreign activity of a U.S. multinational group, including those with manufacturing facilities or other business on the island. The legislation comes at a difficult time as the Commonwealth recovers from Hurricanes Irma and Maria and a multi-year financial crisis. Supplemental legislation and related measures, including tax-incentivized economic opportunity zones for Puerto Rico, increased Affordable Care Act funding, or other forms of federal aid may be implemented by Congress in the near term to offset, in part or in whole, some of the potential economic impact of the tax reform legislation. However, the likelihood and nature of any supplemental legislation are uncertain at this time.

On December 21, 2017, the House of Representatives passed H.R. 4667 to provide additional emergency assistance for recent hurricanes, wildfires in California, and related agricultural losses. The proposed supplemental aid package totals $81 billion and targets funds to programs to continue relief and recovery efforts in all affected communities, including Texas, Florida, California, Louisiana, Puerto Rico and the U.S. Virgin Islands. The Senate is expected to take up its counterpart bill in early 2018. If signed into law, the final bill would represent the second spending bill that in part provides aid to Puerto Rico. There may be a third aid bill in 2018 that would also benefit Puerto Rico but the prospects for such a bill are uncertain at this time.

On December 20, 2017, the Financial Management and Oversight Board for Puerto Rico (the "Oversight Board") announced an updated schedule for the submission and certification of revised Fiscal and Economic Growth Plans ("FEGP") for the Commonwealth and the Puerto Rico Highway and Transportation Authority ("PRHTA"), which will reflect the impact of recent hurricanes. The Commonwealth's revised FEGP was originally expected to be submitted to the Oversight Board by January 10, 2018, after which the Oversight Board would either recommend revisions, or certify it, by February 23, 2018. It is now expected that the submission and the revisions or certifications will be extended by two weeks each, respectively. The revised PRHTA FEGP is expected to be submitted to the Oversight Board by March 9, 2018, after which the Oversight Board will either recommend revisions, or certify it, by April 20, 2018.

On December 18, 2017, the Puerto Rico Fiscal Agency and Financial Authority and the Commonwealth released its review of government bank account balances – mostly up through November 30, 2017 – for all entities and instrumentalities above the municipal level. There were over 800 bank accounts reconciled. The total cash balance across accounts is in excess of $6.8 billion, much higher than estimates, and some high cash balances were held by entities for which it would not be normal to have a high balance. However, because the Commonwealth does not release forecasts and has not previously released balances, it is not possible to know for sure how much more cash exists than average or communicated expectations. Subsequent to this review, the Oversight Board has indicated that it would conduct a forensic audit of cash balances. The Oversight Board also announced that it will hold a public hearing in January 2018 that will focus on the sources and uses of the funds as well as the nature of legal restrictions on such funds.

On November 21, 2017, Judge Laura Taylor Swain heard arguments in connection with the defendants' motion to dismiss AAC's amended complaint in the Commonwealth's Title III proceeding (United States District Court, District of Puerto Rico, No. 1:17-ap-00159, filed June 8, 2017). The complaint seeks declarations that the Commonwealth FEGP, the Fiscal Plan Compliance Act, and various moratorium laws and executive orders enacted by the Commonwealth to claw back funds from PRHTA and other Commonwealth instrumentalities violate the U.S. Constitution, are preempted by PROMESA, and unlawfully transfer PRHTA property to the Commonwealth. The complaint also seeks a declaration that revenues pledged to the PRHTA bonds are "special revenues" under chapter 9 of the Bankruptcy Code. At the conclusion of the hearing, Judge Swain ordered supplemental briefing to be submitted by November 28, 2017, and took the matter under advisement.

Tax Reform

The Company is assessing the impact of the Tax Cuts and Jobs Act on its financial condition and results of operations. The principal impacts on our results are currently expected to include: (i) a reduction of approximately 40% to our consolidated net deferred tax asset, the impact of which will be offset by a change in valuation allowance, (ii) the establishment of a tax receivable of approximately $32 million representing AMT taxes previously paid, and (iii) the potential payment of incremental AMT by AAC related to the acceleration of U.S. federal income tax on previously untaxed foreign earnings of Ambac U.K, which may be partially offset with a foreign tax credit. Other Tax Cuts and Jobs Act provisions, such as those relating to the limitations on the deductibility of interest expense, the Global Tax Intangible Low Taxed Income and Base Erosion Anti-Abuse Tax, may also have an adverse impact on AAC's and/or AFG's future financial condition and results of operations that is difficult to predict at this time.

Segregated Account Rehabilitation Proceedings

On January 4, 2018, the Circuit Court for Dane County, Wisconsin (the "Rehabilitation Court") held an evidentiary hearing to consider the Rehabilitator's Motion to Further Amend The Plan of Rehabilitation Confirmed on January 24, 2011 To Facilitate An Exit from Rehabilitation. The Rehabilitation Court has not yet ruled on the motion. At the conclusion of the hearing, the Rehabilitation Court declared that the evidence was closed and set January 22, 2018 as the adjourned date for purposes of a ruling on the motion.

PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma consolidated GAAP balance sheet of AFG as of September 30, 2017 and the unaudited pro forma consolidated GAAP statement of operations and comprehensive income (loss) of AFG for the nine months ended September 30, 2017 are based on the historical consolidated GAAP financial statements of AFG.

The following unaudited pro forma Statutory Statement of Admitted Assets, Liabilities and Capital and Surplus of AAC as of September 30, 2017 and the unaudited pro forma statutory basis statements of income of AAC for the nine months ended September 30, 2017 are based on the historical statutory financial statements of AAC.

The above described unaudited pro forma consolidated GAAP balance sheet of AFG and unaudited pro forma Statutory Statement of Admitted Assets, Liabilities and Capital and Surplus of AAC give effect to the Rehabilitation Exit Transactions described under "Summary—Rehabilitation Exit Support Agreement" as if they had occurred on September 30, 2017. The above described unaudited pro forma consolidated GAAP statements of operations and comprehensive income (loss) of AFG and the unaudited pro forma statutory basis statements of income of AAC give effect to the Rehabilitation Exit Transactions as if they had occurred on January 1, 2017.

The unaudited pro forma consolidated GAAP financial information of AFG, and the unaudited pro forma statutory basis financial information of AAC include unaudited pro forma adjustments that are driven by assumptions and factually supportable information directly attributable to the below (collectively referred to as the Rehabilitation Exit Transactions):

- the AAC Supporting Holder Exchange Offer;
- the AAC Exchange Offer;
- the Limited Access DPO Exchange Offer;
- the transactions pursuant to the Rehabilitation Plan Amendment; and
- the Tier 2 Notes Issuance.

In addition, with respect to the unaudited pro forma consolidated GAAP statements of operations and comprehensive income (loss) of AFG and the unaudited pro forma statutory basis statements of income of AAC, such unaudited pro forma statements shall provide financial information from operations that are expected to have a continuing effect on the results and exclude items considered non-recurring related to the execution of the Rehabilitation Exit Transactions.

The unaudited pro forma financial information assumes 100% participation in the AAC Supporting Holder Exchange Offer, the AAC Exchange Offer and the Limited Access DPO Exchange Offer by all holders of Existing Surplus Notes eligible to participate in the applicable Exchange Offers.

The Company will not consolidate the newly created entity, Ambac LSNI, LLC ("Ambac LSNI"). The obligations of AAC within the pro forma financial information reflect the issuance of the Ambac Note to Ambac LSNI and the assets of AFG and AAC reflect the receipt of the Senior Secured Notes issued by Ambac LSNI.

The unaudited pro forma adjustments included in the statutory basis financial information of AAC is subject to statutory accounting practices prescribed or permitted by the State of Wisconsin and accordingly OCI has the authority to prescribe different accounting practices or allow permitted practices requested by AAC than what is reflected herein. Additionally, the pro forma statutory basis financial information of AAC reflects the exit of the Segregated Account from rehabilitation and a merger with the general account of AAC that will eliminate all accounts and transactions between AAC and the Segregated Account.

Ambac Financial Group, Inc.
Pro Forma Consolidated GAAP Balance Sheet

	September 30, 2017	Adjustments		Pro Forma September 30, 2017
		(dollars in thousands)		
Assets:				
Total non-variable interest entity investments	$ 6,234,045	$(1,701,060)		$ 4,532,985
Cash and cash equivalents	107,018	(45,672)		61,346
Total non-variable interest entity investments, cash and cash equivalents	6,341,063	(1,746,732)	**(1)**	4,594,331
Premium receivable	601,757	-		601,757
Insurance intangible asset	877,972	-		877,972
Subrogation recoverable	703,930	1,318,214	**(2)**	2,022,144
Deferred ceded premium	54,773	-		54,773
Other assets	270,704	(8,678)	**(3)**	262,026
Total VIE assets	14,442,384	-		14,442,384
Total assets	**$ 23,292,583**	**$ (437,196)**		**$ 22,855,387**
Liabilities and Stockholders' Equity:				
Liabilities:				
Unearned premiums	$ 817,538	$ -		$ 817,538
Loss and loss expense reserve	4,704,285	(2,471,180)	**(2)**	2,233,105
Long-term debt	988,148	1,925,185	**(4)**	2,913,333
Accrued interest payable	417,522	(215,589)	**(4)**	201,933
Derivative liabilities	90,899	-		90,899
Other liabilities	180,333	2,407	**(6)**	182,740
Total VIE liabilities	14,321,721	-		14,321,721
Total liabilities	**21,520,446**	**(759,177)**		**20,761,269**
Stockholders' equity:				
Preferred stock	-	-		-
Common stock	453	-		453
Additional paid-in capital	198,629	-		198,629
Accumulated other comprehensive income (loss)	62,680	(51,594)	**(5)**	11,086
Retained earnings	1,246,736	373,575	**(2)(5)(6)**	1,620,311
Treasury stock, shares at cost	(471)	-		(471)
Total Ambac Financial Group, Inc. stockholders' equity	1,508,027	321,981		1,830,008
Noncontrolling interest	264,110	-		264,110
Total stockholders' equity	**1,772,137**	**321,981**		**2,094,118**
Total liabilities and stockholders' equity	**$ 23,292,583**	**$ (437,196)**		**$ 22,855,387**

(1) The net cash and investment outflows reflects the distributions under the Rehabilitation Exit Transactions as follows:

Cash payment to third parties for settlement of Deferred Amounts and Surplus Notes	$ (1,325,658)
Cash payment for one-time current interest payment on remaining surplus notes (not yet approved by OCI)	(10,396)
Cash payment for remaining debt issuance costs	(8,489)
Receipt of Tier 2 proceeds	240,000
Receipt of Secured Notes issued by Ambac LSNI	759,783
Reduction in value of Ambac-insured RMBS securities held in the investment portfolio	(1,401,972)
	$ (1,746,732)

(2) The transactions pursuant to the Rehabilitation Plan Amendment where AAC is settling its unpaid claims of $3,789,394 at a discount is being accounted for as an extinguishment, where the discount of approximately $283,205 is reflected in the pro forma balance sheet as an increase to Retained earnings. As a result of the $3,789,394 settlement, future net cash flows on certain policies will become an asset and are reclassified to Subrogation recoverable.

(3) Reflects the reclass of previously capitalized costs directly associated with the issuance of either the Ambac Note or Tier 2 Notes to Long-term debt that will be amortized as part of the effective yield calculation.

(4) The discount received in the AAC Supporting Holder Exchange Offer, the AAC Exchange Offer and the Limited Access DPO Exchange Offer is being accounted for as a debt modification since the creditors before and after the discount remain the same and the change in the

terms is not considered substantial. A substantial change is considered to be a change in cash flows of equal to or greater than 10% as a result of the modification of terms. As the change in cash flows is less than 10%, debt modification accounting is appropriate. Under debt modification accounting, no gain or loss is recorded, and a new effective interest rate is established based on the Ambac Note cash flows. Additionally, any consideration paid that is directly related to the issuance of the Ambac Note is capitalized and amortized as part of the effective yield calculation. The net long-term debt increase reflects the impact of the Rehabilitation Exit Transactions as follows:

	Long-term debt	Accrued Interest Payable
Tier 2 Notes issuance	$ 240,000	$ -
Ambac Note issuance	2,118,606	-
Cash payment for one-time current interest payment on remaining surplus notes(not yet approved by OCI)	-	(10,396)
Deferred loss on Rehabilitation Exit Transactions and debt issuance costs	(24,464)	-
Reduction in carrying value of Surplus Notes	(408,957)	(205,193)
	$ 1,925,185	$ (215,589)

(5) As a result of the Rehabilitation Exit Transactions, AAC will receive settlement of its ownership in Deferred Amounts and realize a gain of $92,777, including a reversal of the September 30, 2017 unrealized gain of $51,594.

