STATE OF WISCONSIN CIRCUIT COURT DANE COUNTY

In the Matter of the Rehabilitation of:

Segregated Account of Ambac Assurance Corporation

Case No. 10 CV 1576

EIGHTH AFFIDAVIT OF ROGER A. PETERSON
(Special Deputy Commissioner for the Rehabilitation
of the Segregated Account of Ambac Assurance Corporation)
IN SUPPORT OF THE REHABILITATOR'S
AMENDED MOTION TO APPROVE PURCHASE OF SURPLUS NOTES

STATE OF NEW YORK)
) ss.
COUNTY OF NEW YORK)

Roger A. Peterson, being first duly sworn on oath, deposes and states as follows:

1. I am the Special Deputy Commissioner ("SDC") for the rehabilitation of the Segregated Account of Ambac Assurance Corporation ("Segregated Account"). I am making this affidavit for the purpose of supplementing the statements made in my Seventh Affidavit that was filed in these proceedings on May 16, 2012. Unless otherwise stated, capitalized terms refer to terms defined in my Seventh Affidavit. The statements in this affidavit are based on personal knowledge and information, and are offered in support of the Rehabilitator's Amended Motion to Approve Purchase of Surplus Notes.

2. Since the filing of my Seventh Affidavit on May 16, 2012, the Rehabilitator and I have determined that it is in the best interest of Segregated Account policyholders that Ambac not exercise its right under its Call Option with Bank B to purchase the Surplus Notes originally issued to Bank B (the "Bank B Notes"). The Rehabilitator and I believe that it is still in the best

interest of Segregated Account policyholders for Ambac to exercise its rights under its Call Options with Banks A and C to purchase the Surplus Notes issued to those two banks (respectively, the "Bank A Notes" and "Bank C Notes").

3. This decision results from a question which has arisen regarding the correct methodology for calculating the exercise price for the Bank A Call Options. One of the current holders of the Bank A Notes has suggested that, under the Bank A "most favored nation" provision, the rate-per-dollar paid for the Bank B Notes should be determined by combining the stated rate-per-dollar paid for the Bank B Notes (which is $.30) with interest accrued on the Bank B Notes through the date of purchase. Construed in that fashion (which the Rehabilitator and Ambac believe is incorrect), the rate-per-dollar cost of exercising the Bank B Call Option as of June 7, 2012 could be interpreted as being approximately $.405. Under that interpretation, if Bank B's Call Option were exercised prior to or simultaneously with Bank A's Call Option, the cost of the Bank A Notes could, arguably, more than double. The Rehabilitator and Ambac believe that interpretation contravenes both the plain meaning and intent of the Call Options. However, the Rehabilitator and I believe that being able to consummate the purchase of the Surplus Notes pursuant to the Bank A and Bank C Call Options without the cost, time delay and potential uncertainty of outcome associated with potentially having to deal with a possible dispute about the correct price for purchasing the Bank A Notes would be in the best interest of Segregated Account policyholders.

4. Another effect of not purchasing the Bank B Notes is that it avoids an increase in the purchase price for the Bank C Surplus Notes. As described in paragraph 20 of my Seventh Affidavit, the Bank C Call Option contains a most favored nation provision that would have required Ambac to match the rate-per-dollar paid to the holders of the Bank B Surplus Notes. By

not purchasing the Bank B Surplus Notes, the rate-per-dollar to be paid for the Bank C Surplus Note remains at \$.20, rather increasing to \$.30. As a result, the total purchase price for the Bank C Surplus Notes is approximately \$88 million, instead of approximately \$117 million.

5. The Rehabilitator believes that, while exercising the Call Option with Bank B even at the higher cost would still improve Segregated Account policyholder recoveries, the purchase of the Bank B Notes is not warranted under the circumstances presented here. Among other factors, the relatively small amount of the Notes subject to the Bank B Call Option, as compared to the other two Call Options, means that the potential for improving policyholder recoveries from buying the Bank B Notes is limited and less likely to offset the potential costs, delays, and uncertainties of outcome associated with addressing the potential dispute about the correct exercise price for purchasing the Bank A Notes.

6. The bottom-line difference between the cost of exercising all three Call Options versus exercising only the Call Options with Banks A and C, can be briefly summarized as follows. The total cost of exercising the Call Options with Banks A and C (but not Bank B) is approximately \$188 million, comprised of \$158 million of exercise proceeds based on a \$.20 call price and an amount equal to the approximately \$30 million of accrued interest associated with the Bank C Notes, all in exchange for reducing Ambac's liability to third parties for principal and accrued interest under all issued and outstanding surplus notes by approximately \$819 million, representing an effective exercise price of \$.23. By comparison, the cost of exercising all three of the Call Options as set forth in the Rehabilitator's Initial Motion is \$278 million, comprised of approximately \$232 million in exercise proceeds based upon a \$.20 call price for the Bank A Notes, a \$.30 call price for the Bank B and Bank C Notes and an amount equal to the approximately \$46 million of accrued interest associated with the Bank B and Bank C Notes, all

in exchange for reducing Ambac's liability to third parties for principal and accrued interest under all issued and outstanding surplus notes by approximately $985 million, representing an effective exercise price of $.28.

7. In order to evaluate the potential benefits of purchasing just the Bank A and Bank C Notes, I had my advisors at Jeffries & Co. and Gordian Group, LLC calculate the increases in total projected claim recoveries for Segregated Account policyholders resulting from the purchases, under the same four scenarios described at paragraphs 15 through 18 of my Seventh Affidavit. The results of that analysis are set forth in the table below.

	Scenario One	**Scenario Two**	**Scenario Three**	**Scenario Four**	**Four Scenario Average**
Present Value of Increase in Total Claim Recoveries (in millions)	$443	$338	$317	$200	$324
Increase in Percentage of Total Claim Recoveries	5.0%	3.8%	3.1%	1.9%	3.5%

8. As shown in the table, purchasing only the Bank A and Bank C Notes is expected to result in a material increase in the total claim recoveries received by Segregated Account policyholders. As a result, the Rehabilitator and I believe that purchasing only the Bank A and Bank C Surplus Notes is in the best interest of Segregated Account policyholders.

Dated this 23rd day of May, 2012.

Roger A Peterson

Roger A. Peterson

Subscribed and sworn to before me
this 23rd day of May, 2012.

Natalie Fernandez

Notary Public, State of New York.
My Commission: ______________

NATALIE A FERNANDEZ
NOTARY PUBLIC-STATE OF NEW YORK
No. 02FE6247503
Qualified in New York County
My Commission Expires 8/29/2015