

## PAYMENT GUIDELINES FOR PLAN OF REHABILITATION, AS AMENDED

Date: June 12, 2014

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 “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 January 24, 2011, the Court issued an order confirming the Plan of Rehabilitation for the Segregated Account, which became effective, following the Amendments, on the Effective Date.<sup>1</sup>

In order to facilitate an efficient and orderly process for the submission of Policy Claims and General Claims to the Segregated Account and the evaluation, processing, and payment of Claims by the Segregated Account pursuant to the Plan, 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 “Payment Guidelines”). These Payment Guidelines are being posted online at [www.ambacpolicyholders.com](http://www.ambacpolicyholders.com), and shall be effective on the Effective Date.

These Payment Guidelines replace and supersede the Guidelines under Plan of Rehabilitation (Claims Processing for Policy Claims) dated as of February 18, 2011, and the Rules Governing the Submission, Processing and Partial Payment of Policy Claims of the Segregated Account of Ambac Assurance Corporation in Accordance With June 4, 2012 Interim Cash Payment Order (the “Interim Cash Payment Rules”). These Payment Guidelines do not apply to payments relating to financial guaranty policy no. 17548BE, known as the “LVM Policy,” which shall be controlled by the LVM Payment Guidelines dated June 12, 2014, as amended and supplemented from time to time.

For illustration purposes, these Payment Guidelines are accompanied by a series of examples showing, as applicable, the disbursement of Interim Payments, the creation of Deferred Loss Amounts and Accretion Amounts, the reallocation of Deferred Loss Amounts, and the application of Recovery Amounts in three separate contexts: (i) Write Down Transactions; (ii) transactions affected by Undercollateralization; and (iii) Certain Multi-CUSIP Policies. The examples are attached hereto as Exhibits C, D, and E, respectively.

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<sup>1</sup> Unless otherwise defined herein or in the Plan, capitalized terms used herein shall have the meanings specified in Exhibit A hereto. Such meanings shall be equally applicable to both the singular and plural forms of such terms, unless the context otherwise requires.

## ARTICLE I

### Submission and Processing of Policy Claims

**1.1 Policy Claims Administration.** Pursuant to the Management Services Agreement, the Rehabilitator has engaged the Management Services Provider to assist him and the Segregated Account in processing all Policy Claims. Subject to the oversight and control of the Special Deputy Commissioner and the Rehabilitator, the Management Services Provider is responsible for administering, disputing, objecting to, compromising or otherwise resolving all Policy Claims in accordance with the Plan, these Payment Guidelines and the Segregated Account Operational Documents, together with any other rules or guidelines issued by the Rehabilitator or the Special Deputy Commissioner under any of the foregoing, all existing orders of the Court and the specific directions of the Rehabilitator or the Special Deputy Commissioner.

**1.2 Submission of Policy Claims.** Each Holder of a Policy Claim, whether acting on its own behalf or in its capacity as Trustee, including any Policy Claim arising prior to the Effective Date (but not already submitted to the Management Services Provider in accordance with the provisions of the Interim Cash Payment Rules), shall submit to the Management Services Provider (i) such Policy Claim in accordance with, and including such information as is required by, the provisions of the applicable Policy and any other Transaction Document(s) giving rise to or governing the submission of such Policy Claim, and (ii) a fully completed and duly executed Proof of Policy Claim Form in the form attached hereto as Exhibit B relating to such Policy Claim, including the Claim Schedule referred to therein. Each Holder shall submit all Policy Claims covered by the same Policy and for the same Claim Period on one Proof of Policy Claim Form (and Claim Schedule), and shall therein identify each Insured Obligation (by CUSIP, if any) to which each such Policy Claim relates, as required by the Claim Schedule relating to such Proof of Policy Claim Form. A separate Proof of Policy Claim Form and Claim Schedule shall be submitted for all Policy Claims relating to the same Policy for each Claim Period. Each such Policy Claim submitted in accordance with this Section and Section 1.3, and meeting the requirements of Section 1.4, shall be referred to as a Pending Policy Claim.

**1.3 Timing for Submission of Policy Claims.** A Holder shall not submit a Policy Claim any earlier than permitted under the relevant Policy or other Transaction Document giving rise to or governing the submission of such Policy Claim; provided however, that a Holder shall submit a Policy Claim in a timely manner such that it is determined not to be a Late Claim.

**1.4 Pending Policy Claim.** No Policy Claim shall become a Pending Policy Claim unless the Holder of such Policy Claim fully and properly complies with (i) the requirements of Sections 1.2 and 1.3 hereof, as applicable, (ii) the requirements of the Proof of Policy Claim Form (including the Claim Schedule referred to therein) with respect to such Policy Claim, and (iii) any other guidelines or further directions issued by the Rehabilitator from time to time.

**1.5 Eligibility of Pending Policy Claims.** No Policy Claim shall be eligible to be considered a Permitted Policy Claim on any Payment Date following the date of submission by the Holder (including the first Payment Date to occur after the Effective Date) unless it is a Pending Policy Claim on or prior to 5:00 p.m. (Eastern Time) on the last Business Day of the

calendar month immediately preceding the calendar month in which such Payment Date occurs, unless the Rehabilitator determines otherwise in his sole and absolute discretion.

**1.6 Evaluation of Pending Policy Claims.** The Management Services Provider shall evaluate each Pending Policy Claim to determine whether the amount set forth in the Proof of Policy Claim Form is a Permitted Policy Claim or whether an Objection should be raised as to such Policy Claim in accordance with Section 4.1 hereof. The Management Services Provider may, from time to time, ask any Holder to supplement its Pending Policy Claim with further supporting documentation in order to evaluate and decide whether to Permit such Pending Policy Claim. Upon the determination by the Management Services Provider and the Rehabilitator that a Pending Policy Claim constitutes a Permitted Claim, such Policy Claim shall be considered a Permitted Policy Claim.

**1.7 No Re-Submission of Policy Claims.** Unless required or permitted by the Rehabilitator, the Segregated Account or the Management Services Provider, a Holder shall not submit a Policy Claim to the Management Services Provider more than once or in more than one Proof of Policy Claim Form, including without limitation, any Policy Claim previously submitted by a Holder to the Management Services Provider or the Segregated Account in accordance with the Interim Cash Payment Rules. For the avoidance of doubt, unless required by the Rehabilitator, the Segregated Account or the Management Services Provider, a Holder may not submit a subsequent Proof of Policy Claim Form for any portion of a Permitted Policy Claim not satisfied pursuant to any Payment, or for any Pending Claim, Disputed Claim, Late Claim or Disallowed Claim.

**1.8 No Duplicative Recovery.** No Holder or Beneficial Holder of any securities insured by a Policy shall be entitled to receive consideration (whether from Payments, Recovery Amounts or other amounts received from any other source) on account of its Permitted Policy Claim that exceeds 100% of the amount of such Permitted Policy Claim, other than Accretion Amounts.

## ARTICLE II

### Payments on Permitted Policy Claims

**2.1 Interim Payments.** Each Holder of a Permitted Policy Claim shall receive an Interim Payment unless (i) the Court or the Rehabilitator (in his sole and absolute discretion) has permitted an Alternative Resolution of such Permitted Policy Claim, or (ii) the Holder already received an Interim Payment in respect of such Permitted Policy Claim pursuant to the Interim Cash Payment Rules, as contemplated by Section 2.18 of these Payment Guidelines.

**2.2 Procedure for Interim Payments.** If the Management Services Provider, the Rehabilitator or the Court has determined that a Pending Policy Claim constitutes a Permitted Policy Claim, the Segregated Account shall pay to the Holder of such Permitted Policy Claim an Interim Payment in Cash. Any Interim Payment in respect of a Permitted Policy Claim shall be made on the first Payment Date occurring after the Determination Date by which it was determined to be a Permitted Policy Claim. Such Interim Payment shall be paid by the Segregated Account to the account identified by the Holder in the Proof of Policy Claim Form

relating to such Permitted Policy Claim; *provided that*, any Holder acting in its capacity as Trustee shall, in accordance with the provisions of the Transaction Documents relating to such Policy, distribute such Interim Payment (solely in respect of Insured Obligations) on the Bond Distribution Date immediately following the Payment Date on which such Interim Payment was made. For the avoidance of doubt, notwithstanding each Holder's obligation to submit all Policy Claims covered by the same Policy on one Proof of Policy Claim Form and to identify therein each Insured Obligation (by CUSIP, if any) to which each such Policy Claim relates (as applicable), as set forth in Section 1.2 hereof, on each Payment Date the Rehabilitator or the Segregated Account shall pay to the Holder a single aggregate Interim Payment for all Permitted Policy Claims that relate to the same Policy.

**2.3 Increases to the Interim Payment Percentage.** The Rehabilitator may increase the Interim Payment Percentage from time to time if, based on his analysis of the estimated liabilities and available claims-paying resources of the Segregated Account, the Rehabilitator has determined, in his sole and absolute discretion, that such action is equitable to the interests of the Holders of Policy Claims generally. The Rehabilitator shall announce his intention to increase the Interim Payment Percentage by filing with the Court and posting on the Website an IPP Notice. The Rehabilitator shall determine the amount of any increase in the Interim Payment Percentage in his sole and absolute discretion, based on such analysis. In determining whether an increase in the Interim Payment Percentage is equitable to the interests of the Holders of Policy Claims generally, the Rehabilitator shall consider whether, in conjunction with any such increase, a Deferred Payment should be made under Section 2.7 of these Payment Guidelines.

**2.4 Deferred Amounts.** Unless the Court or the Rehabilitator (in his sole and absolute discretion) has permitted an Alternative Resolution of a Policy Claim, the Rehabilitator shall cause the Segregated Account to establish a Deferred Amount for each Policy in respect of which an Interim Payment has been made or has been deemed to be made pursuant to Section 2.18 of these Payment Guidelines, or in the case of a Policy that insures multiple Insured Obligations, each Insured Obligation insured by such Policy in respect of which an Interim Payment has been made or has been deemed to be made. In the case of Certain Multi-CUSIP Policies, the Deferred Amount relating to such Policies shall be established, allocated and/or paid in a manner that is substantially similar to the procedure shown in the "Reallocation of Deferred Loss Amount Example" attached hereto as Exhibit E, but in each case as determined by the Rehabilitator and communicated by the Management Services Provider to the Holder during the Reconciliation process described in Section 2.5 of these Payment Guidelines. In no event shall an uninsured bondholder receive or be allocated any Deferred Amount or Payment.

With respect to each such Policy or Insured Obligation, as the case may be, the Deferred Amount shall be: (A) as of the first Bond Distribution Date occurring after the first Interim Payment made or deemed made by the Segregated Account in respect of a Permitted Policy Claim relating to such Policy or Insured Obligation, the higher of (i) the amount equal to the Permitted Policy Claim Amount less the amount of any Payment and less any Recovery Amount, in each case established, paid or received with respect to such Policy or Insured Obligation since the immediately preceding Bond Distribution Date, and (ii) zero; and (B) as of each subsequent Bond Distribution Date, the higher of (i) the amount equal to the Deferred Amount as of the immediately preceding Bond Distribution Date, plus any Accretion Amounts accrued since the immediately preceding Bond Distribution Date, plus any Permitted Policy Claim Amount, less

the amount of any Payment, less any Recovery Amount, and less any and all amounts which reduce the Deferred Amount pursuant to Sections 2.13, 4.2 and 4.3, in each case in this subparagraph (B)(i), as established, paid or received with respect to such Policy or Insured Obligation since the immediately preceding Bond Distribution Date, and (ii) zero.

**2.5 Reconciliation of Deferred Loss Amounts.** On a semi-annual basis, in accordance with the schedule set forth below, the Management Services Provider, on behalf of the Segregated Account and the Rehabilitator, and any Holders of any outstanding Deferred Amounts, including those acting in their capacity as Trustee, shall reconcile the Deferred Loss Amounts relating to such Permitted Policy Claims. Such reconciliations (each, a “Reconciliation”) shall be completed with respect to each Policy in respect of which there is an outstanding Deferred Amount, or in the case of a Policy that insures multiple Insured Obligations, each Insured Obligation insured by a Policy by CUSIP (if any) in respect of which there is an outstanding Deferred Amount.

Provided that a Holder, and/or its paying agent or calculating agent, as applicable, has complied with any request of the Management Services Provider (as described below), the Management Services Provider shall complete each Reconciliation by delivering, no later than April 1 and October 1 of each year following the Effective Date (or if any such day is not a Business Day, the first Business Day following such day), a Reconciliation Notice relating to each Policy and the Insured Obligations insured thereunder by CUSIP, as the case may be, to the relevant Holder of the related Deferred Amount, using personal delivery, first class mail or electronic mail, showing the Management Service Provider’s calculation, as of the relevant Reconciliation Date (but not including any Payments made on or after such Reconciliation Date), of the Deferred Loss Amounts relating to such Insured Obligation or Policy. The Reconciliation Date for Reconciliation Notices delivered no later than April 1 shall be January 20 (or, if any such Reconciliation Date is not a Business Day, the first Business Day immediately preceding such Reconciliation Date) of the same calendar year, and the Reconciliation Date for Reconciliation Notices delivered no later than October 1 shall be July 20 of the same calendar year (or if any such Reconciliation Date is not a Business Day, the first Business Day immediately preceding such Reconciliation Date); *provided, however*, that the first Reconciliation Date following the Effective Date of the Plan shall be July 20, 2014, or the first Payment Date thereafter specified by the Rehabilitator, whichever is later. Following delivery of each of the semi-annual Reconciliation Notices contemplated by this Section 2.5, and, as necessary, completion of any dispute resolution proceedings described below, the Rehabilitator will post to the Website a schedule showing all outstanding Deferred Amounts, including the aggregate of all unpaid and outstanding Accretion Amounts.

The Management Services Provider or the Rehabilitator may, from time to time, ask a Holder to promptly provide, or cause its paying agent or calculating agent, as applicable, to promptly provide, information and/or further supporting documentation in order to evaluate a Deferred Loss Amount and/or a Reconciliation and/or in order to assist the Management Services Provider in preparing a Reconciliation Notice. Such Holder, paying agent or calculating agent shall be required to deliver any such information and/or supporting documentation within the time frame specified for delivery of such information in the reasonable request made by the Management Services Provider or the Rehabilitator and Section 2.9 hereof shall apply if the Holder, paying agent or calculating agent does not do so.

If a Holder wishes to dispute, for any reason, a Reconciliation Notice issued by the Management Services Provider, the Holder shall, no later than 45 days after delivery of such Reconciliation Notice (the “Opposition Period”), send to the Management Services Provider a written response to the Reconciliation Notice. Such written response (and any related written communications) shall be delivered by email to:

[claimsprocessing@ambac.com](mailto:claimsprocessing@ambac.com)

with a copy to:

[claimsobjections@ambac.com](mailto:claimsobjections@ambac.com).

The response must clearly set forth all facts and the legal basis, if any, for the opposition and the reasons why the Reconciliation Notice is incorrect. If no response is sent by the Holder within such Opposition Period, the Reconciliation shall be deemed final as of the relevant Reconciliation Date, and no further dispute resolution shall be permitted. If a response is submitted within such Opposition Period, the Rehabilitator shall resolve such dispute with the Holder in accordance with these Payment Guidelines and communicate such resolution to the Holder in writing. Only in the event that a response is submitted within such Opposition Period by the Holder, and the Management Services Provider issues a written resolution against the Holder (a “Resolution”), shall the Holder have the right to file a motion with the Court asserting that the Reconciliation Notice is incorrect. Any such motion must be filed by the Holder no later than the 30<sup>th</sup> day after the delivery of such Resolution to the Holder. If no motion is filed by the 30<sup>th</sup> day after the delivery of such Resolution to the Holder, the Reconciliation shall be deemed final as of the relevant Reconciliation Date and no further dispute resolution shall be permitted. If at any time, pursuant to this Section 2.5, the Reconciliation is deemed final and no further dispute resolution shall be permitted, the Management Services Provider and the Rehabilitator’s calculation of the Deferred Loss Amount shall apply for the purposes of these Payment Guidelines.

**2.6 Allocation Schedules.** To assist with the Reconciliation process contemplated by this Article 2, following the receipt by a Holder of any Payment in respect of a Permitted Policy Claim under the Plan, such Holder receiving such Payment, or its paying agent or calculating agent, as applicable, shall, on or before the Allocation Schedule Deadline, submit to the Management Services Provider, by e-mail to [claimsprocessing@ambac.com](mailto:claimsprocessing@ambac.com), a fully completed and duly executed Allocation Schedule in respect of the application of such Payment, in the form attached to the Proof of Policy Claim Form which is set forth in Exhibit B to these Payment Guidelines. Provided that the Allocation Schedule is submitted on or before the Allocation Schedule Deadline, an Allocation Schedule may be submitted either together with a Proof of Policy Claim Form relating to the Policy pursuant to which the relevant Payment was made or separately. The requirement to submit an Allocation Schedule may be waived by the Management Services Provider, in its sole and absolute discretion, if the information required by the Allocation Schedule is contained in a remittance, trust or other report, in a form acceptable to the Management Services Provider.

**2.7 Deferred Payments.** The Rehabilitator may determine to make a Deferred Payment if, based on an analysis of the estimated liabilities and available claims-paying

resources of the Segregated Account, the Rehabilitator has determined, in his sole and absolute discretion, that such action is equitable to the interests of the Holders of Policy Claims generally. The Rehabilitator shall announce his intention to make a Deferred Payment, by filing with the Court and posting on the Website a Deferred Payment Notice. The Rehabilitator shall determine the Deferred Payment Percentage in connection with any such Deferred Payment in his sole and absolute discretion, based on such analysis. In determining whether a Deferred Payment is equitable to the interests of the Holders of Policy Claims generally, the Rehabilitator shall consider whether, in conjunction with any such Deferred Payment, among other things, the Interim Payment Percentage should be increased under Section 2.3 of these Payment Guidelines. Deferred Payment Notices shall identify the Deferred Payment Percentage and the anticipated Deferred Payment Date for the Deferred Payment.

**2.8 Surplus Note Payments.** On or about the Deferred Payment Date when any Deferred Payment is made, the Segregated Account shall pay the holder of each outstanding Surplus Note an amount equal to the product of (i) the Deferred Payment Percentage applicable to such Deferred Payment and (ii) the sum of the principal and accrued but unpaid interest outstanding, as of the immediately preceding Reconciliation Date, under each such Surplus Note. Any such payment shall be applied in accordance with the terms of the Surplus Notes and any applicable fiscal agency agreement, and shall be deemed approved by OCI in accordance with Wis. Stat. § 611.33(2)(d).

**2.9 Eligibility for Deferred Payments.** A Holder of a Permitted Policy Claim shall not be eligible to receive a Deferred Payment announced by the Rehabilitator pursuant to these Payment Guidelines until the later of the relevant Deferred Payment Date and the Payment Date following the first Determination Date on which (i) it and each Beneficial Holder of the Insured Obligation relating to such Permitted Policy Claim, and any paying agent or calculating agent, as applicable, are not in violation of the Plan, the Injunction, these Payment Guidelines, or any other order of the Court relating to the Segregated Account, (ii) all Reconciliations of Deferred Loss Amounts relating to such Insured Obligation have been finally determined in accordance with these Payment Guidelines, and (iii) it, or its' paying agent or calculating agent, as applicable, has provided all information and supporting documentation reasonably requested by the Rehabilitator and the Management Services Provider pursuant to these Payment Guidelines.

**2.10 Procedure for Deferred Payments.** For each Holder eligible to receive a Deferred Payment announced by the Rehabilitator pursuant to Section 2.7, as determined by the Rehabilitator in his sole and absolute discretion, the Segregated Account shall, on or before the Deferred Payment Date, in satisfaction of its liabilities under the Permitted Policy Claim (insofar as they relate to the portion of such Deferred Payment Amount attributable to the Deferred Loss Amount), pay the Deferred Payment relating to such Insured Obligation to the relevant Holder or a Paying Agent, as applicable, in an amount equal to the product of (i) the Deferred Payment Percentage announced by the Rehabilitator and (ii) the sum of (y) the Deferred Loss Amount set forth in the most recent Reconciliation Notice (or, if a Holder has disputed a Reconciliation Notice in accordance with the procedures set forth in Section 2.5 of these Payment Guidelines, the Deferred Loss Amount determined as a result of such dispute resolution procedures) and (z) the aggregate of all outstanding Accretion Amounts posted by the Rehabilitator to the Website pursuant to Section 2.5 of these Payment Guidelines. Any Holder acting in its capacity as Trustee shall, on the Bond Distribution Date immediately following the Deferred Payment Date

on which the Deferred Payments were made, distribute to the Beneficial Holders all Deferred Payment Amounts (a) in respect of Deferred Loss Amounts, in accordance with the most recent Reconciliation Notice (or, if a Holder has disputed a Reconciliation Notice in accordance with the procedures set forth in Section 2.5 of these Payment Guidelines, then in accordance with the result of such dispute resolution procedures), and (b) in respect of Accretion Amounts, in accordance with the written direction of the Management Services Provider, on behalf of the Rehabilitator. If any Accretion Amounts are paid to a Holder in its capacity as Trustee or other paying agent for and on behalf of Beneficial Holders, such Holder shall establish a separate account solely for the purpose of paying Accretion Amounts and such amounts shall not be paid to or through any trust or REMIC to any Beneficial Holder.

**2.11 Paying Agent Obligations.** If, in accordance with the Plan, the Segregated Account has retained and elects to use (in the sole and absolute discretion of the Rehabilitator) a Paying Agent in connection with any Deferred Payment relating to an Insured Obligation, then the Paying Agent, unless otherwise directed by the Rehabilitator, shall: (i) on the Deferred Payment Date, distribute all Deferred Payment Amounts in respect of Deferred Loss Amounts relating to such Insured Obligation to the Holder of the relevant Permitted Policy Claim using the account information provided in the most recent Proof of Policy Claim Form, and such Holder shall then distribute such Deferred Loss Amounts to the Beneficial Holders of such Insured Obligations to which such Deferred Loss Amounts apply; and (ii) on or before the next occurring Bond Distribution Date relating to the relevant Insured Obligation, distribute any Deferred Payment Amounts in respect of Accretion Amounts directly to the then-current (or, when a Deferred Loss Amount has been reduced to zero, the last) Beneficial Holders of the Insured Obligation via DTC or in such other manner that is reasonably available to the Paying Agent. All Trustees shall permit, and provide any authorization, direction or special direction (but not indemnification) needed for, the Segregated Account, AAC, any Paying Agent and/or DTC to make, process and/or accept any Payments (including, without limitation, Accretion Amounts) contemplated by these Payment Guidelines.

**2.12 Reimbursements on Policy Claims.** Notwithstanding the Proceeding, any provisions of the Interim Cash Payment Rules, the Plan, the Disclosure Statement and/or any amendments thereto, unless waived in writing by the Management Services Provider or the Rehabilitator (following consultation with AAC), AAC shall be entitled to collect any Reimbursement Amounts that it becomes, or is, entitled to receive under the Transaction Documents in relation to any: (i) payments made prior to the Petition Date pursuant to, and in accordance with, the applicable Policy and any related Transaction Documents; (ii) payments made according to the Interim Cash Payment Rules; (iii) Payments made (other than Accretion Amounts); and (iv) other amounts paid by or on behalf of the Segregated Account in respect of an Insured Obligation, and in any case where such payment is made by a Person other than AAC, then in each such case as if AAC had paid such amount under the relevant Policy to the Holder directly.

**2.13 Recoveries on Policy Claims.** Notwithstanding the Proceeding, any provisions of the Interim Cash Payment Rules, these Payment Guidelines, the Plan, the Disclosure Statement and/or any amendments or supplements thereto, the Segregated Account shall be entitled, in the Rehabilitator's sole and absolute discretion, to reduce its obligations under the Plan to the Holders of Permitted Policy Claims by any Recovery Amounts attributable to such

Holders or the relevant Insured Obligations, whether by: (i) reducing the amount of any Payments to such Holders; (ii) reducing the Deferred Amount(s) established for such Holders in accordance with Section 2.4 of these Payment Guidelines; or (iii) if the applicable Transaction Documents so provide, reducing the current month's Claim under such Policy. No Holder, Trustee or Beneficial Holder may apply a Recovery Amount in a manner inconsistent with the determination by the Segregated Account pursuant to this Section 2.13.

**2.14 Supplemental Payments.** The Rehabilitator may, at any time, direct the Management Services Provider to make a Supplemental Payment to any Holder of a Permitted Policy Claim. Supplemental Payments may be made in one lump sum, or in varying proportions in certain months or time periods as appropriate, and may include, on a case-by-case basis, payments of all or a portion of any Deferred Amount. The Rehabilitator shall use his (sole and absolute) discretion to monitor and manage Supplemental Payments to maximize Reimbursement Amounts, and to minimize Supplemental Payments in excess of the available reimbursements.

**2.15 Special Policy Payments.** The Rehabilitator may, at any time, direct the Management Services Provider to make a Special Policy Payment. Special Policy Payments may be made in one lump sum, or in varying proportions in certain months or time periods as appropriate, and may include, on a case-by-case basis, payments of all or a portion of any Deferred Amount.

**2.16 Assignment of Rights.** Without prejudice to (i) the terms and provisions of the applicable Policy and any related Transaction Document and (ii) any assignment previously executed, whether pursuant to a Proof of Policy Claim Form or otherwise, upon receipt of any Payment or any other amount paid by or on behalf of the Segregated Account, each Holder (for and on behalf of its Beneficial Holders, if such Holder is a Trustee) of such Permitted Policy Claim shall be deemed to have assigned its rights relating to the amount of such Payment under the Transaction Document(s) to AAC.

**2.17 Payments of ACP Obligations.** Any Payment made in respect of a Permitted Policy Claim that relates to an obligation of ACP under a related credit default swap shall be deemed payment by ACP of its obligations under such related credit default swap to the extent of such Payment.

**2.18 Treatment of Policy Claims Paid Prior to the Effective Date.** On the Effective Date, each Policy Claim paid pursuant to the Interim Cash Payment Rules shall be deemed to be Permitted under the Plan, effective as of the date of such payment. In all respects, such Policy Claim shall be treated in a manner consistent with the treatment of other Permitted Policy Claims under the Plan. By way of example only, any payment made pursuant to the Interim Cash Payment Rules (other than a Supplemental Payment or a Special Policy Payment) shall be deemed to have been an Interim Payment, and a Deferred Amount shall be established and calculated for such Claim in accordance with Section 2.4 of these Payment Guidelines, including Accretion Amounts commencing on the next Bond Distribution Date after which the first Interim Payment was deemed to be paid (regardless of whether or when such Deferred Amount is ultimately paid by a Deferred Payment, Supplemental Payment, Special Policy Payment, or otherwise). In the event that the Interim Payment Percentage is greater than 25% on the

Effective Date of the Plan, the Rehabilitator shall direct the Management Services Provider to make a Deferred Payment to each Holder of a Policy Claim who received an Interim Payment pursuant to the Interim Cash Payment Rules and who is eligible for such Deferred Payment pursuant to these Payment Guidelines, based upon a Deferred Payment Percentage equal to (x) such Interim Payment Percentage in excess of 25%, divided by (y) 75%, with the Deferred Amount being calculated in accordance with Section 2.4 of these Payment Guidelines. Any subsequent increases to the Interim Payment Percentage or any Deferred Payment for Claims paid pursuant to the Interim Cash Payment Rules shall be made in accordance with Sections 2.3 and 2.7 of these Payment Guidelines. All other Policy Claims in respect of which the Segregated Account made pre-Effective Date payments shall be treated in a manner consistent with the treatment of other Permitted Policy Claims under the Plan. By way of example only, any payments made pursuant to the Supplemental Payments Order shall be deemed to have been Supplemental Payments, and any payments made pursuant to the Special Policy Payments Order shall be deemed to have reduced the Deferred Amounts established for such Holders in accordance with Section 2.4 of these Payment Guidelines.

### **ARTICLE III**

#### **General Claims Procedure**

**3.1 General Claims Administration.** Pursuant to the Management Services Agreement, the Rehabilitator has engaged the Management Services Provider to assist him and the Segregated Account in processing all General Claims. The Management Services Provider is responsible for administering, disputing, objecting to, compromising or otherwise resolving all General Claims in accordance with the Plan and the Segregated Account Operational Documents, together with any other rules or guidelines issued by the Rehabilitator or the Special Deputy Commissioner under any of the foregoing, all existing orders of the Court and the specific directions of the Rehabilitator or the Special Deputy Commissioner.

**3.2 Submission of General Claims.** Each Holder of a General Claim, including any General Claim arising prior to the Effective Date (other than a General Claim that was, is or becomes the subject of an Alternative Resolution), shall submit to the Management Services Provider such General Claim in accordance with, and including such information as is required by, the provisions of the underlying instrument(s) or contract(s) giving rise to or governing the submission of such General Claim, if any. Each such General Claim submitted in accordance with this Section shall be referred to as a Pending General Claim.

**3.3 Timing for Submission of General Claims.** A Holder shall not submit a General Claim any earlier than permitted under the underlying instrument(s) or contract(s) giving rise to or governing the submission of such General Claim; provided, however, that a Holder shall submit a General Claim in a timely manner such that it is determined not to be a Late Claim.

**3.4 Pending General Claims.** No General Claim shall become a Pending General Claim unless the Holder of such General Claim fully and properly complies with the Plan and these Payment Guidelines, including without limitation the requirements of Sections 3.2 and 3.3

hereof, as applicable, and with any other guidelines or further directions issued by the Rehabilitator.

**3.5 Evaluation of Pending General Claims.** The Management Services Provider shall evaluate each Pending General Claim to determine whether such Pending General Claim is a Permitted Claim or whether an Objection should be raised as to such General Claim in accordance with Section 4.1 hereof. The Management Services Provider may, from time to time, ask any Holder to supplement its Pending General Claim with further supporting documentation in order to evaluate and decide whether to Permit such Pending General Claim. Upon the determination by the Management Services Provider or the Rehabilitator that a Pending General Claim constitutes a Permitted Claim, such General Claim shall be considered a Permitted General Claim.

**3.6 No Re-Submission of General Claims.** Unless required by the Rehabilitator, the Segregated Account or the Management Services Provider, a Holder shall not submit the same General Claim to the Management Services Provider more than once.

**3.7 Junior Deferred Amounts.** Unless the Court or the Rehabilitator (in his sole and absolute discretion) has permitted an Alternative Resolution of a General Claim, the Rehabilitator shall cause the Segregated Account to establish a Junior Deferred Amount with respect to each Permitted General Claim on the Payment Date immediately following the date on which such General Claim is determined to be a Permitted General Claim.

**3.8 Junior Deferred Payments.** No part of any Junior Deferred Amount shall be payable until such time as the Rehabilitator announces that a Junior Deferred Payment will be made. The Rehabilitator may announce his intention to make a Junior Deferred Payment by filing with the Court and posting on the Website a Junior Deferred Payment Notice if, based on an analysis of the estimated liabilities and available claims-paying resources of the Segregated Account, the Rehabilitator has determined, in his sole and absolute discretion, that such action is generally equitable to the interests of the Holders of Permitted Policy Claims and General Claims. The Rehabilitator shall determine the Junior Deferred Payment Percentage in connection with each Junior Deferred Payment in his sole and absolute discretion, based on such analysis. On or about the Deferred Payment Date when any Junior Deferred Payment is made, the Segregated Account shall pay the holder of each outstanding Junior Surplus Note an amount equal to the product of (i) the Junior Deferred Payment Percentage applicable to such Junior Deferred Payment and (ii) the sum of the principal and interest then outstanding under each such Junior Surplus Note. Any such payment shall be applied in accordance with the terms of the Junior Surplus Notes, and shall be deemed approved by OCI in accordance with Wis. Stat. § 611.33(2)(d).

**3.9 Procedure for Junior Deferred Payments.** Promptly following the announcement of a Junior Deferred Payment, the Management Services Provider and the Holders of Permitted General Claims shall reconcile the amount to be paid. The Rehabilitator may ask any Holder to supplement its General Claim with further supporting documentation. If the parties are unable to reconcile the amount to be paid, each of the Holder and the Management Services Provider shall have the right to file a motion with the Court seeking resolution of the dispute.

The Management Services Provider shall make any Junior Deferred Payments to the Holder of the applicable Permitted General Claim in an amount equal to the Junior Deferred Payment Percentage announced by the Rehabilitator, multiplied by the Junior Deferred Amount with respect to such General Claim as of the date of the Junior Deferred Payment Notice. Such Junior Deferred Payment shall be made on the Payment Date that next follows the date on which the reconciliation required by this Section 3.9 is completed. All Junior Deferred Payments shall be made by the Management Services Provider to the account of the Holder identified in the General Claim submitted by the Holder.

## ARTICLE IV

### Claims Resolution Procedures

**4.1 Disputed Claims.** The Rehabilitator or the Management Services Provider may raise an Objection to any Pending Claim on any ground, including, but not limited to, the ground that the Rehabilitator or the Management Services Provider lacks sufficient information to evaluate such Pending Claim, that the amount submitted as a Claim is not valid, or that such Claim is a Duplicate Claim or a Late Claim, by providing the Holder of the Claim or the Holder's representative (as applicable) with written notice of the substance of the Objection. The Rehabilitator or the Management Services Provider may, in their discretion, raise an Objection to all or any portion of a Pending Claim. No later than the sixtieth (60th) day after the delivery of such written notice of Objection to the Holder (the "Opposition Period"), the Holder, if it wishes to dispute such Objection, shall send to the Management Services Provider a written response to the Objection. Such written response (and any related written communications) shall be delivered by email to:

[claimsprocessing@ambac.com](mailto:claimsprocessing@ambac.com)

with a copy to:

[claimsobjections@ambac.com](mailto:claimsobjections@ambac.com)

The response must clearly set forth all facts and the legal basis, if any, for the opposition and the reasons why the Claim should be a Permitted Claim. If no response is sent by the Holder within such Opposition Period, the Claim, or the portion in respect of which the Rehabilitator has raised an Objection, as applicable, shall become a Disallowed Claim without order of the Court and no further dispute resolution shall be permitted. If a response is submitted within such Opposition Period, the Rehabilitator shall resolve such dispute in accordance with these Payment Guidelines (including by considering any excusable neglect, in the case of a Late Claim) and communicate such resolution to the Holder in writing (a "Resolution"). Only in the event that a response is submitted within such Opposition Period by the Holder and the Rehabilitator issues a written Resolution that such Disputed Claim is fully or partially a Disallowed Claim, shall the Holder have the right to file a motion with the Court asserting that the Rehabilitator improperly disallowed all or any portion of such Claim. Any such motion must be filed by the Holder no later than the thirtieth (30th) day after the delivery of such Resolution to the Holder.

**4.2 Setoffs.** The Rehabilitator may set off in whole or in part against any Permitted Claim or any Payment, Deferred Amount, Junior Deferred Amount, or any other amount established, paid or payable by or on behalf of the Segregated Account on account of such Permitted Claim, all claims, rights, and causes of action of any nature that the Rehabilitator, AAC or the Segregated Account may have against the Holder of such Permitted Claim that are not otherwise waived, released, or compromised in accordance with the Plan. Neither the failure to effect such a setoff nor the determination that any Claim is Permitted under the Plan will constitute a waiver or release by the Rehabilitator, AAC or the Segregated Account of any such claims, rights, and causes of action, notwithstanding any compulsory counterclaim rules or requirements to the contrary.

**4.3 Subsequent Adjustments.** If the Rehabilitator or the Management Services Provider determines that any amount of the Cash received by the Holder of a Permitted Claim as a Payment, a payment under the Interim Cash Payment Rules, or any other amount paid by or on behalf of the Segregated Account in respect of a particular Insured Obligation was incorrect, the Rehabilitator or the Management Services Provider may, as necessary to account for such error: (i) recoup from the Holder the amount of such Payments or other amounts paid by the Segregated Account; (ii) adjust the amount of the Cash paid in respect of the relevant Insured Obligation in one or more subsequent Payments of other Permitted Claims; or (iii) reduce the Holder's then applicable Deferred Amount or Junior Deferred Amount for the relevant Insured Obligation (each, a "Subsequent Adjustment"), by providing the Holder of the Permitted Claim or the Holder's representative (as applicable) with a Subsequent Adjustment Notice. No later than the sixtieth (60th) day after the delivery of the Subsequent Adjustment Notice to the Holder (the "Opposition Period"), the Holder, if it wishes to dispute such Subsequent Adjustment, shall send to the Management Services Provider a written response to the Subsequent Adjustment Notice. Such written response (and any related written communications) shall be delivered by email to:

[claimsprocessing@ambac.com](mailto:claimsprocessing@ambac.com)

with a copy to:

[claimsobjections@ambac.com](mailto:claimsobjections@ambac.com)

The response must clearly set forth all facts and the legal basis, if any, for the opposition to the Subsequent Adjustment. If no response is sent by the Holder within such Opposition Period, the Management Services Provider may make a Subsequent Adjustment and no further dispute resolution shall be permitted. If a response is submitted within such Opposition Period, the Rehabilitator shall resolve such dispute in accordance with these Payment Guidelines and communicate such resolution to the Holder. Only in the event that a response has been submitted by the Holder within such Opposition Period and the Rehabilitator nevertheless determines that a Subsequent Adjustment is necessary (a "Resolution"), shall the Holder have the right to file a motion with the Court asserting that the Subsequent Adjustment was improper. Any such motion must be filed by the Holder no later than the thirtieth (30th) day after the delivery of the Resolution to the Holder.

**4.4 Disputes Pending on the Effective Date.** Any Policy Claim disputes or objections that are pending on the Effective Date shall be resolved in accordance with the procedures set forth in the Interim Cash Payment Rules; provided, however, that any motion asserting that the Rehabilitator improperly disallowed all or any portion of the Policy Claim (as contemplated by the Interim Cash Payment Rules) shall be filed on or before the date that is: (i) thirty (30) days after (ii) the later of (A) the Effective Date and (B) the date on which the Rehabilitator determined that the Disputed Claim was fully or partially a Disallowed Claim, or, if any such day is not a Business Day, the immediately following Business Day.

**4.5 Disallowed Claims on or prior to the Effective Date.** Any Claim which has been Disallowed on or prior to the Effective Date pursuant to the Interim Cash Payment Rules shall be, and shall continue to be, Disallowed under these Payment Guidelines.

## **ARTICLE V**

### **Miscellaneous**

**5.1 Governing Law.** The rights and obligations arising under these Payment Guidelines shall be governed by, and construed and enforced in accordance with, the laws of the State of Wisconsin, without giving effect to the principles of conflicts of law thereof.

**5.2 Prior Orders and Agreements.** Subject to these Payment Guidelines and the Plan, the prior orders of the Court shall remain in full force and effect throughout the period of administration of the Plan. These orders include, without limitation, the Rehabilitation Order and the Injunction. Nothing in the Plan alters prior agreements or arrangements approved by the Rehabilitator with respect to the Segregated Account or any liability in respect of any Policy or other liability allocated to the Segregated Account.

**5.3 Retention of Jurisdiction.** Following the Effective Date, the Court shall retain exclusive jurisdiction over the Proceeding in accordance with the Act to ensure that the purposes and intent of the Plan and these Payment Guidelines are carried out. Without limiting the generality of the foregoing, and except as otherwise provided in the Plan or these Payment Guidelines, the Court shall also expressly retain exclusive jurisdiction:

A. to hear and determine Objections to Disputed Claims and disputes relating to Reconciliation Notices and/or Subsequent Adjustments;

B. to hear, determine and enforce causes of action that may exist by or against the Segregated Account or by or against the General Account or AAC or the Management Services Provider in regards to the Segregated Account;

C. for all purposes pertaining to the treatment or classification of Claims;

D. to enter such orders and injunctions as are necessary to enforce the respective title, rights, and powers of the Segregated Account, the terms of the Plan and these Payment Guidelines, and to impose such limitations, restrictions, terms, and conditions on such title, rights, and powers as the Court may deem necessary;

E. to enter an order closing the Proceeding;

F. to correct any defect, cure any omission, or reconcile any inconsistency in the Plan, these Payment Guidelines or in any order of the Court as may be necessary to implement the purposes and intent of the Plan and these Payment Guidelines;

G. to determine any motions, applications, and other contested matters that may be pending on the Effective Date;

H. to consider any amendment or modification of the Plan or any documents related to the Plan;

I. to determine controversies, suits, and disputes that may arise in connection with the interpretation, enforcement, or consummation of the Plan or these Payment Guidelines;

J. to consider and act on the compromise and settlement of any Claim against or cause of action by or against the Segregated Account or in relation to Policies and other liabilities allocated to the Segregated Account arising under or in connection with the Plan;

K. to determine such other matters or proceedings as may be provided for under the Act, the Plan, or in any order or orders of the Court, including, but not limited to, the Confirmation Order or any order that may arise in connection with the Plan, the Proceeding, or the Confirmation Order; and

L. to interpret and enforce, and determine questions and disputes regarding, the injunctions, releases, exculpations, and indemnifications provided for or set forth in the Plan or the Confirmation Order.

**5.4 Immunity and Indemnity.** The immunity and indemnity provisions in Sections 9.01 and 9.02 of the Plan are incorporated here in full by reference as if fully set forth.

**5.5 Amendment and Modification of These Guidelines.** Upon written notice by the Rehabilitator or his counsel to all parties included on the Court-approved electronic service list and a posting on the Website, these Payment Guidelines may be supplemented, modified, altered or withdrawn in the Rehabilitator's discretion.

**5.6 Implementation.** The Rehabilitator and Management Services Provider shall take all steps, and execute all documents, necessary to effectuate the provisions of these Payment Guidelines.

**5.7 Limitation of Recovery.** Other than in respect of Accretion Amounts, nothing in these Payment Guidelines shall cause to inure to the benefit of any Holder of a Policy Claim, General Claim or any other Claim any greater right than that which would have existed were the Segregated Account not in rehabilitation.

**5.8 Successors and Assigns.** The rights, benefits, and obligations of any Person named or referred to in these Payment Guidelines shall be binding upon, and shall inure to the benefit of, the heirs, executors, administrators, successors, or assigns of such Person.

**5.9 Inconsistency.** With respect to making Payments on Permitted Claims, these Payment Guidelines shall supersede any inconsistent provisions of the Plan, the Interim Cash Payment Rules or the Disclosure Statement that provide or impose rules, procedures, guidelines

and/or obligations for, or on, any Person for the submission to and the evaluation, processing and payment of Claims by the Segregated Account.

**5.10 No Admissions.** Notwithstanding anything herein to the contrary, nothing contained in these Payment Guidelines shall be deemed an admission by any Person with respect to any matter set forth herein.

**5.11 Notice.** Except as otherwise specified herein, any notice permitted or required to be delivered by these Payment Guidelines may be delivered personally, by mail or by e-mail. Any such notice shall be deemed to have been duly delivered on the date (i) on which such notice is personally delivered, (ii) falling two (2) Business Days after the mailing by first class mail, postage prepaid, or by express delivery service of such notice, or (iii) on which such notice is sent by electronic mail (with a delivery receipt received from the addressee), (A) in the case of a Holder, to the address or e-mail address specified in the Proof of Policy Claim Form relating to the relevant Policy Claim, (B) in the case of the Management Services Provider, unless otherwise specified herein, to Ambac Assurance Corporation, One State Street Plaza, New York, New York 10004, or in the case of electronic mail, [claimsprocessing@ambac.com](mailto:claimsprocessing@ambac.com) and any other e-mail address specified herein, and (C) in the case of the Rehabilitator and the Segregated Account, to the address advised to the parties by the Rehabilitator in writing from time to time.

**5.12 Filing of Additional Documents.** The Rehabilitator may file with the Court such agreements and other documents as may be necessary or appropriate to effectuate and further evidence the terms and conditions of these Payment Guidelines.

**5.13 Returned Payments.** In the event that a Holder (including any Holder acting as Trustee) rejects or returns a Payment to the Management Services Provider (other than for clerical or administrative error), the Segregated Account, AAC or the Rehabilitator for any reason, the amount thereof shall revert to AAC, notwithstanding any applicable federal or state escheat, abandoned, or unclaimed property laws, and the corresponding Claim of any such Holder to such Payment shall be released and forever barred, except in the sole and absolute discretion of the Rehabilitator.

**5.14 Terminated Trusts.** Notwithstanding the terms of any Transaction Documents to the contrary, at no time throughout the effective duration of the Plan shall any Trustee acting on behalf of and for the benefit of Beneficial Holders, or any other person, be permitted to terminate the trust or an indenture relating to a Policy, or to extinguish or retire, or cause to be extinguished, retired, or terminated, any Insured Obligation insured by such Policy in respect of which a Deferred Amount is continuing, without the express, written consent of AAC and the Rehabilitator. If the terms of the Transaction Documents at any time permit termination, extinguishment or retirement of an Insured Obligation or a trust or indenture, then in such event the Trustee shall, at its election, either (a) continue to serve as Trustee on the same terms and conditions set forth in the Transaction Documents but at rates authorized by the Rehabilitator, or (b) assign all of its rights and obligations under such Transaction Documents to a trustee/agent designated by the Rehabilitator. Where possible, upon termination, extinguishment or retirement of an Insured Obligation or a trust or indenture, it is not the intention of the Rehabilitator to continue the services required of a Trustee beyond those services necessary to effectuate the

Plan, including, but not limited to, the effectuation of Recovery Amounts, Reimbursement Amounts, Reconciliations, Payments and Deferred Payments.