

COPY

STATE OF WISCONSIN

CIRCUIT COURT

DANE COUNTY

In the Matter of the Rehabilitation of:

Case No. 10 CV 1576

Segregated Account of Ambac Assurance Corporation

PLAN OF REHABILITATION

**The Commissioner of Insurance of the State of Wisconsin,
as the Court-Appointed Rehabilitator of the Segregated Account
of Ambac Assurance Corporation**

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DANE CO. CIRCUIT COURT

October 8, 2010

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TABLE OF CONTENTS

INTRODUCTION TO PLAN.....	1
Article 1 DEFINITIONS.....	1
1.01 AAC.....	1
1.02 ACP.....	1
1.03 Act.....	1
1.04 Administrative Claims.....	2
1.05 Alternative Resolution.....	2
1.06 Business Day.....	2
1.07 Cash.....	2
1.08 Cash Percentage.....	2
1.09 Claim.....	3
1.10 Commissioner.....	3
1.11 Confirmation Date.....	3
1.12 Confirmation Hearing Date.....	3
1.13 Confirmation Order.....	3
1.14 Cooperation Agreement.....	3
1.15 Court.....	3
1.16 Determination Date.....	3
1.17 Disallowed Claim.....	3
1.18 Disclosure Statement.....	3
1.19 Disputed Claim.....	4
1.20 Distributions.....	4
1.21 Duplicate Claim.....	4
1.22 Effective Date.....	4
1.23 Exhibit.....	4
1.24 Final Order.....	5
1.25 Fiscal Agency Agreement.....	5
1.26 Fiscal Agent.....	5
1.27 General Account.....	5
1.28 General Claims.....	5
1.29 Holder.....	5
1.30 Injunction.....	5
1.31 Junior Surplus Note.....	6
1.32 Late Claim.....	6
1.33 Lien.....	6
1.34 Management Services Agreement.....	6
1.35 Management Services Provider.....	6
1.36 No-action Letter Request.....	6
1.37 No-action Letter.....	7
1.38 Objection.....	7
1.39 OCI.....	7
1.40 Payment Date.....	7
1.41 Pending / Pending Claim.....	7

1.42	Permitted / Permitted Claim.....	7
1.43	Person.....	8
1.44	Petition Date.....	8
1.45	Plan.	8
1.46	Plan Documents.	8
1.47	Plan of Operation.	8
1.48	Policy.	8
1.49	Policy Claim.....	8
1.50	Proceeding.....	9
1.51	Proof of Policy Claim Form.....	9
1.52	Rehabilitation Order.....	9
1.53	Rehabilitator.....	9
1.54	Reinsurance Agreement.	9
1.55	SEC.	9
1.56	Secured Note.	9
1.57	Securities Act.	9
1.58	Segregated Account.	9
1.59	Segregated Account Operational Documents.	9
1.60	Special Deputy Commissioner.....	10
1.61	Surplus Notes.	10
1.62	Surplus Note Percentage.	10
1.63	Website.	10
1.64	Wis. Stat. § ____.....	10
Article 2 TREATMENT OF CLAIMS GENERALLY		10
2.01	Administrative Claims.	10
2.02	Policy Claims.....	11
2.03	General Claims.....	11
Article 3 MEANS FOR IMPLEMENTATION OF PLAN		11
3.01	Continued Existence of the Segregated Account.....	11
3.02	Rehabilitator.....	12
3.03	Special Deputy Commissioner.....	12
3.04	Management Services Provider.	12
3.05	Administration of this Plan.	13
3.06	Alternative Resolutions of Claims.....	13
Article 4 PROCEDURES GOVERNING SUBMISSION OF CLAIMS AND DISTRIBUTIONS		14
4.01	Claims Administration.....	14
4.02	Secured Note, Reinsurance Agreement and Cooperation Agreement.....	14
4.03	Administrative Claims.	15
4.04	Policy Claims.....	16
4.05	General Claims.....	20
4.06	Disputed Claims.....	21
4.07	Setoffs.	22

Article 5	CONDITIONS PRECEDENT TO EFFECTIVENESS.....	22
5.01	Conditions Precedent to Effectiveness.....	22
5.02	Notification of Effective Date.....	23
Article 6	RETENTION OF JURISDICTION.....	24
6.01	Retention of Jurisdiction.....	24
Article 7	Annual REPORTS TO COURT	25
7.01	Annual Reports.....	25
7.02	Amendments to Cash Percentage and Surplus Note Percentage.....	26
Article 8	DISCHARGE, RELEASE AND INJUNCTION.....	26
8.01	Discharge, Release and Injunction.....	26
Article 9	IMMUNITY AND INDEMNIFICATION OF THE REHABILITATOR, EMPLOYEES, AND CONSULTANTS	28
9.01	Beneficiaries of Immunity and Indemnification.....	28
9.02	Immunity and Indemnification.....	28
Article 10	GENERAL PROVISIONS	29
10.01	Governing Law.....	29
10.02	Prior Orders and Agreements.....	29
10.03	Revocation or Withdrawal of this Plan.....	30
10.04	Amendment and Modification of this Plan.....	30
10.05	Termination of Rehabilitation.....	30
10.06	Successors and Assigns.....	30
10.07	Rules of Interpretation.....	30
10.08	Implementation.....	31
10.09	Inconsistency.....	31
10.10	No Admissions.....	31
10.11	Filing of Additional Documents.....	31
Exhibit A	Form of Fiscal Agency Agreement	
Exhibit B	Form of Surplus Note	
Exhibit C	Proof of Policy Claim Form	
Exhibit D	Form of Junior Surplus Note	

The Commissioner of Insurance of the State of Wisconsin, as the court-appointed Rehabilitator in this case, proposes the following Plan of Rehabilitation for the Segregated Account of Ambac Assurance Corporation pursuant to Wis. Stat. § 645.33(5).

INTRODUCTION TO PLAN

This Plan provides for the orderly run-off and/or settlement of the liabilities allocated to the Segregated Account, as further described in the Disclosure Statement accompanying this Plan. This Plan pertains solely to the Segregated Account, which acts through the Rehabilitator and the Management Services Provider. Pursuant to Wis. Stat. § 611.24(3)(e), the Segregated Account is deemed to be a separate insurer. Except as may be specifically stated herein, in the Disclosure Statement or in the Segregated Account Operational Documents, this Plan does not pertain to the assets or liabilities in the General Account.

ARTICLE 1 DEFINITIONS

The following terms used in this Plan shall have the meanings specified below, and such meanings shall be equally applicable to both the singular and plural forms of such terms, unless the context otherwise requires. Any term used in this Plan, whether or not capitalized, that is not defined in this Plan, but that is defined in the Disclosure Statement or the Act shall have the meaning set forth in the Disclosure Statement or the Act.

1.01 AAC. Ambac Assurance Corporation.

1.02 ACP. Ambac Credit Products, LLC.

1.03 Act. The Wisconsin Insurers Rehabilitation and Liquidation Act, Wis. Stat. § 645.01 *et. seq.*

1.04 Administrative Claims. Claims for fees, costs and expenses of the administration of the Segregated Account incurred after the Petition Date, including, but not limited to, fees, costs and expenses associated with (i) management services, including all fees and payments pursuant to the Management Services Agreement, (ii) financial advisor, consulting and legal services, including services for OCI and the Rehabilitator, (iii) indemnification under commercially reasonable indemnification agreements of the Segregated Account (as determined by the Rehabilitator in his sole and absolute discretion) with providers of financial, banking, trustee, consulting, legal or other services, (iv) the costs and expenses of preserving or recovering property, or enforcing rights and remedies, in respect of Policies and other liabilities allocated to the Segregated Account (as determined by the Rehabilitator in his sole and absolute discretion), (v) any other fees, costs or expenses that are expressly approved by the Rehabilitator or the Special Deputy Commissioner, and (vi) any other indebtedness or obligations of the Segregated Account entitled to such priority in a liquidation proceeding under Wis. Stat. § 645.68(1).

1.05 Alternative Resolution. The process defined in Section 3.06 pursuant to which the Rehabilitator may negotiate a resolution of certain Claims.

1.06 Business Day. A day other than a Saturday, Sunday or any other day on which commercial banks in New York, New York are authorized or required by law to close.

1.07 Cash. Legal tender of the United States of America payable in immediately available funds, such as a wire transfer, bank or cashier's check.

1.08 Cash Percentage. The percentage of the amount of a Permitted Policy Claim to be satisfied through the payment of Cash, which percentage shall be 25% on the Effective Date, and may be adjusted from time to time thereafter pursuant to Section 7.02 of this Plan.

1.09 Claim. Any right to payment from the Segregated Account, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, equitable, legal, secured, or unsecured, and regardless of when such right arises.

1.10 Commissioner. The Commissioner of Insurance of the State of Wisconsin.

1.11 Confirmation Date. The date on which the Confirmation Order is entered on the docket of the Court.

1.12 Confirmation Hearing Date. The date or dates of the hearing on confirmation of this Plan.

1.13 Confirmation Order. The order of the Court confirming this Plan under Wis. Stat. § 645.33(5).

1.14 Cooperation Agreement. The Cooperation Agreement, by and between the Segregated Account and AAC, effective March 24, 2010.

1.15 Court. The Circuit Court for Dane County, State of Wisconsin.

1.16 Determination Date. The fifteenth (15th) day of each month (or, if any such day is not a Business Day, the immediately following Business Day), subject to change in the sole and absolute discretion of the Rehabilitator.

1.17 Disallowed Claim. A Claim that has been determined by the Rehabilitator or the Management Services Provider to constitute a Duplicate Claim or a Late Claim, or that the Rehabilitator or the Management Services Provider has otherwise determined should not be allowed, in each case in accordance with the provisions of Section 4.06 of this Plan.

1.18 Disclosure Statement. The Disclosure Statement of the Segregated Account filed with the Court on October 8, 2010 that relates to and accompanies this Plan.

1.19 Disputed Claim. A Claim as to which an Objection has been raised by the Rehabilitator or the Management Services Provider and which has not been released, satisfied, terminated, commuted or otherwise extinguished or become a Permitted Claim or a Disallowed Claim.

1.20 Distributions. The distributions to be made in accordance with this Plan on account of Permitted Claims, consisting of, as the case may be: (a) Cash, (b) Surplus Notes, (c) Junior Surplus Notes and (d) any other distributions to Holders of Permitted Claims under the terms and provisions of this Plan.

1.21 Duplicate Claim. Any Claim with respect to which the Rehabilitator has determined, in the Rehabilitator's sole and absolute discretion, that (i) the payment obligation of the Segregated Account under the provisions of the underlying instrument or contract giving rise to such Claim or (ii) the underlying risk of loss insured pursuant to the provisions of the Policy or other instrument(s) or contract(s) giving rise to such Claim, has, in either case, been released, satisfied (whether by Distributions made by the Segregated Account on account of another Claim or otherwise), terminated, commuted or otherwise extinguished, or is the subject of, or is, a Pending Claim, a Disputed Claim, a Late Claim, a Disallowed Claim or a Permitted Claim that has already been honored by the Segregated Account pursuant to the provisions hereof.

1.22 Effective Date. The day on which this Plan shall be effective, as designated by the Rehabilitator, which shall be no later than thirty (30) days following the later of: (a) the first Business Day on which no stay of the Confirmation Order is in effect and (b) the first Business Day on which all conditions in Article 5 of this Plan have been satisfied or have been waived in accordance with this Plan.

1.23 Exhibit. An exhibit annexed to this Plan.

1.24 Final Order. An order or judgment entered by the Court, which has not been reversed, vacated, or stayed, that may no longer be appealed from or otherwise reviewed or reconsidered, as a result of which such order or judgment shall have become final and non-appealable.

1.25 Fiscal Agency Agreement. The Fiscal Agency Agreement between the Segregated Account and the Fiscal Agent, which provides the mechanism for issuing the Surplus Notes under Section 4.04(d) of this Plan, the form of which is attached hereto as Exhibit A.

1.26 Fiscal Agent. The Bank of New York Mellon, as fiscal agent under the Fiscal Agency Agreement (or any successor thereto).

1.27 General Account. The general account of AAC.

1.28 General Claims. All Claims which are not Administrative Claims or Policy Claims, and are not otherwise entitled to priority under the Act or an order of the Court, including, but not limited to, (i) any Claim submitted by One State Street, LLC or its successor or assignee arising from the disputed contingent liability of the Segregated Account, if any, under the long-term lease with One State Street, LLC, effective January 1, 1992 and amended as of August 1, 1997, and (ii) any Claim submitted under a reinsurance agreement allocated to the Segregated Account, as identified in Exhibit F to the Plan of Operation.

1.29 Holder. Any Person holding a Claim against the Segregated Account, including, in the case of a Policy Claim, the named beneficiary of the related Policy.

1.30 Injunction. The Order for Temporary Injunctive Relief entered by the Court on March 24, 2010.

1.31 Junior Surplus Note. The 5.1% unsecured interest-bearing surplus notes to be issued by the Segregated Account to the Holders of Permitted General Claims, substantially in the form attached hereto as Exhibit D.

1.32 Late Claim. Other than in the case of excusable neglect (as determined by the Rehabilitator in his sole and absolute discretion), any Claim determined by the Rehabilitator to not have been submitted in compliance with the provisions of this Plan within one hundred twenty (120) days of the later of (i) the Effective Date and (ii) the earliest date on which such Claim, if it had been submitted, would have satisfied all of the requirements to be considered a Permitted Claim.

1.33 Lien. A charge against or interest in property to secure payment of a debt or performance of an obligation.

1.34 Management Services Agreement. The Management Services Agreement between the Segregated Account and AAC, as Management Services Provider, effective March 24, 2010.

1.35 Management Services Provider. AAC or any successor Management Services Provider under the Management Services Agreement.

1.36 No-action Letter Request. The letter submitted on behalf of the Segregated Account to the Division of Corporation Finance of the SEC requesting that the Division of Corporation Finance confirm via letter that no enforcement action will be recommended to the SEC relative to the issuance of the Surplus Notes in accordance with Section 4.04(d) of this Plan in reliance upon the exemption from the registration requirements of Section 5 of the Securities Act provided by Section 3(a)(10) of the Securities Act.

1.37 No-action Letter. Letter(s) received by or on behalf of the Segregated Account from the Division of Corporation Finance of the SEC confirming that no enforcement action will be recommended to the SEC relative to the issuance of the Surplus Notes in accordance with Section 4.04(d) of this Plan.

1.38 Objection. Any dispute or objection with respect to a Claim, as contemplated by Section 4.06 of this Plan.

1.39 OCI. The Office of the Commissioner of Insurance of the State of Wisconsin.

1.40 Payment Date. The date during each month on which Permitted Policy Claims shall be paid in accordance with Article 4 of this Plan. The Payment Date shall be the twentieth (20th) day of each month (or, if any such day is not a Business Day, the immediately following Business Day), subject to change in the sole and absolute discretion of the Rehabilitator.

1.41 Pending / Pending Claim. A Claim submitted by a Holder which is under evaluation by the Rehabilitator or the Management Services Provider, and which is not, or has not become, a Permitted Claim, a Disputed Claim, a Late Claim, a Duplicate Claim or a Disallowed Claim.

1.42 Permitted / Permitted Claim. A Claim (other than a Late Claim, a Disputed Claim, a Pending Claim, a Duplicate Claim or a Disallowed Claim) submitted by a Holder in compliance with the provisions hereof and determined by the Rehabilitator or the Management Services Provider to be a matured, non-contingent due and payable obligation according to the provisions of the applicable Policy and/or any other underlying instrument(s) or contract(s) giving rise to or governing such Claim. Permitted Claims shall not include any Claim in respect of (i) any interest on such Claim to the extent accruing or maturing on or after the Petition Date, (ii) punitive, consequential, special or exemplary damages, (iii) any fine, penalty, tax or

forfeiture, including, but not limited to, default or penalty interest purported to be imposed on the Claim or on the related insured obligation, if any, that would be in violation of the Injunction, or (iv) that portion of any loss for which indemnification is provided by other benefits or advantages recovered or recoverable by the Holder. In addition, a Permitted Claim shall not include any Claim the Holder of which in respect of such Claim, or any party to the transaction relating to such Claim, is in violation of this Plan or the Injunction.

1.43 Person. An individual, a corporation, a partnership, a limited liability company, an association, a joint stock company, an estate, a trust, an unincorporated organization, a government or any political subdivision thereof, or any other entity.

1.44 Petition Date. March 24, 2010, the date on which OCI commenced the Proceeding.

1.45 Plan. This Plan of Rehabilitation for the Segregated Account and all supplements and Exhibits hereto, as the same may be amended or modified as set forth herein and in accordance with the Act.

1.46 Plan Documents. The Fiscal Agency Agreement, Form of Surplus Note, Form of Junior Surplus Note and Proof of Policy Claim Form, as the same may be amended or modified as set forth herein and in accordance with the Act.

1.47 Plan of Operation. The Plan of Operation of the Segregated Account.

1.48 Policy. Any financial guaranty insurance policy, surety bond or other similar guarantee allocated to the Segregated Account pursuant to the Plan of Operation.

1.49 Policy Claim. A Claim under a Policy or Policies.

1.50 Proceeding. The legal proceeding, currently styled as In the Matter of the Rehabilitation of: Segregated Account of Ambac Assurance Corporation, Case No. 10 CV 1576, pending in the Court.

1.51 Proof of Policy Claim Form. The form attached hereto as Exhibit C to be used by the Holder of a Policy Claim to submit such Policy Claim to the Management Services Provider in accordance with Section 4.04(a), as such form may be amended from time to time in the sole and absolute discretion of the Rehabilitator.

1.52 Rehabilitation Order. The Order for Rehabilitation entered in the Proceeding on March 24, 2010.

1.53 Rehabilitator. The Commissioner, as the court-appointed rehabilitator of the Segregated Account.

1.54 Reinsurance Agreement. The Aggregate Excess of Loss Reinsurance Agreement between the Segregated Account and AAC, entered into as of March 24, 2010.

1.55 SEC. The Securities and Exchange Commission.

1.56 Secured Note. The Secured Note issued by AAC to the Segregated Account on March 24, 2010.

1.57 Securities Act. The Securities Act of 1933, as now in effect or hereafter amended.

1.58 Segregated Account. The Segregated Account of Ambac Assurance Corporation, established pursuant to the Plan of Operation in accordance with Wis. Stat. § 611.24(2).

1.59 Segregated Account Operational Documents. The documents and agreements pertaining to the establishment and operation of the Segregated Account, including, but not

limited to, the Plan of Operation, the Secured Note, the Reinsurance Agreement, the Management Services Agreement and the Cooperation Agreement.

1.60 Special Deputy Commissioner. The Special Deputy Commissioner of the Segregated Account appointed by the Rehabilitation Order.

1.61 Surplus Notes. The 5.1% unsecured interest-bearing surplus notes to be issued by the Segregated Account to the Holders of Permitted Policy Claims, substantially in the form attached hereto as Exhibit B. For the avoidance of doubt, Surplus Notes shall not include the Junior Surplus Notes.

1.62 Surplus Note Percentage. The percentage of the amount of a Permitted Policy Claim satisfied through the issuance of a Surplus Note, which percentage shall be 75% on the Effective Date, and may be adjusted from time to time thereafter pursuant to Section 7.02 of this Plan.

1.63 Website. The website established by the Rehabilitator for policyholders at www.ambacpolicyholders.com, which makes available for viewing and download the key documents described herein and in the Disclosure Statement, including, but not limited to, this Plan, the Plan Documents and the Segregated Account Operational Documents.

1.64 Wis. Stat. § ____. The Wisconsin Statutes (2007-08), as amended.

ARTICLE 2 TREATMENT OF CLAIMS GENERALLY

2.01 Administrative Claims. Unless the Holder of a Permitted Administrative Claim and the Rehabilitator or the Management Services Provider agree to a different treatment in accordance with Section 3.06 of this Plan, each Holder of a Permitted Administrative Claim shall receive, in full satisfaction of such Permitted Administrative Claim, Cash equal to the amount of

such Permitted Administrative Claim, in accordance with the procedures set forth in Section 4.03 below.

2.02 Policy Claims. Unless the Holder of a Permitted Policy Claim and the Rehabilitator or the Management Services Provider agree to a different treatment in accordance with Section 3.06 of this Plan, each Holder of a Permitted Policy Claim shall receive, in full satisfaction of such Permitted Policy Claim, (i) Cash equal to the amount of such Permitted Policy Claim multiplied by the Cash Percentage and (ii) a Surplus Note (or beneficial interest therein), the principal amount of which is equal to the amount of such Permitted Policy Claim multiplied by the Surplus Note Percentage, in accordance with the procedures set forth in Section 4.04 of this Plan. Payment by AAC of a Policy Claim relating to an obligation of ACP under the related credit default swap shall be deemed payment by ACP of its obligations under such credit default swap. Nothing in this Plan shall cause to inure to the benefit of any Holder of a Policy Claim any greater right than that which would have existed were the Segregated Account not in rehabilitation.

2.03 General Claims. Unless the Holder of a General Claim and the Rehabilitator or the Management Services Provider agree to a different treatment in accordance with Section 3.06 of this Plan, each Holder of a Permitted General Claim shall receive, in full satisfaction of such Permitted General Claim, a Junior Surplus Note, the principal amount of which is equal to the amount of such Permitted General Claim, in accordance with the procedures set forth in Section 4.05 of this Plan.

ARTICLE 3 MEANS FOR IMPLEMENTATION OF PLAN

3.01 Continued Existence of the Segregated Account. The Segregated Account will continue to exist after the Effective Date with all the powers under applicable law, without

prejudice to any right to terminate such existence under applicable law after the Effective Date. The Segregated Account Operational Documents shall remain in full force and effect according to their respective terms after the Effective Date, until terminated in accordance with their respective terms.

3.02 Rehabilitator. The Commissioner shall remain the appointed Rehabilitator of the Segregated Account. Any successor(s) to the Commissioner shall automatically assume this appointment as Rehabilitator of the Segregated Account, with all the powers and duties described herein. The Rehabilitator shall have the full powers and authority granted pursuant to Wis. Stat. §§ 645.33 to 645.35 and all other applicable laws as are reasonable and necessary to fulfill the duties and responsibilities under the Rehabilitation Order and this Plan, including, but not limited to, the power and authority to interpret the terms and conditions of this Plan in order to carry out the purposes and effects of this Plan. In furtherance thereof, the Rehabilitator has the authority to issue to all interested Persons guidelines or further directions as may be necessary or appropriate from time to time in his sole and absolute discretion in order to carry out the purposes and effects of this Plan.

3.03 Special Deputy Commissioner. The Special Deputy Commissioner and any successor appointed by the Rehabilitator pursuant to Wis. Stat. § 645.33 for the purposes of carrying out the rehabilitation shall have all of the powers of the Rehabilitator under Wis. Stat. §§ 645.33 to 645.35 and all other applicable laws as are reasonable and necessary to fulfill such duties and responsibilities as are set forth in the Rehabilitation Order and this Plan.

3.04 Management Services Provider. Subject to the oversight of the Rehabilitator and the Special Deputy Commissioner, the Management Services Provider shall continue to

manage the Segregated Account pursuant to the terms of the Management Services Agreement and the Cooperation Agreement.

3.05 Administration of this Plan. After the Effective Date, the Management Services Provider shall perform those responsibilities, duties, and obligations set forth in this Plan on behalf of the Segregated Account. To the extent that the manner of performance is not specified in this Plan, the Management Services Agreement, the Cooperation Agreement, or any guidelines issued by the Rehabilitator or the Special Deputy Commissioner under any of the foregoing, the Management Services Provider shall have the discretion to carry out and perform all other obligations or duties imposed on it by this Plan or by law in any manner it so chooses, as long as such performance is consistent with the purposes and effects of this Plan, as determined by the Rehabilitator in his sole and absolute discretion.

3.06 Alternative Resolutions of Claims. Nothing in this Plan shall limit the ability of the Rehabilitator to resolve any Claim through the arrangement, negotiation, effectuation and execution of an amendment, restructuring, refinancing, purchase, repurchase, termination, settlement, commutation, tender, synthetic commutation or tear-up, or any similar transaction that results in the extinguishment or reduction of the Segregated Account's liability, in respect of, as applicable, (i) all or part of the Policy or Policies, (ii) all or part of the underlying obligation or obligations insured by such Policy or Policies or (iii) the underlying instrument, contract or arrangement, if any, giving rise to such Claim (each, as applicable, an "Alternative Resolution"), subject to the following requirements:

(a) each Alternative Resolution must not violate the law and must be equitable to the interests of the Holders of Policy Claims generally, as determined in the sole and absolute discretion of the Rehabilitator; and

(b) the Rehabilitator shall obtain the approval of this Court prior to effectuating any Alternative Resolution that involves the payment of Cash by the Segregated Account in excess of \$50 million.

ARTICLE 4
PROCEDURES GOVERNING SUBMISSION OF CLAIMS AND DISTRIBUTIONS

4.01 Claims Administration. The Management Services Provider will retain responsibility for administering, disputing, objecting to, compromising or otherwise resolving all Claims in accordance with this Plan, subject to the provisions of this Plan and the Segregated Account Operational Documents, together with any guidelines issued by the Rehabilitator or the Special Deputy Commissioner under any of the foregoing, and the specific direction of the Rehabilitator or the Special Deputy Commissioner. Claims under Surplus Notes or Junior Surplus Notes shall not be treated as Administrative Claims, Policy Claims or General Claims for purposes of this Plan.

4.02 Secured Note, Reinsurance Agreement and Cooperation Agreement.Distributions of Cash in Respect of Permitted Claims. Promptly following each Determination Date, the Management Services Provider shall, on behalf of the Segregated Account, demand payment from AAC pursuant to Section 1(a) of the Secured Note in the amount of the Cash to be distributed on the next Payment Date in respect of Permitted Claims. In the event that the Secured Note has been fully drawn, the Management Services Provider shall, on behalf of the Segregated Account, as applicable, render the Monthly Account (as defined in the Reinsurance Agreement) to AAC as reinsurer pursuant to Section 1.05 of the Reinsurance Agreement or demand payment from AAC pursuant to Section 4.02 of the Cooperation Agreement, in each case in accordance with the respective terms thereof.

(b) Payment of Principal and Interest in Respect of Surplus Notes and Junior Surplus Notes. In the event that OCI has authorized the payment of any interest or principal under any surplus notes issued by the Segregated Account, the Management Services Provider shall, on behalf of the Segregated Account, demand payment from AAC pursuant to Section 1(a) of the Secured Note in the amount of the Cash to be distributed in respect of such surplus notes. In the event that the Secured Note has been fully drawn, the Management Services Provider shall, on behalf of the Segregated Account, as applicable, include the amount of Cash to be distributed in respect of such surplus notes in the Monthly Account rendered to AAC as reinsurer pursuant to Section 1.05 of the Reinsurance Agreement.

4.03 Administrative Claims.

(a) Submission of Administrative Claims. The Holder of an Administrative Claim shall submit its Administrative Claim to the Management Services Provider or, if directed by the Rehabilitator, to the Rehabilitator, in the same manner as such Holder would submit such Administrative Claim in the ordinary course of business, and in accordance with, and including such information as is required by, the provisions of the underlying instrument(s), contract(s) or arrangement(s) giving rise to such Administrative Claim, if any. Each such Administrative Claim submitted in accordance with this Section shall be referred to as a Pending Administrative Claim.

(b) Evaluation of Pending Administrative Claims. The Management Services Provider or, in his sole and absolute discretion, the Rehabilitator shall evaluate each Pending Administrative Claim to determine whether such Pending Administrative Claim is a Permitted Claim or whether an Objection should be raised as to such Administrative Claim in accordance with Section 4.06. The Management Services Provider or the Rehabilitator may ask

any Holder to supplement its Pending Administrative Claim with further supporting documentation in order to evaluate such Pending Administrative Claim. Upon the determination by the Management Services Provider or the Rehabilitator that a Pending Administrative Claim constitutes a Permitted Claim, such Administrative Claim shall be considered a Permitted Administrative Claim.

(c) **Payment of Administrative Claims.** Subject to the provisions of Section 3.06, the Management Services Provider shall distribute to each Holder of a Permitted Administrative Claim, in accordance with normal business practices and in complete satisfaction of such Permitted Administrative Claim, Cash equal to the dollar amount of such Administrative Claim. Notwithstanding the foregoing, the Management Services Provider may, in its discretion, allow Permitted Administrative Claims to be paid directly by AAC, and such amount shall be deemed to have been paid by the Segregated Account.

4.04 Policy Claims.

(a) **Submission of Policy Claims.** The Holder of a Policy Claim, including any Policy Claim arising prior to the Effective Date, 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 underlying instrument(s) or contract(s) giving rise to or governing the submission of such Policy Claim and (ii) a completed and executed Proof of Policy Claim Form relating to such Policy Claim. A Holder shall not submit a Claim any earlier than permitted under the relevant Policy or other underlying instrument(s) or contract(s) giving rise to or governing the submission of such Policy Claim. Each such Policy Claim submitted in accordance with this Section shall be referred to as a Pending Policy Claim.

(b) 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 is a Permitted Claim or whether an Objection should be raised as to such Policy Claim in accordance with Section 4.06. The Management Services Provider may ask any Holder to supplement its Pending Policy Claim with further supporting documentation in order to evaluate such Pending Policy Claim. Upon the determination by the Management Services Provider or the Rehabilitator that a Pending Policy Claim constitutes a Permitted Claim, such Policy Claim shall be considered a Permitted Policy Claim.

(c) Distributions of Cash. Subject to Section 3.06, the Management Services Provider shall distribute to each Holder of a Permitted Policy Claim Cash equal to the dollar amount of such Permitted Policy Claim multiplied by the Cash Percentage. Such Distribution shall occur on the Payment Date that next follows the Determination Date on which such Claim was determined to be a Permitted Policy Claim. Such amount shall be paid by the Segregated Account to the account of the Holder specified in the Proof of Policy Claim Form relating to such Policy Claim. Such payment of Cash and the issuance of Surplus Notes, as provided in subsection (d) of this Section 4.04, shall constitute full and complete payment and settlement of such Policy Claim.

(d) Issuance of Surplus Notes. Subject to Section 3.06, the Segregated Account shall distribute to each Holder of a Permitted Policy Claim Surplus Notes with a principal amount equal to the dollar amount of such Permitted Policy Claim multiplied by the Surplus Note Percentage. Such Distribution shall occur on the Payment Date that next follows the Determination Date on which such Claim was determined to be a Permitted Policy Claim. On or prior to each Payment Date, the Management Services Provider shall, on behalf of the

Segregated Account, execute and deposit with the Fiscal Agent a global Surplus Note in the name of The Depository Trust Corporation (or nominee thereof) in principal amount equal to the aggregate dollar amount of Surplus Notes to be issued on such date. A Holder of a Permitted Policy Claim may request in the relevant Proof of Policy Claim Form to receive a certificated Surplus Note in lieu of a beneficial interest in a global Surplus Note, and the principal amount of such global Surplus Note will be reduced by an amount equal to the principal amount of such certificated Surplus Note; provided, that the Management Services Provider may, in its sole and absolute discretion, decline to issue such Surplus Notes in certificated form. Beneficial interests in the Surplus Notes held in global form shall be transferred to the Holders of Permitted Policy Claims in accordance with the rules and procedures of the Fiscal Agent and The Depository Trust Corporation, including any arrangements agreed to with the Segregated Account from time to time, and to the extent received by a Holder acting in its capacity as trustee, shall be transferred by such Holder to the beneficial holders for whom it is acting as trustee. Each Holder of a Permitted Policy Claim, including a Holder acting in its capacity as trustee, and each party to any instrument(s) or contract(s) (i) pursuant to which a Policy was issued, (ii) which governs the payment of claims under a Policy or (iii) which governs or specifies the subsequent allocation, distribution or disbursement of cash, funds, moneys or other amounts received pursuant to a Policy, including but not limited to, any note, indenture, certificate, servicing agreement or other similar instrument or agreement, shall be required to accept any Surplus Notes (or any beneficial interest therein) issued to such Holder or beneficiary in accordance with this Plan, in lieu of any cash payments required to be made to such Holder or beneficiary in full and complete satisfaction of such cash payment obligation of the Segregated Account in respect of such Permitted Policy Claim, regardless of the existence of any provision in such Policy or

any other underlying instrument(s) or contract(s) that would require, or that contemplates, the discharge of the obligations of the Segregated Account through the payment of Cash. Notwithstanding the generality of the foregoing, the Segregated Account or any such Holder or beneficiary acting as a trustee may allocate, distribute or disburse Surplus Notes issued in accordance with this Plan by allocating, distributing or disbursing such Surplus Notes (or any beneficial interest therein) to the beneficial holders of such underlying financial instrument(s) through the relevant custodians holding the positions on behalf of the beneficial holders, and such custodians shall be required to accept and distribute such Surplus Notes to the beneficial holders in accordance with procedures acceptable to the Rehabilitator.

(e) **Distributions under Surplus Notes.** As set forth in the Surplus Notes, all payments of principal and interest under the Surplus Notes shall be subject to the prior approval of the Commissioner.

(f) **Subsequent Adjustments.** If the Rehabilitator or the Management Services Provider determines that the amount of the Cash received by and/or the principal amount of the Surplus Note credited to the Holder of a Permitted Policy Claim as a Distribution in any given Distribution was incorrect, the Rehabilitator or the Management Services Provider shall adjust the amount of the Cash received and/or the principal amount of the Surplus Note credited in respect of such Policy in one or more subsequent Distributions as necessary to account for such error.

(g) **Recoveries and Reimbursements on Policy Claims.** Notwithstanding the Proceeding or any provisions of this Plan, including, but not limited to, the satisfaction of Permitted Policy Claims with Surplus Notes in lieu of Cash, AAC shall be entitled to recover the full amount of all recoveries, reimbursements and other payments and to receive any assets it is

owed in its capacity as insurer, surety, credit support provider, credit enhancer, credit default swap counterparty or similar capacities, or as assignee or subrogee, under the applicable Policy and any related underlying instrument(s) or contract(s) governing the priority or distribution of cash recoveries or delivery of assets, unless otherwise waived by AAC and the Management Services Provider or the Rehabilitator or approved by AAC and the Management Services Provider or the Rehabilitator.

(h) Assignment of Rights. Without prejudice to (i) the terms and provisions of the applicable Policy and any related underlying instrument(s) or contract(s) and (ii) any assignment previously executed, whether pursuant to a Proof of Policy Claim Form or otherwise, upon receipt of a payment with respect to a Permitted Policy Claim, each such Holder shall be deemed to have assigned its rights relating to payment under the underlying instrument(s) or contract(s) to AAC.

4.05 General Claims.

(a) Submission of General Claims. The Holder of a General Claim shall submit its General Claim to the Management Services Provider or, if directed, to the Rehabilitator in the same manner as such Holder would submit such General Claim in the ordinary course of business, and 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. A Holder shall not submit a General Claim any earlier than permitted under the relevant instrument(s) or contract(s) giving rise to or governing the submission of such General Claim. Each such General Claim submitted in accordance with this Section shall be referred to as a Pending General Claim.

(b) Evaluation of Pending General Claims. The Management Services Provider shall evaluate each Pending General Claim to determine whether the Claim is a Permitted Claim or whether an Objection should be raised as to such General Claim in accordance with Section 4.06. The Management Services Provider or the Rehabilitator may ask any Holder to supplement its Pending General Claim with further supporting documentation in order to evaluate 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.

(c) Issuance of Junior Surplus Notes. Subject to Section 3.06, from time to time, the Management Services Provider shall, on behalf of the Segregated Account, execute and deliver to each Holder of a Permitted General Claim a Junior Surplus Note in a principal amount equal to the dollar amount of such Permitted General Claim.

4.06 Disputed Claims. The Rehabilitator or the Management Services Provider may raise an Objection to any Pending Claim in whole or in part 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 all or part of such Claim is a Duplicate Claim or that all or part of such Claim is a Late Claim, by providing the Holder of the Claim or the Holder's attorney (as applicable) with written notice of the substance of the Objection. No later than the sixtieth (60th) day after the mailing of such written notice to the Holder, the Holder, if it wishes to dispute such Objection, shall send to the Management Services Provider written responses to the Objection. The responses 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 sixty (60) day period, the Claim shall

become a Disallowed Claim without order of the Court. If a response is submitted within such sixty (60) day period, the Rehabilitator shall resolve such dispute in accordance with this Plan and communicate such resolution to the Holder. In the event that the Rehabilitator determines that such Disputed Claim is fully or partially a Disallowed Claim, the Holder has the right to file a motion with the Court asserting that the Rehabilitator disallowed such Claim in violation of the provisions of this Plan.

4.07 Setoffs. The Rehabilitator may set off in whole or in part against any Permitted Claim or any Distribution of Cash, Surplus Notes or Junior Surplus Notes to be made under this Plan 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 this 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.

ARTICLE 5 CONDITIONS PRECEDENT TO EFFECTIVENESS

5.01 Conditions Precedent to Effectiveness. Notwithstanding any other provision of this Plan or the Confirmation Order, the Effective Date of this Plan shall not occur, and this Plan shall not be binding on any party, unless and until each of the following conditions has been satisfied:

(a) the Court shall have entered the Confirmation Order, which Confirmation Order shall approve, among other things, the procedural and substantive fairness of the terms and conditions of the issuance of the Surplus Notes under Section 4.04(d) of this Plan, in form and

substance reasonably satisfactory to the Rehabilitator and consistent with the representations in the No-action Letter Request, all as determined by the Rehabilitator in the Rehabilitator's sole and absolute discretion;

(b) the Rehabilitator must be in receipt of (i) a No-action Letter in form and substance reasonably satisfactory to the Rehabilitator and, (ii) where possible, and in the Rehabilitator's sole and absolute discretion, no-action letters or written confirmations of the availability of securities registration exemptions from the securities law administrator of each of the fifty states of the United States, the District of Columbia and the Commonwealth of Puerto Rico.

(c) the Segregated Account and the Fiscal Agent shall have executed the Fiscal Agency Agreement;

(d) OCI shall have issued a letter approving the issuance of the Surplus Notes under Section 4.04(d) of this Plan and the Junior Surplus Notes for the purposes set forth in this Plan; and

(e) all other actions, documents and agreements necessary to implement this Plan as of the Effective Date shall have been delivered and all conditions precedent thereto shall have been satisfied or waived, in each case, as determined in the sole and absolute discretion of the Rehabilitator.

5.02 Notification of Effective Date. Upon satisfaction of all of the conditions set forth in Section 5.01 and in the definition of "Effective Date," the Rehabilitator shall post a notice to the Website advising of the Effective Date of this Plan.

ARTICLE 6
RETENTION OF JURISDICTION

6.01 Retention of Jurisdiction. Following the Effective Date, the Court shall retain exclusive jurisdiction over this Proceeding in accordance with the Act to ensure that the purposes and intent of this Plan are carried out. Without limiting the generality of the foregoing, the Court shall also expressly retain exclusive jurisdiction: (a) to hear and determine all Objections to Disputed Claims; (b) to hear, determine and enforce all causes of action that may exist against the Segregated Account or against the General Account or AAC or the Management Services Provider in regards to the Segregated Account; and (c) for all purposes pertaining to the treatment or classification of Claims. The Court shall further retain exclusive jurisdiction for the following additional purposes:

- (a) to modify this Plan after the Confirmation Date;
- (b) to enter such orders and injunctions as are necessary to enforce the respective title, rights, and powers of the Segregated Account, the terms of this Plan, and to impose such limitations, restrictions, terms, and conditions on such title, rights, and powers as the Court may deem necessary;
- (c) to enter an order closing the Proceeding;
- (d) to correct any defect, cure any omission, or reconcile any inconsistency in this Plan or in any order of the Court as may be necessary to implement the purposes and intent of this Plan;
- (e) to determine any and all motions, applications, and other contested matters that may be pending on the Effective Date;
- (f) to consider any amendment or modification of this Plan or any Plan Document;

(g) to determine all controversies, suits, and disputes that may arise in connection with the interpretation, enforcement, or consummation of this Plan;

(h) 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 this Plan;

(i) to determine such other matters or proceedings as may be provided for under the Act, this 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 this Plan, the Proceeding, or the Confirmation Order; and

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

ARTICLE 7 ANNUAL REPORTS TO COURT

7.01 Annual Reports. No later than June 1 of each year, the Rehabilitator shall file a report with the Court advising the Court on the status of the rehabilitation of the Segregated Account. Such report shall:

(a) provide an updated financial analysis showing the estimated liabilities and available claims paying resources of the Segregated Account;

(b) update the Court on the status of the run-off and/or settlement of the liabilities allocated to the Segregated Account;

(c) indicate whether the next scheduled interest payment in respect of the Surplus Notes shall be approved by OCI; and

(d) provide such other information as is required by law, requested by the Court or deemed appropriate by the Rehabilitator.

7.02 Amendments to Cash Percentage and Surplus Note Percentage. In conjunction with the submission of such annual report, the Rehabilitator may petition the Court to amend this Plan in accordance with Section 10.04 to simultaneously increase the Cash Percentage and decrease the Surplus Note Percentage by corresponding amounts, if, based on the Rehabilitator's 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 an amendment is equitable to the interests of the Holders of Policy Claims generally. In determining whether such an amendment is equitable to the interests of the Holders of Policy Claims generally, the Rehabilitator shall consider whether, in conjunction with any such amendment, outstanding Surplus Notes should be partially redeemed, pre-paid, or called.

ARTICLE 8 DISCHARGE, RELEASE AND INJUNCTION

8.01 Discharge, Release and Injunction. Except as may otherwise be provided herein, the Distributions in respect of a Permitted Claim under this Plan shall be in complete exchange for, and in full and unconditional settlement, satisfaction, discharge and release of such Claim, and shall effect a full and complete release, discharge, and termination of any Liens, or other claims, interests, or encumbrances upon the Segregated Account and AAC with respect to such Claim. In addition, upon final determination in accordance with this Plan that a Claim is a Disallowed Claim, such determination shall effect a full and complete release, discharge and termination of any Liens, other claims, interests, or encumbrances upon the Segregated Account and AAC with respect to such Claim. All Holders of Claims are precluded from asserting against the Segregated Account, the General Account or AAC, or their respective successors or

property or any of their respective current or former members, shareholders, affiliates, officers, directors, employees or agents, any Claims, obligations, rights, causes of action or liabilities, based upon any act, omission, transaction, or other activity of any kind or nature, other than as expressly provided for in this Plan. Except as otherwise provided in this Plan, and except as otherwise agreed by the Rehabilitator or the Management Services Provider, all Holders of Claims shall be permanently barred and enjoined from asserting against the Segregated Account, the General Account or AAC, or their respective successors or property or any of their respective current or former members, shareholders, affiliates, officers, directors, employees or agents, any of the following actions on account of such Claim: (i) commencing or continuing in any manner any action or other proceeding on account of such Claim, or the property to be distributed under the terms of this Plan, other than to enforce any right to Distribution to such Holders under this Plan; (ii) enforcing, attaching, collecting, or recovering in any manner any judgment, award, decree, or order against the Segregated Account, the General Account or AAC or any of the property to be distributed under the terms of this Plan, other than as permitted under subparagraph (i) above; (iii) creating, perfecting, or enforcing any Lien or other encumbrance against property of the Segregated Account, the General Account or AAC, or any property to be Distributed under the terms of this Plan; (iv) asserting any right of setoff, subrogation, or recoupment of any kind, directly or indirectly, against any obligation due to the Segregated Account, the General Account or AAC, or any property of the Segregated Account, the General Account or AAC, or any direct or indirect transferee of any property of, or successor in interest to, the Segregated Account, the General Account or AAC as prohibited by Wis. Stat. § 645.56; and (v) acting or proceeding in any manner, in any place whatsoever, that does not conform to, or comply with, the provisions of this Plan.

ARTICLE 9
IMMUNITY AND INDEMNIFICATION OF THE REHABILITATOR,
EMPLOYEES, AND CONSULTANTS

9.01 Beneficiaries of Immunity and Indemnification. The following Persons are entitled to protection under this part of this Plan: OCI, the Rehabilitator, the Special Deputy Commissioner, the Segregated Account, AAC and the General Account, and the Management Services Provider, and each of their respective current and former members, shareholders, affiliates, officers, directors, employees and agents (including any attorneys, financial advisors, investment bankers, consultants and other professionals retained by such Persons, and any other advisors or experts with whom OCI, the Rehabilitator or the Special Deputy Commissioner consults, as contemplated by Wis. Stat. § 645.33(3)).

9.02 Immunity and Indemnification. All Persons identified in Section 9.01 shall have official immunity and shall be immune from suit and liability, both personally and in their official capacities, for any act or omission made in connection with, or arising out of, the Segregated Account, AAC or the General Account with respect to the Segregated Account, the Proceeding, this Plan (and the Confirmation Order related thereto), the consummation of this Plan, or the administration of this Plan or the property to be distributed under this Plan, whether prior to or following the commencement of the Proceeding, with the sole exception of acts or omissions resulting from intentional fraud or willful misconduct as determined by a Final Order and, in all respects, such Persons shall be entitled to rely upon the advice of counsel with respect to their duties and responsibilities, if any, under this Plan. If any legal action is commenced against any Person identified in Section 9.01, whether against that Person personally or in an official capacity, alleging property damage, property loss, personal injury or other civil liability caused by or resulting from any act or omission made in connection with, or arising out of, the Segregated Account, AAC or the General Account with respect to the Segregated Account, the

Proceeding, this Plan (and the Confirmation Order related thereto), the consummation of this Plan, or the administration of this Plan or the property to be distributed under this Plan, that Person shall be indemnified by the Segregated Account for all expenses, attorney's fees, judgments, settlements, decrees or amounts due and owing or paid in satisfaction of or incurred in the defense of such legal action, unless it is determined by a Final Order that the alleged act or omission was caused by intentional fraud or willful misconduct. Any indemnification for expense payments, judgments, settlements, decrees, attorneys' fees, surety bond premiums or other amounts paid or to be paid by the Segregated Account pursuant to this part of this Plan shall be considered a Permitted Administrative Claim. Nothing contained in or implied by this part of this Plan shall operate, or be construed or applied to deprive any Person identified in Section 9.01 of any immunity, indemnity, benefits of law, rights or any defense otherwise available.

ARTICLE 10 GENERAL PROVISIONS

10.01 Governing Law. The rights and obligations arising under this Plan 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.

10.02 Prior Orders and Agreements. Unless modified by this Plan, the prior orders of this Court shall remain in full force and effect throughout the period of administration of this Plan. These orders include, without limitation, the Rehabilitation Order and the Injunction. Nothing in this 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.

10.03 Revocation or Withdrawal of this Plan. The Rehabilitator reserves the right to revoke or withdraw this Plan prior to the Confirmation Date. If the Rehabilitator so revokes or withdraws this Plan, then this Plan shall be null and void and, in such event, nothing contained herein shall be deemed to constitute a waiver or release of any Claims by or against the Segregated Account or any other Person, or to prejudice in any manner the rights of the Segregated Account or any other Person in any further proceedings involving the Segregated Account.

10.04 Amendment and Modification of this Plan. The Rehabilitator may in his sole and absolute discretion alter, amend, or modify this Plan, the Segregated Account Operational Documents or the Disclosure Statement at any time prior to the Confirmation Hearing Date. Following the Confirmation Date, the Rehabilitator may seek the approval of the Court to alter, amend, or modify this Plan or the Plan Documents with such notice and hearing as the Court prescribes pursuant to Wis. Stat. § 645.33(5).

10.05 Termination of Rehabilitation. The Rehabilitator may at any time petition the Court for an order terminating the rehabilitation of the Segregated Account if rehabilitation has been accomplished and the grounds for rehabilitation no longer exist.

10.06 Successors and Assigns. The rights, benefits, and obligations of any Person named or referred to in this Plan shall be binding upon, and shall inure to the benefit of, the heirs, executors, administrators, successors, or assigns of such Person.

10.07 Rules of Interpretation. For purposes of this Plan: (i) whenever from the context it is appropriate, each term, whether stated in the singular or the plural, shall include both the singular and the plural, and pronouns stated in the masculine, feminine, or neuter gender shall include the masculine, feminine, and the neuter gender; (ii) any reference in this Plan to a

contract, instrument, release, indenture, or other agreement or document being in a particular form or on particular terms and conditions means that such document shall be substantially in such form or substantially on such terms and conditions; (iii) any reference in this Plan to an existing document or Exhibit filed, or to be filed, shall mean such document or Exhibit, as it may have been or may be amended, modified, or supplemented in accordance with its terms; (iv) unless otherwise specified, all references in this Plan to Sections and Articles are references to Sections and Articles of this Plan; (v) the words “herein” and “hereto” refer to this Plan in its entirety rather than to a particular portion of this Plan; and (vi) captions and headings to Articles and Sections are inserted for convenience of reference only and are not intended to be a part of or to affect the interpretation of this Plan.

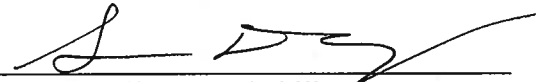
10.08 Implementation. The Rehabilitator and Management Services Provider shall take all steps, and execute all documents including appropriate releases, necessary to effectuate the provisions contained in this Plan.

10.09 Inconsistency. In the event of any inconsistency between this Plan and the Disclosure Statement, the provisions of this Plan shall govern.

10.10 No Admissions. Notwithstanding anything herein to the contrary, nothing contained in this Plan shall be deemed an admission by any Person with respect to any matter set forth herein.

10.11 Filing of Additional Documents. On or before the Effective Date, 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 this Plan.

Dated: October 8, 2010

By: 
Sean Dilweg, Rehabilitator