(6) As a result of the Rehabilitation Exit Transactions, AAC will generate taxable net income for the nine months ended September 30, 2017 resulting in an alternative minimum tax for this pro forma balance sheet. This pro forma information does not incorporate any assumptions regarding the Tax Cuts and Jobs Act.

Ambac Financial Group, Inc.
Pro Forma Consolidated Statement of Operations and Comprehensive Income (Loss)

	Nine Months Ended September 30, 2017	Adjustments		Pro Forma Nine Months Ended September 30, 2017
	(dollars in thousands, except per share data)			
Revenues:				
Net premiums earned	$ 143,754	$ -		$ 143,754
Net investment income	253,896	(83,189)	**(1)**	170,707
Other than temporary impairment losses	(19,215)	14,638	**(2)**	(4,577)
Net realized investment gains	5,434	-		5,434
Net change in fair value of credit derivatives	7,855	-		7,855
Net gains (losses) on interest rate derivatives	36,538	-		36,538
Net realized (losses) gains on extinguishment of debt	4,920	(3,815)	**(3)**	1,105
Other income	427	-		427
Income (loss) on VIEs	(1,567)	-		(1,567)
Total revenues	**432,042**	**(72,366)**		**359,676**
Expenses:				
Losses and loss expenses (benefit)	410,917	(132,244)	**(4)**	278,673
Operating expense	92,822	(25,341)	**(5)**	67,481
Interest expense	88,951	69,176	**(6)**	158,127
Insurance intangible amortization	116,686	-		116,686
Total expenses	**709,376**	**(88,409)**		**620,967**
Pretax income (loss)	**(277,334)**	**16,043**		**(261,291)**
Provision for income taxes	31,902	-	**(7)**	31,902
Net income (loss) attributable to common shareholders	**(309,236)**	**16,043**		**(293,193)**
Other comprehensive income (loss), after tax:				
Net income (loss) attributable to common shareholders	(309,236)	16,043		(293,193)
Unrealized gains (losses) on securities	33,550	(11,207)	**(8)**	22,343
Gains (losses) on foreign currency translation	66,509	-		66,509
Changes to postretirement benefit	1,611	-		1,611
Total other comprehensive income (loss), net of tax	**101,670**	**(11,207)**		**90,463**
Total comprehensive income (loss)	**$ (207,566)**	**$ 4,836**		**$ (202,730)**
Net income (loss) per share attributable to Ambac Financial Group, Inc. common stockholders				
Basic	**$ (6.82)**			**$ (6.46)**
Diluted	**$ (6.82)**			**$ (6.46)**

(1) Following the Rehabilitation Exit Transactions, investment income will be reduced as a result of settlement of Deferred Amounts within investments in AAC-insured RMBS and liquidation of other assets to fund the cash portion of settlements with third parties and remaining transaction related fees. This will be partially offset by increased investment income estimated at $26,626 from the Senior Secured Notes issued by Ambac LSNI.

(2) The pro forma excludes impairment charges related to changes in estimated future cash flows on AAC-insured RMBS securities that contained Deferred Amounts.

(3) The pro forma excludes net gains arising from AFG's acquisition of surplus notes that were recorded in the actual GAAP Consolidated Statement of Operations and Comprehensive Income (Loss).

(4) As a result of the Rehabilitation Plan Amendment and exit from Rehabilitation of the Segregated Account, 100% of claims presented are being paid by AAC. This adjustment removes the interest on Deferred Amounts that was accrued in the actual GAAP Consolidated Statement of Operations and Comprehensive Income (Loss).

(5) During 2017, AAC and AFG had a significant amount of costs relating to the implementation of the Rehabilitation Exit Transactions that are considered non-recurring. This adjustment presents pro forma operating expenses excluding such non-recurring costs that were recorded in the actual GAAP Consolidated Statement of Operations and Comprehensive Income (Loss).

(6) The discount received in the AAC Supporting Holder Exchange Offer, the AAC Exchange Offer and the Limited Access DPO Exchange Offer is being accounted for as a debt modification since the creditors before and after the discount remain the same and the change in the terms is not considered substantial. A substantial change is considered to be a change in cash flows of equal to or greater than 10% as a result of the modification of terms. As the change in cash flows is less than 10%, debt modification accounting is appropriate. Under debt modification accounting, no gain or loss is recorded, and a new effective interest rate is established based on the Ambac Note cash flows. The effect of the new effective rate is not material to Net income or Total comprehensive income on the pro forma statement of operations and comprehensive income (loss). However, interest expense will increase as a result of: (i) the issuance of the Ambac Note to partially

settle Deferred Amounts, whose related interest was previously classified as Losses and loss expense, and (ii) the issuance of the Tier 2 Note.

(7) The pro forma excludes tax on non-recurring income, including the discount on Deferred Amounts and surplus notes created from the Rehabilitation Exit Transactions. Excluding the non-recurring impact of the Rehabilitation Exit Transactions, the Company is in a taxable loss position for the nine months ended September 30, 2017.

(8) Unrealized gains associated with Deferred Amounts contained within investments in AAC-insured RMBS are eliminated in the pro forma results.

Ambac Assurance Corporation
Pro Forma Statutory Basis - Statement of Assets, Liabilities and Capital and Surplus

	September 30, 2017	Adjustments		Pro Forma September 30, 2017
		(dollars in thousands)		
Bonds	$ 1,327,260	$ (418,620)		$ 908,640
Common Stocks	232,533	-		232,533
Cash, cash equivalents and short-term investments	787,061	(687,061)		100,000
Investments in AAC-insured bonds	2,940,995	(723,728)		2,217,267
Other invested assets	132,104	6,345		138,449
Total cash and investments	**5,419,953**	**(1,823,064)**	**(1)**	**3,596,889**
Investment income due and accrued	15,980	-		15,980
Premium receivables	1,913	-		1,913
Other assets	5,238	-		5,238
Assets of Ambac Assurance Corporation Segregated Account	7,327	(7,327)	**(2)**	-
Total admitted assets	**$ 5,450,411**	**$(1,830,391)**		**$ 3,620,020**
Unearned premiums	$ 399,171	-		$ 399,171
Loss and loss expenses	2,744,296	(3,789,394)	**(3)**	(1,045,098)
Borrowed money and interest thereon	78,632	2,218,857	**(4)**	2,297,489
Surplus note classified as debt	874,749	(874,749)	**(4)**	-
Mandatory contingency reserve	442,420	-		442,420
Other Liabilities	117,506	17,504	**(5)**	135,010
Liabilities allocated to Ambac Assurance Corporation Segregated Account	(4,599,974)	4,599,974	**(2)**	-
Liabilities assumed from Ambac Assurance Corporation Segregated Account	5,010,231	(5,010,231)	**(2)**	-
Liabilities of Ambac Assurance Corporation Segregated Account	(370,174)	370,174	**(2)**	-
Total liabilities	**4,696,857**	**(2,467,865)**		**2,228,992**
Common stock	82,000	-		82,000
Preferred stock	26,411	-		26,411
Additional paid-in capital	3,552,045	-		3,552,045
Unassigned surplus	(2,906,902)	(92,126)	**(2)(3) (5)(6)**	(2,999,028)
Senior surplus notes	-	358,444	**(2)(4)**	358,444
Junior surplus notes	-	371,156	**(2)**	371,156
Total policyholders surplus	**753,554**	**637,474**		**1,389,028**
Total liabilities and policyholders surplus	**$ 5,450,411**	**$(1,830,391)**		**$ 3,620,020**

(1) The net cash and investment outflows reflects the distributions under the Rehabilitation Exit Transactions as follows:

Cash payment to third parties for settlement of Deferred Amounts and Surplus Notes	$ (1,325,658)
Cash payment for a one-time current interest payment on remaining surplus notes	(11,534)
Cash payment for remaining debt issuance costs	(8,489)
Receipt of Tier 2 proceeds	240,000
Receipt of Secured Notes issued by Ambac LSNI	637,585
Reduction in value of Ambac-insured RMBS securities held in the investment portfolio	(1,361,313)
Reclassification of other invested assets of the Segregated Account	6,345
	$ (1,823,064)

(2) Upon the closing of the Rehabilitation Exit Transactions, the Merger will occur and any remaining unsatisfied obligations of the Segregated Account that have not already been discharged pursuant to the Rehabilitation Plan Amendment will become obligations of AAC. As a result of the Merger, these balances are eliminated or reclassified within this pro forma balance sheet. The impact to Policyholders surplus relates to the reclassification of (i) the par amount of Segregated Accounts surplus notes of $39,102 from liabilities of the Ambac Assurance Corporation Segregated Account to senior surplus notes and (ii) the par amount of Segregated Account junior surplus notes of $371,156 from unassigned surplus to Junior Surplus Notes.

(3) The transactions pursuant to the Rehabilitation Plan Amendment where AAC is settling its unpaid claims of $3,789,394 at a discount is being accounted for as an extinguishment, where the discount of approximately $283,205 is recognized as a reduction to losses incurred in net income and reflected on the pro forma statement of assets, liabilities and capital and surplus as an increase to unassigned surplus.

(4) The discount received in the AAC Supporting Holder Exchange Offer, the AAC Exchange Offer and the Limited Access DPO Exchange Offer is being accounted for as a debt modification since the creditors before and after the discount remain the same and the change in the terms is not considered substantial. A substantial change is considered to be a change in cash flows of equal to or greater than 10% as a result of the modification of terms. As the change in cash flows is less than 10%, debt modification accounting is appropriate. Under debt modification accounting, no gain or loss is recorded, and a new effective interest rate is established based on the Ambac Note cash flows. Additionally, as a result of the Rehabilitation Exit Transactions, existing surplus notes will be reclassified to a component of Policyholders Surplus. The net long-term debt increase reflects the impact of the following:

	Borrowed Money and Interest Thereon	Surplus Notes classified as a liability
Tier 2 Notes issuance	$ 240,000	$ -
Ambac Note issuance	2,118,606	-
Deferred loss on Rehabilitation Exit Transactions	(139,749)	-
Settlement of Surplus Notes with third parties		420,359
Receipt of Surplus Notes by AAC		135,048
Reclassification of Surplus Notes to Policyholders Surplus		319,342
	$ 2,218,857	$ 874,749

(5) As a result of the Rehabilitation Exit Transactions, AAC will generate taxable net income for the nine months ended September 30, 2017 resulting in a tolling payment to AFG under the Amended Tax Sharing Agreement and alternative minimum tax for this pro forma. This pro forma does not incorporate any assumptions regarding the Tax Cuts and Jobs Act.

(6) As a result of the Rehabilitation Exit Transactions, AAC will receive settlement of its ownership in Deferred Amounts through its investments in AAC-insured RMBS. The value of this settlement exceeds the current carrying value of the investments for a gain of $33,354. Unassigned surplus will also be impacted by (i) recognized interest expense upon the approval by OCI of a one-time current interest payment on surplus notes outstanding immediately following the Effective Date (not yet approved by OCI) and (ii) costs directly related to the issuance of the Ambac Note and Tier 2 Notes.

Ambac Assurance Corporation
Pro Forma Statutory Basis — Statements of Income

	Nine Months Ended September 30, 2017	Adjustments		Pro Forma Nine Months Ended September 30, 2017
		(dollars in thousands)		
Underwriting Income:				
Net premiums earned	$ 117,652	$ -		$ 117,652
Net losses incurred	376,727	(132,244)	**(1)**	244,483
Loss adjustment expenses incurred	62,243	-		62,243
Other underwriting expenses incurred	78,890	(26,615)	**(2)**	52,275
Net underwriting gain (loss)	**(400,208)**	**158,859**		**(241,349)**
Investment Income:				
Net investment income earned	208,529	(188,734)	**(3)**	19,795
Net realized gains/(losses)	69,188	-		69,188
Net investment gain (loss)	**277,717**	**(188,734)**		**88,983**
Other Income:				
Change in net liabilities allocated to (assumed from) Segregated Account	$ 2,881	$ (2,881)	**(2)**	$ -
Other income (loss)	(1,156)	-		(1,156)
Change in provision for uncollectible loan with affiliates	230,949	-		230,949
Total other income	**232,674**	**(2,881)**		**229,793**
Net income/(loss) before taxes	**110,183**	**(32,756)**		**77,427**
Federal and foreign income taxes incurred/(benefit)	(2,833)	-	**(4)**	(2,833)
Net income/(loss)	**$ 113,016**	**$ (32,756)**		**$ 80,260**

(1) As a result of the Rehabilitation Plan Amendment and exit from Rehabilitation of the Segregated Account, 100% of claims presented are being paid by AAC. This adjustment removes the interest on Deferred Amounts that was accrued in the actual Statutory Statement of Income of AAC.

(2) During 2017, AAC had a significant amount of costs relating to the implementation of the Rehabilitation Exit Transactions that are considered non-recurring. This adjustment presents pro forma other underwriting expenses incurred excluding such non-recurring costs. Additionally, this reflects reclassifications as a result of the Merger.

(3) Following the Rehabilitation Exit Transaction, investment income will be reduced as a result of settlement of Deferred Amounts within investments in AAC-insured RMBS and liquidation of other assets to fund the cash portion of settlements with third parties and remaining transaction related fees. This will be partially offset by increased investment income estimated at $26,107 from the Senior Secured Notes issued by Ambac LSNI.

The discount received in the AAC Supporting Holder Exchange Offer, the AAC Exchange Offer and the Limited Access DPO Exchange Offer is being accounted for as a debt modification since the creditors before and after the discount remain the same and the change in the terms is not considered substantial. A substantial change is considered to be a change in cash flows of equal to or greater than 10% as a result of the modification of terms. As the change in cash flows is less than 10%, debt modification accounting is appropriate. Under debt modification accounting, no gain or loss is recorded, and a new effective interest rate is established based on the Ambac Note cash flows. Interest expense will increase as a result of (i) settlement of Deferred Amounts partially through the issuance of the Ambac Note, (ii) the issuance of the Tier 2 notes; and (iii) the Ambac Note issued in connection with the debt modification which accrues interest expense in the Statutory Statement of Income whereas no interest expense was recognized on the surplus notes since they were not granted approval for payment from OCI.

(4) This pro forma excludes tax on non-recurring income, including the discount on Deferred Amounts and surplus notes created from the Rehabilitation Exit Transactions. Excluding the non-recurring impact of the Rehabilitation Exit Transactions, AAC is in a taxable loss position for the nine months ended September 30, 2017. Additionally, this pro forma excludes potential tolling payment to AFG under the Amended Tax Sharing Agreement.

RISK FACTORS

In addition to the following risks, see the risks and uncertainties discussed in "Part I-Item 1A—Risk Factors" of AFG's Form 10-K for the year ended December 31, 2016, as such risk factors may be updated by AFG's quarterly and current reports that AFG has filed or may file with the SEC after the date hereof.

Risks Related to the Company's Business

Implementation of the Tax Cuts and Jobs Act may have unexpected or adverse consequences for the Company and the value of its securities, particularly its common shares.

On December 22, 2017, new tax legislation (commonly known as the "Tax Cuts and Jobs Act") was signed into law. Amongst other things, the Tax Cuts and Jobs Act implemented a sweeping overhaul of the U.S. tax laws applicable to corporations. A major provision of the Tax Cuts and Jobs Act was a reduction of the maximum corporate federal income tax rate to 21% from 35%, which will result in the Company reducing the value of its net deferred tax asset, the impact of which will be offset by a change in valuation allowance. As a result of the reduction in the corporate federal tax rate, the maximum amount of future tolling payments AFG may receive from AAC, for tax years beginning with 2018, will also be reduced to approximately $80 million from $136 million. The Tax Cuts and Jobs Act also requires U.S. corporations to pay federal income tax on previously untaxed foreign earnings accumulated under legacy tax laws included in income, for the last taxable year beginning before January 1, 2018. As a result of this and other provisions in the Tax Cuts and Jobs Act, AAC may be required to make additional tax payments in 2017 related to alternative minimum tax. The aforementioned as well as other provisions of the Tax Cuts and Jobs Act, such as those relating to the limitations on the deductibility of interest expense, the Global Tax Intangible Low Taxed Income and Base Erosion Anti-Abuse Tax, may also have an adverse impact on AAC's and/or AFG's future financial condition and results of operations that is difficult to predict at this time. Any adverse impact or the perception of an adverse impact may cause the value of AAC's and/or AFG's securities, particularly its common shares, to decline.

Implementation of the Tax Cuts and Jobs Act may negatively impact the economic recovery of Puerto Rico, which could result in higher loss severities or an extended moratorium on debt service owed on AAC-insured bonds of Puerto Rico and its instrumentalities.

The Tax Cuts and Jobs Act effectively treats Puerto Rico the same as it does any other foreign tax jurisdiction and otherwise makes it less attractive for U.S. taxpayers to move certain operations abroad by, among other things, imposing U.S. federal income tax on a current basis with respect to certain earnings of CFCs. This will likely diminish the Commonwealth of Puerto Rico's relative attractiveness as a location for foreign activity of a U.S. multinational group, including those with manufacturing facilities or other business on the island. The legislation comes at a difficult time as the Commonwealth of Puerto Rico recovers from Hurricane Maria and a multi-year financial crisis. While supplemental legislation and related measures may be implemented by Congress in the near term to help offset some of the potential economic impact of the tax reform legislation, the likelihood and nature of any supplemental legislation is uncertain at this time. Consequently, the Tax Cuts and Jobs Act could have an adverse impact on the ongoing recovery of the Commonwealth of Puerto Rico by impeding much-needed economic growth, job growth, and revenue generation, which could potentially result in higher loss severities and/or an extended debt service moratorium for Puerto Rico creditors, including the Company.

Implementation of the Tax Cuts and Jobs Act could have a negative impact on issuers of AAC-insured municipal bonds.

Under the Tax Cuts and Jobs Act individuals who itemize their deductions on their Federal income tax returns will be limited to $10,000 of deductions for state and local taxes paid in a given year. In states with high income tax rates, such as New York, Connecticut, New Jersey, Maryland, and California, there is a risk that municipal bond issuers could be impacted by lower tax revenues if there is significant migration by residents to states or municipalities with lower tax rates. Lower tax revenues in these jurisdictions could lead to reduced financial flexibility, lower overall economic activity and increased credit risk and thereby potentially increasing risk to AAC with respect to affected issuers with bonds insured by AAC.

In addition, the Tax Cuts and Jobs Act reduces the maximum corporate federal income tax rate to 21% from 35%, which could reduce the demand for municipal bond investments by corporations, such as life insurance companies, banks, and credit unions, which currently hold approximately 30% of all outstanding municipal bonds. The impact of reduced demand could result in higher borrowing costs for municipalities and / or reduced refinancing flexibility for issuers of municipal bonds, thereby potentially increasing risk to AAC with respect to issuers with municipal bonds insured by AAC.

Risks Related to the Rehabilitation Plan Amendment

The following risks specifically apply to the consummation of the Rehabilitation Plan Amendment.

Modification, withdrawal, disapproval or other failure of the Rehabilitation Plan Amendment could negatively impact the Rehabilitation Exit Transactions.

The conclusion of the Segregated Account Rehabilitation Proceedings and occurrence of the Segregated Account's merging (the "Merger") with the general account of AAC immediately upon exit from Rehabilitation, and the Segregated Account's ceasing to exist, the Merger will require the approval of the Rehabilitation Court, which may not be obtained. Even if the Rehabilitation Exit Support Agreement remains in effect and the Rehabilitator is pursuing a plan for the exit of the Segregated Account from Rehabilitation that is consistent with the Rehabilitation Exit Support Agreement, the Rehabilitation Court may determine that the Rehabilitation Plan Amendment does not meet the legal requirements for the Segregated Account Rehabilitation Proceedings to be concluded. The failure to obtain Rehabilitation Court approval would create significant uncertainty with respect to whether or when the Segregated Account Rehabilitation Proceedings could be concluded in the near term or at all. Further, there can be no assurance that the Rehabilitation Court will approve the Rehabilitation Plan Amendment, that modifications of the Rehabilitation Plan Amendment may not be required for approval of the Rehabilitation Plan Amendment, that approval of the Rehabilitation Plan Amendment will not be overturned on appeal or that the Rehabilitator may not of his own initiative withdraw or modify the Rehabilitation Plan Amendment for any reason. Any modifications of the Rehabilitation Plan Amendment or failure of the Rehabilitation Court to approve any of the transactions contemplated therein (including payment of any consideration contemplated by the Rehabilitation Plan Amendment) could substantially impede the feasibility of the Rehabilitation Plan Amendment.

The Effective Date may be delayed for a significant period of time.

There can be no assurance that the Effective Date will occur. Events that may delay or prevent the Effective Date (among other things) include appeals of the approval order and failure of any other conditions to the Effective Date. Circumstances may arise that are outside the control of the Rehabilitator and that may prevent one or more required conditions from occurring, which would prevent the Effective Date from occurring. Importantly, the Rehabilitation Plan Amendment envisages the concurrent consummation of the Exchange Offers. The consummation of the Exchange Offers is a closing condition to the effectiveness of the Rehabilitation Plan Amendment and the concurrent effectiveness of the Rehabilitation Plan Amendment is a closing condition to the consummation of the Exchange Offers. Accordingly, if one does not occur, then the other will not unless the closing condition is waived.

While AFG and AAC have entered into the Rehabilitation Exit Support Agreement as part of a plan to resolve the rehabilitation of the Segregated Account, there can be no assurance that the rehabilitation of the Segregated Account will be successfully concluded.

Execution of a plan to conclude the Segregated Account Rehabilitation Proceedings is subject to various conditions and uncertainties. The parties to the Rehabilitation Exit Support Agreement may terminate the agreement if certain events relative to the conclusion of the rehabilitation do not occur within agreed time periods, or if the Rehabilitator seeks an order or other relief from the Rehabilitation Court, or the Rehabilitation Court issues an order or grants relief, that is inconsistent in any material respect with the transactions contemplated by the Rehabilitation

Exit Support Agreement. The Rehabilitation Exit Support Agreement may also be terminated if there is a material breach of the agreement by a party thereto. We can provide no assurance that any of these termination events will not arise. Upon termination of the Rehabilitation Exit Support Agreement, the Rehabilitator may abandon pursuit of a plan for the exit of the Segregated Account from rehabilitation or may pursue a plan with different terms or features than those contemplated by the Rehabilitation Exit Support Agreement.

For the Rehabilitator to continue to support the transactions contemplated by the Rehabilitation Exit Support Agreement and pursue a plan for the Segregated Account to exit rehabilitation based on such agreement, the Rehabilitator will need to be satisfied that AAC will have sufficient capital and claims-paying resources to effect such transactions and to meet its obligations after the Segregated Account Rehabilitation Proceedings have been terminated. That determination will, in part, be made based on whether AAC is successful in closing the Tier 2 Notes Issuance. We can provide no assurance that AAC will be able to close the Tier 2 Notes Issuance or will not suffer losses or fail to mitigate or remediate losses or achieve recoveries or investment objectives such that the Rehabilitator abandons pursuit of a plan for the exit of the Segregated Account from rehabilitation or decides to pursue a plan with different terms or features than those contemplated by the Rehabilitation Exit Support Agreement. Either alternative would have uncertain consequences for the Segregated Account and for holders of Existing Surplus Notes, policy claims or Deferred Amounts.

The effectiveness of the Rehabilitation Plan Amendment is conditioned upon the consummation of the Exchange Offers, upon the receipt of favorable rulings from the United States Internal Revenue Service (the "IRS"), and of favorable legal opinions, on certain tax-related issues. Although we have received the rulings from the IRS, we can provide no assurance that the other such conditions will be satisfied.

The failure to consummate the Rehabilitation Exit Transactions due to the foregoing events or circumstances or other reasons may cause the Rehabilitator to pursue a different plan to conclude the Segregated Account Rehabilitation Proceedings or to abandon the pursuit of a near-term resolution of such proceedings. Either alternative would have uncertain consequences for the Company and for holders of its securities or securities insured by AAC or the Segregated Account. If the Segregated Account were to remain in rehabilitation or exit rehabilitation based on a plan other than the Rehabilitation Plan Amendment, the equity value and claims-paying resources of AAC may be diminished, AAC's long-term viability may be less certain, and the Company's ability to create value apart from AAC may be impaired.

Even if the Segregated Account Rehabilitation Proceedings could be brought to a successful conclusion, there can be no assurance that any level of capital deemed sufficient by OCI to permit such conclusion will be sufficient to cover all future losses, whether currently anticipated or unanticipated. Moreover, OCI is expected to more closely scrutinize the operations of, and transactions proposed to be completed by, AAC after the Segregated Account Rehabilitation Proceedings are completed, compared to other insurance companies, including by imposing on AAC reporting requirements and restrictions on transactions or other activities, which may create additional challenges or obstacles for AAC. See "Stipulation and Order" in *Note 1. Background and Business Description* in Part I, Item 1 of AFG's Form 10-Q for the quarter ended September 30, 2017.

CAPITALIZATION OF AFG

The following table sets forth the Company's unaudited cash and cash equivalents and the Company's unaudited capitalization as of September 30, 2017 on an actual basis and on a pro forma basis giving effect to the Rehabilitation Exit Transactions. This table should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," in Part II, Item 7 in AFG's Form 10-K for the year ended December 31, 2016, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part I, Item 2 in AFG's Form 10-Q for the quarter ended September 30, 2017.

	September 30, 2017	
	Actual	**Pro Forma**
	(unaudited) (dollars in millions, except share data)	
Cash and cash equivalents	$ 107.0	$ 61.3
Total liabilities	$ 21,520.4	$ 20,761.3
Shareholders' Equity		
Preferred stock, par value $0.01 per share; 20,000,000 shares authorized; issued and outstanding shares - none	-	-
AFG common stock, par value $0.01 per share; 130,000,000 shares authorized; 45,275,982 issued and outstanding	0.5	0.5
Additional paid-in capital	198.6	198.6
Accumulated other comprehensive income (loss)	62.7	11.1
Retained earnings	1,246.7	1,620.3
Treasury stock, shares at cost: 24,816	(0.5)	(0.5)
Total Ambac Financial Group, Inc. shareholders' equity	1,508.0	1,830.0
Noncontrolling interest	264.1	264.1
Total shareholders' equity	1,772.1	2,094.1
Total capitalization(1)	$ 23,292.6	$ 22,855.4

(1) Total capitalization equals total liabilities plus total shareholders' equity.

CAPITALIZATION OF AAC

The following table sets forth AAC's unaudited cash, cash equivalents and short term investments and its unaudited capitalization (on a statutory basis) as of September 30, 2017 on an actual basis and on a pro forma basis giving effect to the Rehabilitation Exit Transactions. This table should be read in conjunction with AAC's audited statutory financial statements for the fiscal year ended December 31, 2016 and the unaudited interim statutory financial statements of AAC available at www.ambac.com.

	September 30, 2017	
	Actual	**Pro Forma**
	(unaudited) (dollars in millions)	
Cash, cash equivalents and short term investments	$ 787.1	$ 100.0
Statutory capital and surplus		
Common capital stock	82.0	82.0
Preferred capital stock	26.4	26.4
Surplus notes	-	729.6
Gross paid in and contributed surplus	3,552.0	3,552.0
Unassigned funds	(2,906.9)	(2,999.0)
Total statutory capital and surplus	$ 753.6	$ 1,391.0

THE RMBS LITIGATION

In connection with AAC's efforts to seek redress for breaches of representations and warranties and fraud related to the information provided by the underwriters, sponsors and mortgage loan originators in various transactions and for failure to comply with the obligation by the sponsors to repurchase ineligible loans, AAC and the Segregated Account have filed various lawsuits listed below (collectively with any successor proceeding against the same parties (or any of their successors) with respect to substantially the same claims).

As of September 30, 2017, AAC had estimated recoveries of $1,844.1 million ($1,816.3 million net of reinsurance) in respect of the RMBS Litigation included in its financial statements. While the estimated recoveries are subject to significant uncertainty, including risks inherent in litigation, collectability of such amounts from counterparties and/or their respective successors, parents and affiliates, timing of receipt of any recoveries, intervention by OCI and uncertainties inherent in the assumptions used in estimating any recoveries, AAC believes that its methodology for extrapolating estimated recoveries, based on its review procedures of the underlying securitized loans and the assessment of the claims asserted in the RMBS Litigation by the law firms representing AAC in the litigation, is appropriate for evaluating the amount of potential recoveries and that its currently estimated recoveries fairly represent a probability-weighted estimate of amounts AAC expects to recover under various possible scenarios.

A description of the status of each of the RMBS Litigation as of January 11, 2018 is set forth below.

Ambac Assurance Corporation and The Segregated Account of Ambac Assurance Corporation v. First Franklin Financial Corporation, Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith Inc., Merrill Lynch Mortgage Lending, Inc., and Merrill Lynch Mortgage Investors, Inc. (Supreme Court of the State of New York, County of New York, Case No. 651217/2012, filed April 16, 2012).

AAC alleges breach of contract, fraudulent inducement, indemnification, reimbursement and requested the repurchase of loans that breach representations and warranties as required under the contracts, as well as damages. Defendants filed a motion to dismiss on July 13, 2012, which AAC opposed on September 21, 2012. Oral argument was held on May 6, 2013. On July 18, 2013 the court dismissed AAC's claims for indemnification and limited AAC's claim for breach of loan-level warranties to the repurchase protocol, but did not dismiss AAC's other contractual claims or fraudulent inducement claim. On August 21, 2013, defendants filed a notice of appeal, and on August 30, 2013, AAC filed a notice of cross-appeal. On April 22, 2014, the parties filed a stipulation withdrawing defendants' appeal and AAC's cross-appeal of the court's July 18, 2013 decision. Discovery is ongoing.

Ambac Assurance Corporation and The Segregated Account of Ambac Assurance Corporation v. Countrywide Home Loans, Inc., Countrywide Securities Corp., Countrywide Financial Corp., and Bank of America Corp. (Supreme Court of the State of New York, County of New York, Case No. 651612/2010, filed on September 28, 2010).

AAC filed an Amended Complaint on September 8, 2011. AAC alleged breach of contract, fraudulent inducement, indemnification and reimbursement, and breach of representations and warranties, requested the repurchase of loans that breach representations and warranties as required under the contracts, as well as damages, and asserted a successor liability claim against Bank of America. On May 28, 2013, AAC filed a Second Amended Complaint adding an alter ego claim against Bank of America alleging that, because Bank of America and Countrywide are alter egos of one another, Bank of America is responsible for Countrywide's liabilities to AAC. The defendants served their answers on July 31, 2013. Fact and expert discovery has ended. On May 1, 2015, AAC filed motions for partial summary judgment, which defendants opposed. Defendants also each filed motions for summary judgment, which AAC opposed. On October 27, 2015, the court issued a decision dated October 22, 2015 granting in part and denying in part the parties' respective summary judgment motions regarding AAC's claims against Countrywide (primary-liability claims), and issued a second decision granting AAC's partial motion for summary judgment and denying Bank of America's motion for summary judgment regarding AAC's secondary-liability claims against Bank of America. AAC and Countrywide filed notices of appeal of the October 22, 2015 decision relating to primary liability and Bank of America filed a notice of appeal of the October 27, 2015 decision relating to its secondary-liability to the New York Appellate Division, First Department. On May 16, 2017, the First Department issued rulings in both appeals, reversing a number of rulings that the trial court had made and affirming other rulings. On June 15, 2017, AAC filed a motion with the First Department for leave to appeal certain rulings in the May 16, 2017 decision to the Court of Appeals. Countrywide opposed the motion. On July 25, 2017, the First Department granted AAC's motion for leave to appeal. The briefing for this appeal has been completed, and oral argument is expected in 2018.

Ambac Assurance Corporation and The Segregated Account of Ambac Assurance Corporation v. Nomura Credit & Capital, Inc. and Nomura Holding America Inc. (Supreme Court of the State of New York, County of New York, Case No. 651359/2013, filed on April 15, 2013).

AAC alleges claims for material breach of contract and for the repurchase of loans that breach representations and warranties under the contracts, as well as damages. AAC has also asserted alter ego claims against Nomura Holding America, Inc. Defendants filed a motion to dismiss on July 12, 2013, which AAC opposed. The court held oral argument on November 13, 2013. On September 22, 2014, plaintiffs filed an amended complaint alleging claims for fraudulent inducement, material breach of contract and for the repurchase of loans that breach representations and warranties under the contracts, as well as damages. On October 31, 2014 defendants filed a motion to strike the amended complaint. AAC opposed that motion and at the court's recommendation also filed a cross motion for leave to amend the complaint on November 14, 2014, which the defendants opposed. Defendants filed a motion to dismiss the fraudulent inducement claim, which AAC opposed. The court heard oral argument on the defendants' motion to dismiss the fraudulent inducement claim on April 14, 2015. On June 3, 2015, the court denied defendants' July 2013 motion to dismiss AAC's claim for breaches of representations and warranties, but granted the defendants' motion to dismiss AAC's claims for breach of the repurchase protocol and for alter ego liability against Nomura Holding. On December 29, 2016, the court denied defendants' motion to strike AAC's amended complaint and its motion to dismiss the fraudulent inducement claim. On January 30, 2017, defendants filed a notice of appeal from that decision. On March 27, 2017, Nomura appealed the June 2015 decision to the extent it denied its motion to dismiss. AAC opposed that appeal. On December 7, 2017, the First Department affirmed the trial court's June 3, 2015 decision. Discovery is ongoing.

The Segregated Account of Ambac Assurance Corporation and Ambac Assurance Corporation v. Countrywide Home Loans, Inc. (Wisconsin Circuit Court for Dane County, Case No 14 CV 3511, filed on December 30, 2014) (the "Wisconsin Action").

AAC alleges a claim for fraudulent inducement in connection with AAC's issuance of insurance policies relating to five residential mortgage-backed securitizations that are not the subject of AAC's previously filed lawsuit against the same defendant. Defendant filed a motion to dismiss the complaint on February 20, 2015, which AAC opposed. The court heard oral argument on two of Countrywide's grounds for dismissal on June 23, 2015, and indicated that it would dismiss the Wisconsin Action without prejudice for lack of personal jurisdiction. The court issued an order to that effect on July 2, 2015. AAC appealed the July 2, 2015 order. On June 23, 2016, the Wisconsin Court of Appeals reversed the dismissal of the complaint, and on October 11, 2016, the Wisconsin Supreme Court granted Countrywide's petition for review of the June 23 decision by the Wisconsin Court of Appeals. On June 30, 2017, the Wisconsin Supreme Court reversed the decision of the Wisconsin Court of Appeals and remanded the case to the Wisconsin Court of Appeals for further proceedings. On December 14, 2017, the Wisconsin Court of Appeals affirmed the lower court's July 2, 2015 decision dismissing the case for lack of personal jurisdiction.

The Segregated Account of Ambac Assurance Corporation and Ambac Assurance Corporation v. Countrywide Home Loans, Inc. (Supreme Court of the State of New York, County of New York, Case No. 652321/2015, filed on June 30, 2015) (the "2015 New York Action").

AAC alleges claims identical to the Wisconsin Action. On July 21, 2015, plaintiffs filed a complaint in the 2015 New York Action and a motion to stay the 2015 New York Action pending appeal and litigation of the Wisconsin Action. On August 5, 2015, Countrywide filed its opposition to plaintiffs' motion to stay and on August 10, 2015, Countrywide filed a motion to dismiss the complaint, which AAC opposed. The court held oral argument in

November 2015 and on September 20, 2016 granted AAC's motion to stay. Countrywide's motion to dismiss the complaint is held in abeyance pending resolution of the Wisconsin Action.

Ambac Assurance Corporation and the Segregated Account of Ambac Assurance Corporation v. Countrywide Home Loans, Inc., Countrywide Securities Corp., Countrywide Financial Corp., and Bank of America Corp. (Supreme Court of the State of New York, County of New York, Case No. 653979/2014, filed on December 30, 2014).

AAC alleges a claim for fraudulent inducement in connection with AAC's issuance of insurance policies relating to eight residential mortgage-backed securitizations that are not the subject of AAC's previously filed lawsuits against the same defendants. On February 20, 2015, the Countrywide defendants filed a motion to dismiss the complaint, which Bank of America joined on February 23, 2015. AAC opposed the motion. On December 20, 2016, the court issued a decision denying the defendants' motion to dismiss. Discovery is ongoing.