



and regulatory duties of the agency, including solvency assessments of domestic insurers, insurer liquidations, and insurer rehabilitations, including matters related to the Rehabilitation of the Segregated Account of Ambac Assurance Corp. (the “**Rehabilitation**”). During that time, Roger Peterson (“Peterson”) served as the Special Deputy Commissioner. Peterson reported directly to me and communicated regularly with me regarding the status and progress of the Rehabilitation. As time passed, I became more involved with the Rehabilitation, having more frequent and direct communications with Ambac personnel, traveling to Ambac’s offices in New York, and making significant day-to-day decisions on behalf of the Rehabilitator.

5. On February 17, 2016, Commissioner Nickel appointed me as the Special Deputy Commissioner (“**SDC**”) of the Segregated Account pursuant to Wis. Stat. § 645.33(1) and at that time assumed the duties of the SDC after Peterson’s resignation, in addition to my regular duties as Deputy Commissioner. As SDC, I was granted all the powers and duties of the Rehabilitator. Following this Court’s Order of May 23, 2011, I resigned as Deputy Commissioner and I have served exclusively as SDC pursuant to this Court’s Rehabilitation Order since that time.

6. As the SDC, I was appointed by, worked for, and reported to the Office of the Commissioner of Insurance (“**OCI**”). In my role as the SDC, my statutory responsibilities are defined in Chapter 645, which more specifically to the Segregated Account includes, but is not limited to; review and approval of: all claims paid in the Segregated Account; Reconciliations of deferred amounts; Investment Guidelines; Commutations; and review and approval of all claims in excess of \$5 million to be paid by the General Account. I communicated regularly with the Rehabilitator and other OCI employees responsible for the Rehabilitation and also with Ambac about matters relevant to the Rehabilitation.

7. As the SDC, I had primary responsibility for the day-to-day oversight and management of the Rehabilitation, including management of the financial and legal advisors retained by the Rehabilitator to assist with the Rehabilitation, which include, among others, Gordian Group, LLC, Jefferies LLC, and PricewaterhouseCoopers LLP (the “**Advisors**”).

8. Since my appointment, the Rehabilitator has tasked me with exploring various opportunities to bring the Rehabilitation to a durable conclusion. With the advice and counsel of the Advisors, I have spent a significant amount of time analyzing and assessing various options to exit the Segregated Account from Rehabilitation.

9. On December 16, 2016, the Rehabilitator filed a supplement to the 2016 Annual Report indicating OCI’s goal of achieving a durable conclusion to the Rehabilitation. As part of any conclusion to the Rehabilitation, the Rehabilitator also stated that a broadly consensual agreement to exit Rehabilitation would be preferred, if possible, as opposed to any non-consensual options.

10. At about that time, Ambac informed the SDC that it had entered negotiations to discuss one or more transactions with creditor constituencies that might form the basis for a transaction that would satisfy Ambac’s outstanding policy obligations and have the support of a majority of Segregated Account DPO Holders and a majority of General Account Surplus Note holders; those counter-parties to the negotiations became known as the Ad Hoc Group (“AHG”) of creditors. The SDC encouraged such negotiations citing the Rehabilitator’s preference for a consensual transaction that would facilitate a durable exit of the Segregated Account from Rehabilitation.

11. On April 10, 2017, the Rehabilitator disclosed that Ambac has reported progress in negotiations for a consensual transaction and it would thus allow Ambac additional time to

continue negotiations, stating that any conclusion of the Rehabilitation would necessarily be subject to review, analysis, and ultimate approval of the Rehabilitator and the Rehabilitation Court.

12. Throughout the negotiations, the SDC monitored the discussions and evaluated various proposals to determine whether or not the parties were making progress toward a transaction that would facilitate a durable exit; although the SDC did not specify precisely its durability requirements, it did provide guidance to AAC and later to the AHG on such general topics as capital requirements and support levels among creditors necessary before the SDC could consider recommending any proposed transaction to the Rehabilitator.

13. After continuing to make progress toward a consensual resolution of the Rehabilitation, Ambac asked again for additional time to continue negotiations with the AHG; the Rehabilitator granted the request, giving Ambac through the end of June 2017 to reach an agreement with the AHG.

14. Ambac was, in fact, able to reach a comprehensive, consensual agreement with the AHG. The agreement (the “**Consensual Transaction**”) is described in greater detail within the Motion, the Second Amended Plan, and the Disclosure Statement Accompanying the Second Amended Plan of Rehabilitation as well as the Transaction Mechanics slides, a true and correct copy of which is set forth in the attached **Exhibit A**. Exhibit A was prepared by Ambac, and has been used and relied upon by me and the Advisors to assess the Consensual Transaction.

15. Although the SDC did not participate directly in the negotiations, I monitored the progress of the settlement negotiations and met with the parties to reaffirm in person that any agreement must be supported by the Rehabilitator and, among other things, be fair and durable. I also reiterated any transaction that required further amendments to the Amended Plan of Rehabilitation must also be approved by the Rehabilitation Court.

16. In mid-July, I recommended to the Rehabilitator that it approve the proposed Consensual Transaction and confirm that it authorized the steps necessary to further amend the Plan to facilitate the Consensual Transaction and exit the Segregated Account from Rehabilitation. On July 19, 2017, the Rehabilitator provided me with written confirmation that it concurred with my recommendations. The Rehabilitator further directed me to prepare the Motion and seek approval of a Second Amended Plan which would facilitate the closing of the Consensual Transaction. A true and correct copy of the Rehabilitator's July 19, 2017 letter is attached as **Exhibit B**.

17. In assessing the transaction and reaching the ultimate conclusion to support the Consensual Transaction, among many things, I have done the following:

(a) Participated in weekly conference calls and held numerous other telephonic and in-person meetings and discussions with the Advisors regarding the Rehabilitation in general and the Consensual Transaction in particular. Such calls and meetings included discussion, analysis, monitoring, and updating of the financial information and status of Ambac's General Account portfolios and that of the Segregated Account; ongoing assessment and monitoring of RMBS Litigations including the likelihood of success and valuation thereof; monitoring of Puerto Rico's PROMESA Title III reorganization filing and its anticipated effects on the Rehabilitation and AAC's current stability and long term durability; the status of Military Housing litigations and possible resolutions; anticipated tax questions/issues and resolution of the same associated with the Consensual Transaction; and Ambac's efforts to reduce risk and negotiate with creditors including thorough discussions of the Consensual Transaction and other avenues to seek exit of the Segregated Account from Rehabilitation, among other things.

(b) Attended weekly conference calls with Ambac and its advisors regarding the financial condition of AAC, its business operations, risk mitigation efforts, claims management, and ongoing negotiations with creditor groups. I also met separately and together with representatives of Ambac and its advisors, and the Rehabilitator's Advisors, on multiple occasions to discuss and analyze these topics as well.

(c) Attended numerous in-person and telephonic meetings with the Rehabilitator to provide the Rehabilitator with status updates regarding the Rehabilitation and Ambac's ongoing operations and to discuss options to exit the Segregated Account from Rehabilitation, including the Consensual Transaction.

(d) Reviewed and relied upon the Expert Report of Dennis McGettigan of Gordian Group, LLC, the primary financial advisor to the Rehabilitator. A true and correct copy of Mr. McGettigan's Expert Report is attached to this Affidavit as **Exhibit C**.

18. The Consensual Transaction includes the proposed issuance of new Senior Secured Notes, secured in part by anticipated RMBS Litigation proceeds. To evaluate whether or not the RMBS Litigation proceeds would be sufficient consideration to satisfy Ambac's obligations in the Transaction, I assessed the analysis that counsel to Ambac and the Segregated Account performed on RMBS damages, the reports of the parties' expert witnesses, Dr. Karl N. Snow and James Johnson (the "**Experts**"), and subjected the damages estimates to review by the Rehabilitator's counsel. I concluded that counsel in the RMBS Litigations, the parties, their advisors, and the Experts, conducted sufficient due diligence to arrive at a reasonable and well informed estimate of the potential recovery in the RMBS Litigations; counsel to the Rehabilitator concurred. The reports of the Experts are attached to this Affidavit as **Exhibit D** and **Exhibit E**. In evaluating the strength of the Segregated Account's damages case in the RMBS Litigations, I also reviewed the



damages reports filed by opposing parties in the RMBS Litigations; I noted that none of the expert reports filed by parties opposing the RMBS Litigations that I reviewed took the position that damages should be zero. That fact reaffirmed my conclusion that the RMBS Litigations would yield damages of some amount and that the diligence exercised by the Segregated Account's RMBS Counsel was more than sufficient to support the issuance of Senior Secured Notes.

19. On July 12, 2016, the SDC held a listening session to advise parties that the Rehabilitator had charged the SDC with seeking a successful conclusion to the Rehabilitation and again on August 24, 2017 to answer questions related to the Consensual Transaction.

20. The SDC's listening session on August 24, 2017 was held in New York to provide first-hand information to Interested Parties and answer questions related to the proposed Consensual Transaction. This listening session was attended by over 30 individuals representing various stakeholders in the Rehabilitation, including: General Account policyholders, GA Surplus Note holders, and investors in AAC-insured securities, DPO Holders, and equity investors of Ambac Financial Group, Inc., among others.

21. In addition to the listening sessions, the Rehabilitator has maintained and posted a series of Frequently Asked Questions and other information on the [ambacpolicyholders.com](http://ambacpolicyholders.com) website. The website also provides Interested Parties with a mechanism to submit questions to the SDC related to the Consensual Transaction.

22. Further, as part of the approval process of the Second Amended Plan, the Rehabilitator is seeking a briefing schedule that allows interested parties a period of at least 60 days to file any objections to the Rehabilitator's Motion.

23. As the SDC, I determined that Interested Parties have been provided a forum to be heard, have been sufficiently informed throughout the Rehabilitation, and are being provided a

reasonable opportunity to review the Second Amended Plan and supporting documents to adequately assess the Consensual Transaction.

24. I have reviewed the Motion, the Second Amended Plan, the Amended Disclosure Statement, and other supporting documents referenced therein. With counsel and guidance from the Advisors; consideration of the facts and circumstances of this Rehabilitation; the efforts of Ambac to reach an agreement with the AHG the AHG's support for the Consensual Transaction; my knowledge of and involvement in this Rehabilitation; and, through discussions with various Interested Parties; based on the above, I have concluded that confirmation of the Second Amended Plan, and the corresponding consummation of the Consensual Transaction meets the following material objectives:

- (a) Ambac's immediate financial stability upon closing of the Transaction;
- (b) Establishes a margin of safety, as required by the Rehabilitator, which accounts for anticipated and unanticipated risks and potential estimation errors related to the ongoing operations of AAC;
- (c) A durable exit of the Segregated Account from Rehabilitation and allows this Court to close these Rehabilitation Proceedings;
- (d) The fair and equitable treatment, procedurally and substantively, to policyholders, creditors, other Interested Parties, and the public in general, in compliance with applicable law including Wis. Stat. Ch. 645;
- (e) Serves the best interests of policyholders and other stakeholders because, among other things, it provides holders of Deferred Amounts a consideration package with a net present value greater than the discounted value of the likely stream of payments generated by a



long-term runoff of the Segregated Account pursuant to the existing Plan, and payment of future claims in full and in cash.


25. In addition, carrying out the Second Amended Plan such that this Rehabilitation may be closed after consummation of the Consensual Transaction will benefit all interested parties by eliminating the ongoing expenses associated with the Rehabilitation which Ambac estimates exceeds \$6 million per year to the Company alone.

26. As a result, the SDC respectfully requests that the Second Amended Plan be confirmed by the Court.



Daniel J. Schwartz,  
Special Deputy Commissioner

Subscribed and sworn to before me  
This 22nd day of September, 2017.

  
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Notary Public, Wisconsin  
My Commission expires: is permanent