

**RULES GOVERNING CEDED REINSURANCE CONTRACTS
FOLLOWING JUNE 4, 2012 INTERIM CASH PAYMENT ORDER**

August 28, 2012

Issued by
The Rehabilitator and the Special Deputy Commissioner
of the Segregated Account of Ambac Assurance Corporation

On March 24, 2010, the Circuit Court for Dane County, Wisconsin (the “Rehabilitation Court”) entered a rehabilitation order (the “Rehabilitation Order”), granting the petition of the Commissioner of Insurance of the State of Wisconsin to place the Segregated Account of Ambac Assurance Corporation (the “Segregated Account”) into rehabilitation and to appoint the Commissioner as the Rehabilitator for the Segregated Account (the “Rehabilitator”). On June 4, 2012, the Rehabilitation Court entered an order approving a motion by the Rehabilitator to commence making Interim Distributions on Permitted Policy Claims (the “Interim Cash Payment Order”). In order to facilitate an efficient and orderly process for the submission of Policy Claims to the Segregated Account and the evaluation, processing, and payment of Policy Claims by the Segregated Account pursuant to the Interim Cash Payment Order, the Rehabilitator promulgated the Rules Governing the Submission, Processing and Partial Payment of Policy Claims in Accordance with June 4, 2012 Interim Cash Payment Order, as filed with the Rehabilitation Court and effective on August 1, 2012 (as amended, modified or supplemented from time to time pursuant to the terms thereof, the “Policy Claim Rules”).¹

In order to preserve the value of reinsurance in respect of certain policies allocated to the Segregated Account and in recognition of certain requirements imposed by the reinsurance contracts to which AAC is a party as a ceding company (the “Ceded Reinsurance Contracts”), the Rehabilitator hereby issues the following rules, procedures and guidelines (as may be amended, modified or supplemented from time to time pursuant to the terms hereof, the “Rules”) to the Management Services Provider, AAC and each entity providing reinsurance in respect of policies allocated to the Segregated Account. These Rules are being filed with the Rehabilitation Court simultaneously with their posting online at www.ambacpolicyholders.com. They shall thereupon be effective.

These rules replace and supersede the Guidelines under Plan of Rehabilitation (Ceded Reinsurance) dated as of March 17, 2011.

1. As Management Services Provider, AAC will continue to handle the processing of Policy Claims pursuant to the Policy Claim Rules.

¹ Capitalized terms used herein and not defined herein shall have the meanings ascribed thereto in the Policy Claim Rules.

2. Pursuant to the Policy Claim Rules, the Segregated Account will pay Policy Claims once per month on the 20th of the month (or if such day is not a Business Day, on the next Business Day) (i.e., the Payment Date) if certain requirements are satisfied. Determinations as to which Policy Claims will be paid on the Payment Date in a given month will be made by the 15th day (or if such day is not a Business Day, on the next Business Day) of such month (i.e., the Determination Date).

3. No Pending Policy Claim shall be eligible to be considered a Permitted Policy Claim on a given Payment Date unless the Proof of Policy Claim Form and other required documentation was received by the Management Services Provider on or prior to 5:00 p.m. on the last Business Day of the month preceding the month in which such Payment Date occurs.

4. The Management Services Provider, on behalf of the Rehabilitator, shall notify reinsurers of Pending Policy Claims relating to Policies for which they provide reinsurance by sending reinsurers copies of Proof of Policy Claim Forms relating to such Policies, and any supporting documentation delivered with such Proof of Policy Claim Forms, promptly following its receipt thereof. The Management Services Provider shall use reasonable best efforts to so deliver each such Proof of Policy Claim Form (and supporting documentation, if any) within one Business Day of its validation of the underlying Policy Claim and, in any event (and whether or not such Policy Claim has been validated), by the later of (a) the last Business Day of the month in which it was received and (b) the Business Day next following the date on which it was received. Notwithstanding the foregoing and without prejudice to any rights to further information or inspection of any reinsurer under its applicable Ceded Reinsurance Contract, with respect to any Policy Claims submitted during the Moratorium Period, the Management Services Provider shall be required only to deliver Proof of Policy Claim Forms (and supporting documentation, if any) re-submitted to it pursuant to Section 1.04 of the Policy Claim Rules. The Management Services Provider shall deliver such Proof of Policy Claim Forms (and supporting documentation, if any) via email unless a reinsurer requests another method of delivery.

