



Restated Surplus Share Reinsurance Agreement, dated as of April 1, 2003 (the “Surplus Share Agreement”). AG Re, an affiliate of Assured Guaranty, and Ambac are parties to the Facultative Agreement, dated as of November 24, 2004 (the “Facultative Agreement”).

Copies of the Facultative Agreement and the Surplus Share Agreement are Exhibits A and B to the Affidavit of James Michener of May 4, 2011.

4. In June and November 2010, based on my discussions with counsel for the Assured Reinsurers and my review of email exchanges between counsel for the Assured Reinsurers and counsel for the Rehabilitator regarding the effect of the Order for Temporary Injunctive Relief issued by this Court and the Plan of Rehabilitation, respectively, on the Reinsurance Agreements, I understood that counsel for the Rehabilitator stated that because the Reinsurance Agreements remained in Ambac’s General Account, the Assured Reinsurers’ contractual rights against and obligations to Ambac under these agreements remained in effect.

5. Assured Guaranty received a Special Remittance dated March 18, 2011 from Ambac advising it of a payment pursuant to the commutation of a policy with Northstar T.H.E. Funding, III Single Risk 1671417 (“Northstar”), which was reinsured under the Surplus Share Agreement. Assured Guaranty did not object to the commutation.

6. In deciding how to respond to the Special Remittance, it made no difference to Assured Guaranty which entity made the payment. The fact that the Special Remittance came from Ambac, not from the Rehabilitator or the Segregated Account, and directed that Assured Guaranty pay its quota share to “our account” – that is, Ambac’s

account – not to the Segregated Account, confirmed Assured Guaranty’s understanding that its reinsurance relationship, including its payment obligations, remained with Ambac’s General Account, and were not allocated to the Segregated Account.

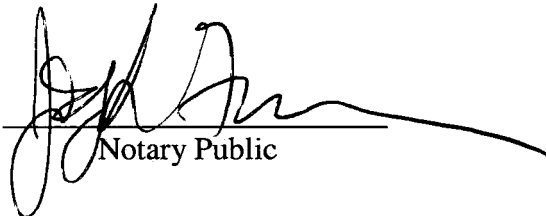
7. While Assured Guaranty believed it had technical defenses to payment under the Surplus Share Agreement, Assured Guaranty, as a reinsurer whose contract rights and obligations were not affected by the rehabilitation proceeding involving the Segregated Account, responded to Ambac’s letter just as it would have responded to any claim under a reinsurance agreement in a similar situation.

8. By a letter dated March 22, 2011 to Ambac, Assured Guaranty agreed to pay its share of the cash paid pursuant to the commutation agreement with Northstar, while reserving its rights to assert defenses and raise grounds for declining to make future payments, and asserting its position that the insolvency clause was not in effect.

9. On March 23, 2011, Assured Guaranty paid to Ambac, by wire transfer to Ambac’s bank account at the Bank of New York Mellon, Assured Guaranty’s quota share of the cash paid to Northstar.

  
PHILIP R. KASTELLEC

Sworn to before me this  
19th day of May, 2011.

  
Notary Public

JOSEPH M. FURNARI  
Notary Public, State of New York  
No. 01FU8046586  
Qualified in Westchester County 3  
Commission Expires August 14, 2014