5. In connection with the delivery to a reinsurer of a Proof of Policy Claim Form containing details of a Pending Policy Claim submitted during the Moratorium Period, the Management Services Provider shall, in (or appended to) the bordereau submitted to the reinsurer pursuant to the Ceded Reinsurance Contract relating to the month in which such Policy Claim is Permitted or Disallowed, as the case may be, identify to such reinsurer such Pending Policy Claim as having been previously submitted during the Moratorium Period and provide such reinsurer with a reconciliation of the amounts (if any) billed to, and paid by, such reinsurer in respect of such Policy Claim during the Moratorium Period as against the amounts to be billed to, and paid by, such reinsurer (if any) in respect of such Policy Claim as re-submitted pursuant to Section 1.04 of the Policy Claim Rules. Without prejudice to the terms of any applicable Ceded Reinsurance Contract, each of the Management Services Provider and a reinsurer will, following delivery of a bordereau containing details of a reinsured Policy Claim reconciliation, use reasonable efforts to cooperate to resolve any discrepancies in respect of such Policy Claim reconciliation.

6. Reinsurers shall be permitted to investigate such Pending Policy Claims and interpose defenses as permitted by the applicable Ceded Reinsurance Contracts and in accordance with the procedures described in these Rules.

7. If, having been notified of a Pending Policy Claim as provided in paragraph 4 above, a reinsurer notifies the Management Services Provider, in the manner provided in paragraph 11 below, on or prior to 5:00 p.m. on the 10th day of the month (or if such day is not a Business Day, on the next Business Day) following the month in which such Policy Claim was submitted in accordance with Section 1.02 of the Policy Claim Rules, that such reinsurer intends to interpose a defense in respect of such Policy Claim, then the following rules shall apply:

(a) The reinsurer and the Management Services Provider shall as soon as reasonably practicable discuss the merits of such defense and share with one another all relevant information related to such defense and the subject Policy Claim, subject to appropriate confidentiality undertakings. The reinsurer shall explain with reasonable particularity the basis for such defense and provide all supporting documents necessary for the Management Services Provider and Rehabilitator to understand and assess the defense.

(b) If, at any time following the reinsurer's provision of notice that it intends to interpose any defense to a Pending Policy Claim, the reinsurer agrees with the Rehabilitator and Management Services Provider that no such defense should be asserted (or continue to be asserted) in response to the subject Policy Claim, then the Management Services Provider and the Rehabilitator may determine the subject Policy Claim to be a Permitted Policy Claim in accordance with the Policy Claim Rules.

(c) If, at any time following the reinsurer's provision of notice that it intends to interpose any defense to a Pending Policy Claim, the Rehabilitator and the Management Services Provider agree that such defense should be asserted (or continue to be asserted) in response to the subject Policy Claim (or a portion thereof, if applicable), the Management Services Provider or the Rehabilitator shall determine that such Policy Claim (or portion thereof, as applicable), is a Disputed Claim in accordance with Section 1.09 of the Policy Claim Rules. The Rehabilitator or Management Services Provider shall prepare an Objection to such Disputed Claim on the basis of such defense, and shall provide such reinsurer with a copy of such Objection promptly following the provision of such Objection to the relevant Holder pursuant to Section 1.09 of the Policy Claim Rules. The Rehabilitator or Management Services Provider shall provide such reinsurer with a copy of any response of such Holder to such Objection promptly following its receipt thereof.

(d) If, at any time following the reinsurer's provision of notice that it intends to interpose any defense to a Pending Policy Claim, the Management Services Provider or the Rehabilitator intend to decline to assert the defense raised by the reinsurer, the Management Services Provider or the Rehabilitator shall so notify the reinsurer and the reinsurer may, within ten (10) Business Days of the date of such notification, direct the Rehabilitator and the Management Services Provider in writing to determine that the subject Policy Claim (or portion thereof, as applicable) is a Disputed Claim in accordance with Section 1.09 of the Policy Claim Rules. The Rehabilitator or Management Services Provider and the reinsurer (each acting reasonably) shall cooperate to prepare an Objection to such Disputed Claim on the basis of such defense, and the Rehabilitator or the Management Services Provider shall provide such reinsurer with a copy of such

Objection promptly following the provision of such Objection to the relevant Holder pursuant to Section 1.09 of the Policy Claim Rules. The Rehabilitator or Management Services Provider shall provide such reinsurer with a copy of any response of such Holder to such Objection promptly following its receipt thereof.

(e) The failure by the reinsurer to direct the Rehabilitator and the Management Services Provider in writing to determine that the subject Policy Claim (or portion thereof, as applicable) is a Disputed Claim prior to the close of business on the tenth (10th) Business Day after the date of notification from the Management Services Provider or the Rehabilitator that it declines to assert the defense raised by the reinsurer pursuant to paragraph 7(d) (i) shall permit the Management Services Provider and the Rehabilitator to make such determinations in their sole discretion with respect to the subject Policy Claim, including, without limitation, any determination that the subject Policy Claim (or any portion thereof) is a Permitted Policy Claim, and (ii) shall constitute a waiver by such reinsurer of its rights under the insolvency clause of any applicable Ceded Reinsurance Contract to further interpose any defense available to AAC, the Segregated Account or the Rehabilitator with respect to, such Policy Claim. Such waiver shall not apply to any other right to (i) inspect records or to (ii) raise any other defense available to the reinsurer under its applicable Ceded Reinsurance Contract or at law.

(f) Following an Objection to the subject Policy Claim and subsequent response to such Objection by the relevant Holder, if the Management Services Provider or the Rehabilitator intend to decline (or continue to decline) to assert the defense raised by the reinsurer and so notify the reinsurer, the reinsurer may, within 10 Business Days of the date on which the reinsurer received such notification from the Rehabilitator or the Management Services Provider, direct the Rehabilitator and the Management Services Provider in writing to determine that such Disputed Claim (or the portion that is not disputed by the Rehabilitator or the Management Services Provider) is fully or partially a Disallowed Claim in accordance with Section 1.09 of the Policy Claim Rules. In any subsequent proceeding before the Rehabilitation Court brought by the Holder of such Policy Claim pursuant to Section 1.09 of the Policy Claim Rules, the reinsurer shall be permitted to interpose any defense to the subject Policy Claim (or portion thereof) in connection with such adjudication of the subject Policy Claim by the Rehabilitation Court. The Rehabilitator may support such defense to the subject Policy Claim, or may oppose such defense in support of the payment of the subject Policy Claim. If the Rehabilitator supports such defense to the subject Policy Claim (or portion thereof, as applicable) on the basis of the defense raised by the reinsurer pursuant to this paragraph 7(f), the reinsurer shall be permitted the opportunity, at its own expense, to associate with the Rehabilitator in the defense against the subject Policy Claim in any proceeding before the Rehabilitation Court. If the Rehabilitator opposes such defense in support of the payment of the subject Policy Claim (or portion thereof, as applicable), the reinsurer shall have sole responsibility for asserting the defense to payment of the subject Policy Claim in any proceeding before the Rehabilitation Court.

(g) The failure by the reinsurer to direct the Rehabilitator in writing to determine that such Disputed Claim is fully or partially a Disallowed Claim prior to the close of business on the tenth (10th) Business Day after the date of notification from the

Management Services Provider or the Rehabilitator that it declines to assert or continue to assert the defense raised by the reinsurer pursuant to paragraph 7(f) (i) shall permit the Management Services Provider and the Rehabilitator to make such determinations in their sole discretion with respect to the subject Policy Claim, including, without limitation, any determination that the subject Policy Claim (or any portion thereof) is a Permitted Policy Claim, and (ii) shall constitute a waiver by such reinsurer of its rights under the insolvency clause of any applicable Ceded Reinsurance Contract to further interpose any defense available to AAC, the Segregated Account or the Rehabilitator with respect to, such Policy Claim. Such waiver shall not apply to any other right to (i) inspect records or to (ii) raise any other defense available to the reinsurer under its applicable Ceded Reinsurance Contract or at law.

(h) With respect to such Policy Claim, the reinsurer will be prohibited from raising the same defense in any subsequent collection action brought by the Rehabilitator, Management Services Provider or AAC against the reinsurer for nonpayment of reinsurance in respect of such Policy Claim.

8. If a reinsurer is notified of a Pending Policy Claim as provided in paragraph 4 hereof, then any failure by such reinsurer to notify the Management Services Provider that it intends to interpose any defense to a Pending Policy Claim by 5:00 p.m. on the 10th day (or if such day is not a Business Day, on the next Business Day) following the month in which such Policy Claim was submitted (i) shall permit the Management Services Provider and the Rehabilitator to make such determinations in their sole discretion with respect to the subject Policy Claim, including, without limitation, any determination that the subject Policy Claim (or any portion thereof) is a Permitted Policy Claim, and (ii) shall constitute a waiver by such reinsurer of its rights under the insolvency clause of any applicable Ceded Reinsurance Contract to further investigate, or to interpose any defense available to AAC, the Segregated Account or the Rehabilitator with respect to, such Policy Claim. Such waiver shall not apply to any other right to (i) inspect records or to (ii) raise any other defense available to the reinsurer under its applicable Ceded Reinsurance Contract or at law.

9. If the Rehabilitator intends to implement any Alternative Resolution of a Policy Claim or potential Policy Claim relating to a Policy for which there is in-force reinsurance, and such Alternative Resolution would involve a possible liability on the part of any reinsurer, then the following rules shall apply:

(a) The Rehabilitator or the Management Services Provider (on behalf of the Rehabilitator) shall provide written notice to such reinsurer that it is considering such Alternative Resolution at least 15 days prior to the implementation thereof (the "Alternative Resolution Notice").

(b) The reinsurer shall be permitted to investigate such Policy Claim or potential Policy Claim and shall be provided with all relevant information relating to the proposed Alternative Resolution, subject to appropriate confidentiality undertakings. If the applicable Ceded Reinsurance Contract(s) include a right to interpose defenses, the reinsurer shall have the opportunity to interpose defenses in accordance with the procedures set forth in these Rules.

(c) If a reinsurer notifies the Rehabilitator and the Management Services Provider, in the manner provided in paragraph 11 below, within 10 days of the date of the Alternative Resolution Notice that such reinsurer intends to interpose a defense in respect of such Policy Claim or potential Policy Claim or Alternative Resolution thereof, then the Rehabilitator and the Management Services Provider shall negotiate promptly with the reinsurer to reach a resolution of its objections to the Alternative Resolution of such Policy Claim. If a timely resolution is not reached, the dispute shall be submitted to the Rehabilitation Court for resolution.

(d) Any failure by a reinsurer to notify the Rehabilitator and the Management Services Provider within 10 days of the date of the Alternative Resolution Notice that it intends to interpose a defense to a Policy Claim or potential Policy Claim with respect to which the Rehabilitator intends to implement an Alternative Resolution shall constitute a waiver by such reinsurer of its rights under the insolvency clause of any applicable Ceded Reinsurance Contract to further investigate, or to interpose a defense available to AAC, the Segregated Account or the Rehabilitator with respect to the Alternative Resolution thereof. Such waiver shall not apply to any other right to inspect records or to raise defenses available to the reinsurer under the applicable Ceded Reinsurance Contract or law.

10. These Rules shall control with respect to any inconsistent provisions of the Plan of Rehabilitation that provide or impose rules, procedures, guidelines and/or obligations for, or on, any party with respect to the rights and obligations of the parties under the terms of any Ceded Reinsurance Contract. In the event of any direct conflict between the terms of these Rules, on the one hand, and applicable law or the terms of any Ceded Reinsurance Contract, on the other hand, applicable law or the terms of such Ceded Reinsurance Contract, as applicable, shall govern. The failure on the part of a Person to adhere strictly to these Rules shall not excuse another Person from performing the obligations required to be performed by it under a Ceded Reinsurance Contract so long as such failure would not be expected to materially harm or prejudice the Person by whom such adherence is sought. These Rules may be supplemented, modified or withdrawn by the Rehabilitator at any time or from time to time in the Rehabilitator's sole discretion after 15 Business Days have elapsed since the delivery of notice by the Rehabilitator or the Management Services Provider of such supplement, modification or withdrawal to affected reinsurers, and during such period of 15 Business Days each reinsurer shall have the opportunity to comment on any such supplement, modification or withdrawal.

11. All notices provided under these Rules shall be effective if delivered in writing by email to (a) in the case of a reinsurer, such authorized representatives of such reinsurer as shall be specified in writing to the Management Services Provider from time to time, and (b) in the case of the Rehabilitator or the Management Services Provider, Reinsurance_Communication@ambac.com or to such other authorized representatives of the Management Services Provider as the Management Services Provider shall specify in writing to reinsurers from time to time. Additionally, notifications of intent to interpose a defense provided by reinsurers pursuant to paragraphs 7 or 9 hereof shall be in the form attached hereto as Exhibit A and shall also be emailed to claimsprocessing@ambac.com.

12. Unless notified to the contrary by no later than July 31, 2012, the Management Services Provider and the Rehabilitator shall be entitled to rely upon the contact information previously provided to the Management Services Provider by each reinsurer for the email address(es) of its authorized representative(s) who are to receive notices as described in paragraph 11 above.

13. All dates, times and day counts referred to in these Rules shall be understood to refer to such dates, times and day counts in New York.

Exhibit A

Form of Notification of Intent to Interpose Defense

Date: [_____]

Ambac Assurance Corporation,
*as Management Services Provider of
the Segregated Account of Ambac Assurance Corporation*
One State Street Plaza
New York, NY 10004

Attention: Claims Processing
Email: claimsprocessing@ambac.com
Facsimile: (212) 208-3404

With copies to:

- Reinsurance_Communication@ambac.com
- Manager, Securities Settlements
Email: OpsGroup@Ambac.com
Facsimile: (212) 208-3507
- General Counsel
Facsimile: (212) 208-3384

Reference Policy Number: [_____]

The undersigned is in receipt of a Proof of Policy Claim Form dated _____ with respect to the above-referenced Policy, a copy of which is attached hereto. The undersigned hereby notifies Ambac Assurance Corporation, as Management Services Provider for the Segregated Account of Ambac Assurance Corporation, that the undersigned intends to interpose a defense in respect of the Claim identified in such Proof of Policy Claim Form for the following reason(s):

[Explain with particularity the basis for such defense and provide all supporting documents necessary for the Management Services Provider and Rehabilitator to understand and assess the objection.]

[_____]

By _____
Name:
Title: