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CLIENT/MATTER NUMBER
092281-0101

November 29, 2010

VIA HAND DELIVERY

Jody Baux
Ambac Clerk, Dane County Circuit Court
Dane County Courthouse
215 South Hamilton Street
Madison, Wisconsin 53703

Re: *In the Matter of the Rehabilitation of Segregated Account of Ambac Assurance Corporation*; Dane County Circuit Court Case No. 10 CV 1576

Dear Ms. Baux:

On behalf of the Court-appointed Rehabilitator of the Segregated Account of Ambac Assurance Corporation, enclosed for filing is the Rehabilitator's Proposed Form of Decision and Final Order Confirming the Rehabilitator's Plan of Rehabilitation, With Findings of Fact and Conclusions of Law, with attachments.

By copy of this letter, counsel of record are being served by email. Please contact me if you have any questions. Thank you.

Very truly yours,

FOLEY & LARDNER LLP

Michael B. Van Sicklen

Enclosures
cc: Honorable William D. Johnston (with enclosures, via hand delivery)
All Counsel of Record (with enclosures, via email)

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November 29, 2010

VIA HAND DELIVERY

Honorable William D. Johnston
Lafayette County Circuit Court
Lafayette County Courthouse
626 Main Street
Post Office Box 40
Darlington, Wisconsin 53530-0040

Re: *In the Matter of the Rehabilitation of Segregated Account of Ambac Assurance Corporation*, Case No. 10 CV 1576 (Dane County Circuit Court)

Dear Judge Johnston:

Enclosed is a courtesy copy of the proposed form of Decision and Final Order Confirming the Rehabilitator's Plan of Rehabilitation, With Findings of Fact and Conclusions of Law, submitted on behalf of the Wisconsin Office of the Commissioner of Insurance and the Rehabilitator in the above-referenced matter. Also enclosed for the Court's convenience is a disk containing an electronic copy of the proposed order.

The Rehabilitator has also enclosed a courtesy copy of red-lined revisions to two sections of the Plan (Articles 4.04(h) and 8.01), pages reflecting a new Article 8.02 of the Plan, and a page showing a red-lined revision to one section of the form of the Surplus Note.

Finally, the Rehabilitator has also enclosed courtesy copies of the condensed transcripts cited in the proposed order. Note that, in some instances, the page numbers in the full-page transcripts do not uniformly match the page numbers of the condensed form transcripts provided by the reporters following each day of the hearing.

Thank you for your attention to this matter.

Very truly yours,

FOLEY & LARDNER LLP

Michael B. Van Sicklen

Enclosures
cc: All Counsel of Record (via email)
Jody Baux, Dane County Clerk (via hand delivery)

STATE OF WISCONSIN CIRCUIT COURT DANE COUNTY

In the Matter of the Rehabilitation of:

Segregated Account of Ambac Assurance Corporation

Case No. 10 CV 1576

REHABILITATOR'S PROPOSED FORM OF DECISION AND FINAL ORDER CONFIRMING THE REHABILITATOR'S PLAN OF REHABILITATION, WITH FINDINGS OF FACT AND CONCLUSIONS OF LAW

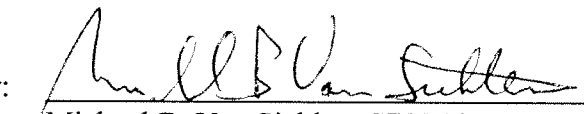
TO: Honorable William D. Johnston
Lafayette County Circuit Court Judge, Presiding by Judicial Appointment

At the close of the confirmation hearing on Friday, November 19, 2010, the Court invited all parties-in-interest to submit any proposed form of an order regarding the Rehabilitator's proposed Plan of Rehabilitation. Attached is a proposed form of Decision and Final Order Confirming the Rehabilitator's Plan of Rehabilitation, With Findings of Fact and Conclusions of Law, submitted on behalf of the Rehabilitator and the Wisconsin Office of the Commissioner of Insurance.

Note that attached to the proposed form of Decision and Final Order are copies of the relevant pages showing red-lined changes to two articles of the Plan (Articles 4.04(h) and 8.01), the text of a new Article 8.02 of the Plan, and red-lined changes to Section 14(a) of the Surplus Note, which reflect revisions as indicated in proposed Conclusion of Law No. 14 and paragraphs 1 and 2 of the proposed Order.

Dated this 29th day of November, 2010.

FOLEY & LARDNER LLP

By: 

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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

DECISION AND FINAL ORDER CONFIRMING THE REHABILITATOR'S PLAN OF REHABILITATION, WITH FINDINGS OF FACT AND CONCLUSIONS OF LAW

BY THE COURT:

Honorable William D. Johnston
Lafayette County Circuit Court Judge
Presiding by Judicial Appointment

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STATE OF WISCONSIN CIRCUIT COURT DANE COUNTY

In the Matter of the Rehabilitation of:

Segregated Account of Ambac Assurance Corporation

Case No. 10 CV 1576

DECISION AND FINAL ORDER CONFIRMING THE REHABILITATOR'S PLAN OF REHABILITATION, WITH FINDINGS OF FACT AND CONCLUSIONS OF LAW

This matter came before the Court on the Motion (the "Motion") of the Wisconsin Commissioner of Insurance, as the Court-appointed Rehabilitator (the "Rehabilitator") for the Segregated Account (the "Segregated Account") of Ambac Assurance Corporation ("Ambac" or the "General Account"), to confirm the Rehabilitator's proposed Plan of Rehabilitation (the "Plan") for the Segregated Account filed on October 8, 2010, pursuant to Wis. Stat. § 645.33(5). Consistent with this Court's Scheduling Order dated October 18, 2010, the confirmation hearing occurred in open court on November 15-19, 2010, with oral arguments following on November 30, 2010. The appearances by the Rehabilitator and the various other parties who asked to be heard at the hearing were as noted on the record.

Based on this Court's review of the Plan and the Rehabilitator's Disclosure Statement (with the attachments, amendments and supplements thereto) and the other submissions filed by the Rehabilitator in support of the Plan, as well as the briefs, affidavits, exhibits, objections and other written materials on file in these proceedings, and the oral testimony and argument presented at the hearing regarding confirmation of the Plan, and for good cause shown, the Rehabilitator's Motion for confirmation is hereby GRANTED and the Plan is hereby CONFIRMED as set forth below.

The Court hereby makes the following Findings of Fact and Conclusions of Law in support of this Order.

FINDINGS OF FACT SUPPORTING CONFIRMATION

I. BACKGROUND AND PROCEEDINGS

A. The Pre-Confirmation Proceedings

1. On March 24, 2010, this Court granted the Commissioner's Verified Petition for an Order for Rehabilitation of the Segregated Account and an Order for Temporary Injunctive Relief (the "Injunction Order") pursuant to Wis. Stat. § 645.05.

2. Since March 24, 2010, the Court has received numerous motions, briefs, and other filings on various issues, including: (1) motions to enjoin consummation of a proposed settlement (the "Bank Settlement") between the General Account and a group of large financial institutions (the "Bank Group") holding credit-default swaps ("CDS") that are insured under financial guarantee policies issued by Ambac; (2) motions to modify or dissolve the Injunction Order on grounds relating to alleged legal deficiencies in the establishment and rehabilitation of the Segregated Account; (3) motions to dissolve or modify specific provisions of the Injunction Order; (4) motions to order the Rehabilitator and/or the Office of the Commissioner of Insurance (collectively, "OCI") to remove specific policies or liabilities from the Segregated Account and return them to the General Account; and (5) requests for formal discovery of OCI and Ambac.

3. The Court has issued three interim orders addressing and denying these motions by policyholders and other entities with an interest in this rehabilitation: (1) the May 27, 2010 Findings of Fact and Conclusions of Law addressing the Bank Settlement, the establishment of the Segregated Account, and discovery; (2) a July 16, 2010 Order addressing discovery and the allocation of certain policies to the Segregated Account; and (3) an October 26, 2010 Order addressing the establishment and rehabilitation of the Segregated Account, the

allocations of certain policies thereto, and the propriety of certain provisions of the Injunction Order.

B. The Plan Confirmation Notices and Hearing

4. On October 8, 2010, the Rehabilitator filed the Plan with this Court pursuant to Wis. Stat. § 645.33(5) and moved for its confirmation. The basic outline of the Plan, and the initial 25/75% cash/note split, is consistent with what the Commissioner projected in his March 24, 2010 Verified Petition.

5. Although not required to do so by any provision of Chapter 645, the Rehabilitator filed a detailed Disclosure Statement (with attachments, amendments and supplements) with the Plan that summarizes the Rehabilitator's findings and conclusions regarding this rehabilitation, explains the terms and rationale of the Plan, and provides extensive, detailed information regarding the current and projected financial condition of the Segregated Account and the General Account of Ambac.

6. On October 8, 2010, the Rehabilitator provided written notice to all policyholders and other known parties-in-interest and their counsel about the filing of the Plan, the Disclosure Statement and the Motion for Confirmation, and that the hearing to consider confirmation of the Plan would be scheduled. The notice advised policyholders that the Plan and Disclosure Statement, along with other information relating to the Plan, was available on the Court-approved Web site established by OCI to provide information concerning the rehabilitation of the Segregated Account, ambacpolicyholders.com.

7. The Scheduling Order setting forth the date, time and place of the Court hearings on confirmation was posted on the Web site with an explanation of the right of all interested parties to attend the Court hearing and to be heard. Written notice regarding the

hearing dates and location was also served by mail on all known interested parties and served electronically on all counsel of record in this proceeding.

8. The confirmation hearings were properly scheduled, and adequate notice was provided to all known and affected parties, including all holders of claims. All parties-in-interest were advised of their right to attend the hearings and to participate and be heard in open court.

9. All parties-in-interest were allowed to attend the confirmation hearings in open court and to participate and be heard. They also were afforded the alternative option of participating and being heard telephonically at the hearings. There were no improper impediments to the right of any party-in-interest to appear or be heard at the hearings, either in person or telephonically.

10. An evidentiary hearing about confirmation of the Rehabilitator's Plan was held in open court the week of November 15-19, 2010, which all policyholders and other parties-in-interest were permitted to attend and at which all such policyholders and other parties-in-interest were afforded the opportunity to be heard, and to call, examine, and cross-examine witnesses. The Court gave all policyholders and other parties-in-interest the opportunity to offer oral argument about confirmation on November 30, 2010.

C. The Written Materials Submitted by the Rehabilitator Support Confirmation.

11. The Rehabilitator filed and served the following written materials prior to the confirmation hearings in connection with, and support of, confirmation of his Plan:

A. Plan of Rehabilitation, with attached:
- Form of Fiscal Agency Agreement
- Form of Surplus Note
- Form of Proof of Policy Claim Form
- Form of Junior Surplus Note

B. Disclosure Statement, with attached:

- Corporate Organizational Chart
- Risk Classifications
- Discussion of the Rehabilitator's Projections, Assumptions and Methodologies
- Projected Financial and Operating Results Associated with Scenario One (revised as of Oct. 21, 2010)
- Projected Financial and Operating Results Associated with Scenario Two (revised as of Oct. 21, 2010)
- Projected Financial and Operating Results Associated with Scenario Three (revised as of Oct. 21, 2010)
- Projected Financial and Operating Results Associated with Scenario Four (revised as of Oct. 21, 2010)

C. Related Filings Linked on Web Site to the Disclosure Statement:

- List of Policy and CUSIP Numbers Allocated to the Segregated Account as of October 8, 2010
- Plan of Operation for the Segregated Account
- Management Services Agreement (Exhibit A to the Plan of Operation)
- Cooperation Agreement (Exhibit B to the Plan of Operation)
- Assumed Reinsurance Agreements Allocated to the Segregated Account (Exhibit F to the Plan of Operation)
- Secured Note (Exhibit G to the Plan of Operation)
- Aggregate Excess Loss of Reinsurance Agreement (Exhibit H to the Plan of Operation)
- Order for Rehabilitation
- Order for Temporary Injunctive Relief
- Quarterly Statement of the Segregated Account as of and for the three months ended March 31, 2010
- Quarterly Statement of the Segregated Account as of and for the six months ended June 30, 2010
- Audited Statutory Financial Statements of AAC as of and for the year ended December 31, 2009
- Annual Statement of AAC as of and for the year ended December 31, 2009
- Quarterly Statement of AAC as of and for the three months ended March 31, 2010
- Quarterly Statement of AAC as of and for the six months ended June 30, 2010

D. SEC Registration Exemption

- SEC No-Action Letter Request
- SEC No-Action Letter

E. Amendments to Disclosure Statement:
- Amendment One (Nov. 8, 2010)
  - Four Financial Scenarios
- Amendment Two (Nov. 12, 2010)
  - Amplified Liquidation Analysis

F. Rehabilitator's Supplementations in Support of Confirmation – Responses to Objectors' Questions

G. Previously Filed Affidavits
- Four Affidavits of OCI's Roger A. Peterson (filed May 20, June 11, June 15, and Aug. 17, 2010.
- Two Affidavits of Cathleen J. Matanle (filed May 20 and Aug. 17, 2010)

12. By written stipulation of the Rehabilitator and parties-in-interest Depfa Bank, plc ("Depfa"), Wells Fargo, N.A. (in its capacity as trustee for certain RMBS trusts) ("Wells Fargo"), Bank of America, N.A. (also in its capacity as trustee for certain RMBS trusts) ("Bank of America"), and Lloyds TSB Bank, plc ("Lloyds") (including Access to Loans for Learning Student Loan Corporation ("ALL"), the issuer of the jointly held Depfa/Lloyds policies), the affidavit of Nancy Henderson submitted by Depfa, the affidavit of Charles Brehm submitted by Wells Fargo, the affidavit of Kimberly Jacobs submitted by Bank of America, and the affidavits of Thea Watkins, William Barbagallo and Frederick Bingham submitted by Lloyds were admitted in evidence and constituted part of the record at the confirmation hearings, subject to objections reserved by the Rehabilitator or Ambac. As part of the stipulations pertaining to those affidavits, Depfa, Wells Fargo, Bank of America and Lloyds (including ALL) stipulated that "the Rehabilitator's Disclosure Statement (including written amendments and supplements thereto), and any written responses of the Rehabilitator to written questions filed by interested parties on or about November 8, 2010, and the affidavits previously filed by the Rehabilitator in this proceeding, shall be deemed admitted in evidence and shall constitute part of the record of the Plan Confirmation Hearing."

13. For the reasons stated by the Court at the confirmation hearing, the written materials described above in paragraphs 11 and 12 were admitted into evidence and the record at the confirmation hearings. Objectors' exhibits 1-37, 38-A and 40-70 (which included many of the Rehabilitator's documents described above in Finding No. 11) were also admitted into evidence and the record at the confirmation hearings.

14. The following parties-in-interest filed written objections to confirmation prior to the confirmation hearings: Aurelius Capital Management, LP, Fir Tree, Inc., King Street Capital, L.P., King Street Capital Master Fund, Ltd., Monarch Alternative Capital LP, and Stonehill Capital Management LLC (collectively the "RMBS Funds"); Eaton Vance Management, Nuveen Asset Management, Restoration Capital Management LLC, and Stone Lion Capital Partners L.P. (collectively the "LVM Funds"); Depfa; The Federal Home Loan Mortgage Corporation ("Freddie Mac"); Countrywide Home Loans, Inc. and Countrywide Home Loans Servicing L.P. (collectively "Countrywide"); ALL and Lloyds; One State Street LLC ("One State"); Wilmington Trust Company and Wilmington Trust FSB (collectively "Wilmington"); Federal National Mortgage Association ("Fannie Mae"); Deutsche Bank National Trust Company, Deutsche Bank Trust Company Americas, and U.S. Bank National Association (collectively "Deutsche"); Bank of America; Wells Fargo; Wells Fargo, as trustee for certain LVM bondholders ("Wells Fargo LVM"); The Consumer Asset Protection Company ("CAPCO"); the Bank of New York Mellon ("BNY"); and the Treasurer of the State of Ohio (the "Treasurer"). The Rehabilitator filed written briefs (both an Opening Brief and a Reply Brief regarding confirmation) in advance of the confirmation hearings regarding the points raised in those objections.

15. The Rehabilitator's written submissions in support of confirmation were thorough, detailed, and well organized, and provided interested parties and the Court with adequate information from which to make a full and fair evaluation of the Plan and its provisions.

16. The parties-in-interest who objected to the Plan at the confirmation hearings did not call to the Court's attention to any factual errors in the written materials the Rehabilitator submitted in support of confirmation in advance of the confirmation hearing.

17. At the October 14, 2010 duly noticed hearing to schedule proceedings in regard to confirmation of the Rehabilitator's Plan, there was a recommendation to the Court that it might facilitate a more orderly and efficient presentation of information to the Court and reduce the length of the oral testimony offered by the Rehabilitator if parties-in-interest submitted written factual questions for OCI to consider and respond to before the confirmation hearings. The Court adopted the suggestion as set forth at ¶ 2-c of the Court's Confirmation Scheduling Order.

18. Consistent with ¶ 2-c of the Court's above-referenced Scheduling Order, various parties-in-interest submitted written factual questions about the Plan to the Rehabilitator. The Rehabilitator provided written responses to all of the approximately 150 fact questions filed by objecting parties and organized the written responses by topic (with an identification of the entity which posed the question). The Rehabilitator filed those responses as a Supplement to his October 8, 2010 Disclosure Statement.

19. This Court gave weight to the four previous affidavits of Roger A. Peterson and the two previous affidavits of Cathleen J. Matanle, both of whom appeared as testifying witnesses at the Plan confirmation hearings, were cross-examined at length, and

affirmed that the facts stated in their prior affidavits remain true and correct. (*See, e.g.*, 11/16/10 Peterson at 135:4-15.)[1]

20. The Court also gave weight to OCI's disclosures regarding the Plan, particularly its Disclosure Statement, with two Amendments and the Supplementation. The testimony of the witnesses was consistent with the information contained in those documents. (S*ee, e.g.*, 11/16/10 Peterson at 166:10-167:7, 167:17-168:5.) The Disclosure Statement's explanation about provisions of the Plan were helpful in understanding those provisions and the rationale for them, and the financial scenarios and projections were well-formulated and useful for illustrating potential outcomes under the Plan.

D. The Oral Testimony Supports Confirmation.

21. In compliance with this Court's scheduling conference, the Rehabilitator timely identified and called the following four witnesses to testify at the confirmation hearing:

- Sean Dilweg, the Wisconsin Commissioner of Insurance and the Court-appointed Rehabilitator in this proceeding;
- Roger A. Peterson, the Director of the Wisconsin Office of the Commissioner of Insurance Bureau of Financial Analysis and Examinations;
- David Barranco, Ambac Managing Director of Restructuring and Commutations; and
- Cathleen J. Matanle, Ambac Managing Director of Risk Management.

22. The Court found the testimony of those four witnesses to be highly credible and helpful to the Court in understanding the issues before it. All four of these witnesses called by the Rehabilitator were subjected to extensive cross-examination by the

[1] Citations to oral testimony appear as follows: [date of the testimony] [name of testifying witness] at [page and lines of daily transcript (condensed version) at which the relevant testimony appears].

various lawyers representing the objecting parties-in-interest. As this Court noted at the close of their testimony:

> This is an extremely complex and difficult situation. I have watched the testimony of the Commissioner and especially Mr. Peterson over the two days . . . he was on the stand. It was as grilling a series of questionings as I've ever seen any witness undergo in all my years on the bench. There were questions asked by very bright, intelligent counsel, and the answers given, the evaluation shown to be made, the fact[s] gathered, the procedures followed as testified to by Mr. Peterson leads me to believe, as they consistently pointed out, that they were acting in what would be the best interest of policyholders, doing what is fair for them.
>
> I also noticed in the demeanor and approach of the Ambac witnesses . . . who have come to testify here an acceptance, a respect for the authority and the role and understanding of the role of OCI in the management of the affairs of the Segregated Account and their relationship . . . to the General Account. I thought it was a presentation that clearly established that it was fair, it was equitable. It was an extremely well thought-out, well-based decision.
>
> And for the purposes of the Plan it certainly meets the criteria as being a solid exercise of the discretion of the . . . Rehabilitator, of the OCI, certainly it is fair and equitable from what I can see of this.

(11/19/10 Statement of Court at 50:1-51:4.)

II. FINDINGS BASED ON SPECIFIC TESTIMONY

A. OCI Background

23. There are approximately 330 insurers domiciled in Wisconsin, making Wisconsin the sixth largest insurance domicile in the United States under various measures. (11/16/10 Peterson at 131:3-6.) OCI has responsibility for regulation of these insurers, with 150 employees who handle all facets of insurance regulation in the state. (11/15/10 Dilweg at 128:15-20.)

24. The Commissioner of Insurance delegates many of the regulatory responsibilities to OCI staff. In the case of Ambac, the bulk of those day-to-day responsibilities were delegated to senior OCI staff such as Kimberly Shaul, the Special Deputy Commissioner for the rehabilitation, Fred Nepple, the agency's general counsel, and especially Roger Peterson. (11/15/10 Dilweg at 192:16-21, 194:4-7, 194:12-19, 201:10-12, 203:21, 210:12-15, 214:22, 217:23-25, 237:23-25, 247:14-15; 11/16/10 Dilweg at 19:12-15, 20:21-23, 33:1-3, 39:24-40:3, 42:5-8, 45:14-17, 46:21-47:1, 68:14-16, 102:22-25.)

25. Mr. Peterson has more than 20 years experience at OCI. (11/16/10 Peterson at 129:24-25.) Mr. Peterson's experience at OCI is focused on financial examinations of insurers, either in field examination or in supervisory roles. (11/16/10 Peterson at 131:17-132:6.)

26. Mr. Peterson presently is the Director of OCI's Bureau of Financial Analysis and Examinations, where he is responsible for monitoring the solvency of insurance companies operating in Wisconsin, with particular responsibility for those companies that are domiciled under Wisconsin law. (11/16/10 Peterson at 130:5-11.) He has held that position since 2004. (11/16/10 Peterson at 131:12-13.)

27. Within the scope of his responsibilities at OCI, Mr. Peterson has had responsibility for examining Ambac's financial condition since the 1990s. (11/16/10 Peterson at 132:24-133:8, 133:23-134:16.) Throughout that time frame, Mr. Peterson has had regular, continuous contact with Ambac. (11/16/10 Peterson at 134:24-135:3.)

28. Since the beginning of the year, Ambac-related issues have consumed 80 to 90 percent of the available time of Kimberly Shaul (the Court-appointed Special Deputy

Commissioner for the rehabilitation) and Mr. Peterson, and roughly half the time of OCI's general counsel, Mr. Nepple. (11/15/10 Dilweg at 132:9-16.)

B. OCI's Increased Monitoring and Outreach

29. OCI began having concerns regarding Ambac's financial stability with the exposure of subprime lending practices in the residential housing market in 2007, concerns that were amplified with the resignation of Ambac CEO Robert Genader later that year (11/15/10 Dilweg at 129:15-130:2; 11/16/10 Peterson at 135:21-136:7), as well as Ambac's unsuccessful negotiations with certain counterparties and credit agency warnings of potential credit rating downgrades in early 2008 (11/15/10 Dilweg at 130:8-21).

30. Ambac's book of business is complex. Its most straightforward policies are those in its core business through the mid-1990s, which was insuring municipal bonds against default. The other types of transactions Ambac began to insure in the late 1990s, such as student loan deals, international finance deals, business securitizations, credit default swaps, and similar structured finance transactions, involved far more complex financial instruments. (11/16/10 Peterson at 144:7-145:8.)

31. Due to the complexity of Ambac's policies and growing financial challenges, OCI retained qualified outside financial and legal advisors to assist in assessing Ambac's condition and regulatory options for addressing OCI's concerns regarding Ambac's financial condition. (11/15/10 Dilweg at 130:22-131:3.) OCI retained these advisors to help provide it with an independent view of Ambac's financial condition and a fuller understanding of the complex risks associated with Ambac's financial deterioration. (11/15/10 Dilweg at 133:18-134:9; 11/16/10 Peterson at 136:2-18.) Starting in late 2007 and early 2008, there was a significant commitment by OCI to put this independent monitoring structure in place. (11/16/10 Peterson at 139:8-14.)

32. Independent assessment by OCI and its advisors of Ambac's financial condition was important, because evaluation of the risks is subject to substantial judgment. OCI determined that it needed to be in a position where it could use its own judgment, understand the potential variables incorporated into that judgment, and develop its own independent view of Ambac's loss potential rather than relying too heavily on the insurer's assessments. (11/16/10 Peterson at 142:7-14.)

33. To facilitate this independent evaluation of Ambac's financial condition, OCI's financial advisors worked directly with Ambac to get raw baseline data regarding Ambac's exposures (down to the individual transaction level) in order to recreate Ambac's work and independently develop loss estimates. (11/16/10 Peterson at 140:8-14.) OCI ensured that its advisors had full access to the confidential data and other financial information of Ambac. (11/16/10 Peterson at 139:18-140:7.) This information concerned complex, sensitive transactions; the counterparties to those transactions had a clear interest in keeping that information confidential from third parties. Under its regulatory authority, including Wis. Stat. § 601.465, OCI was able to demand access to this information while maintaining and protecting its confidentiality. (11/16/10 Peterson at 141:12-22, 142:19-24.)

34. OCI and its advisors also had full access and cooperation from Ambac staff, which enabled it to understand the nature of Ambac's business, the obligations it insures, and its risk evaluation process. (11/16/10 Peterson at 143:4-11.) In early 2008, OCI's financial advisors occupied a conference room at Ambac's headquarters for several weeks while they conducted an extensive analysis of Ambac's business, including numerous meetings with Ambac employees to better understand the transactions Ambac insured and the projected losses associated with them. (11/18/10 Matanle at 208:19-210:17.) Private third parties could not

replicate this information-gathering process due to concerns regarding confidentiality of financial data regarding other private third parties. (11/16/10 Peterson at 142:15-143:3; 11/18/10 Matanle at 210:23-211:21.) Moreover, Ambac's financial documents are created for internal use, and it would require a substantial amount of time for Ambac staff to explain these documents and analyses to third parties. (11/18/10 Matanle at 212:6-213:5.)

35. OCI also created an Advisory Council consisting of experts from various insurance and financial fields to provide it with independent views about Ambac and regulatory options. The council has met and continues to meet on roughly a monthly basis to advise the Rehabilitator. (11/15/10 Dilweg at 135:17-136:10.)

36. OCI also met in regard to Ambac with a number of regulators at various state and federal agencies, from fellow insurance regulators to the United States Treasury Department and the New York Federal Reserve. (11/15/10 Dilweg at 144:3-145:3.) New York Federal Reserve officials, with whom the Commissioner has met with eight to ten times regarding Ambac, expressed concerns over the systemic impact of Ambac's deterioration on the broader economy. (11/15/10 Dilweg at 144:24-145:3, 145:11-15.) According to OCI, "In broad terms, the discussions that we had with the New York Fed and others affirmed our perception that systemic risks related to Ambac could exist and that they were worth considering in our overall plan[] development." (11/17/10 Peterson at 33:8-12.)

37. Mr. Peterson also communicated with fellow regulators in other states. He is the chair of the Financial Analysis Working Group ("FAWG") at the National Association of Insurance Commissioners. (11/16/10 Peterson at 132:11-21.) FAWG is made up of many of the most qualified financial regulators of insurance in the country, and it meets regularly to discuss troubled companies, potential risks, and possible solutions to the complex problems posed by

those risks. (11/16/10 Peterson at 221:8-222:21.) Mr. Peterson regularly reports on Ambac's situation and discusses the solutions OCI has proposed with the other fellow regulators at FAWG meetings, and has found those meetings helpful in responding to problems associated with Ambac. (11/16/10 Peterson at 224:8-225:1.)

C. OCI's Independent Assessment of Ambac's Financial Condition

38. During the several quarters prior to the commencement of this rehabilitation, OCI's assessment of Ambac's financial situation was less optimistic than Ambac's assessment. (11/16/10 Peterson at 145:9-146:10.) By the end of 2009, under OCI's mid-case evaluation of expected losses, OCI determined that Ambac might not have sufficient claims-paying resources to meet all of its obligations. (11/16/10 Peterson at 147:11-23.)

39. OCI also monitored Ambac's investment portfolio. Prior to 2008, that portfolio included primarily safe investments such as municipal bonds and treasury bonds. Beginning in 2008, the nature of Ambac's investment portfolio shifted as it was forced to post collateral for obligations of various affiliates in exchange for riskier investments such as mortgage-related securities. (11/16/10 Peterson at 149:19-151:3.)

40. OCI approved posting this collateral. Ambac's guaranteed investment contracts and certain other swap transactions are expected to be profitable over time, but a failure to provide the collateral called for by those contracts would have resulted in immediate defaults and immediate cash payouts for those transactions at a substantial loss for Ambac. (11/16/10 Peterson at 151:9-19.) At the same time, however, the collateral posting requirements necessarily reduced Ambac's available, fairly valued claims-paying resources.

41. The regulatory oversight of OCI and its advisors continued to increase throughout 2008 and 2009. (11/16/10 Peterson at 139:15-140:4.) By late 2009, OCI and Ambac board members were meeting in person roughly three times a month. Throughout those

meetings, OCI repeatedly emphasized the need to focus on addressing the growing risks to policyholders. (11/15/10 Dilweg at 139:8-140:12.) Specifically, OCI expressed concern that increasingly large payments on short-tail claims would destroy Ambac's claims-paying ability for all policyholders. (11/15/10 Dilweg at 139:8-143:3.)

42. During the early months of 2010, Ambac was paying $130 million to $150 million per month on policies insuring residential mortgage-backed securities ("RMBS") alone. (11/16/10 Peterson at 148:2-4.) These payments were significantly draining Ambac's claims-paying resources, particularly its more liquid resources. These losses, combined with OCI's expectations of future losses, led OCI to believe that Ambac would be unable to meet its long-term obligations even in a moderate-case economic scenario. (11/16/10 Peterson at 149:7-14.)

D. Bank Group Settlement

43. By the second half of 2009, it was clear that any solution for Ambac would have to include a resolution of its CDS exposures related to the Bank Group, which constituted Ambac's most problematic and highest-risk book of business. (11/16/10 Peterson at 146:2-10.) The massive expected losses on those exposures and the existence of contractual "triggers" that allowed the Bank Group to terminate their contracts and seek immediate mark-to-market damages (estimated to be $12-13 billion) presented serious obstacles to an orderly and equitable runoff of Ambac's liabilities. (*See generally* 11/15/10 Dilweg at 146:23-148:2.)

44. The CDS contracts were issued by Ambac Credit Products, LLC ("ACP"), a wholly owned Ambac subsidiary. ACP's performance was insured by Ambac financial guarantee insurance policies identical in form to Ambac's other policies, and the CDS counterparties were beneficiaries under the policies. This arrangement allowed swap counterparties to obtain more favorable regulatory and capital treatment than if they obtained a financial guarantee policy directly from Ambac. (11/16/10 Peterson at 152:17-153:14.)

Members of the Bank Group held the underlying securities for those CDS transactions (*see generally* 11/18/10 Barranco at 148:15-153:7), had suffered economic losses, and were projected to suffer substantial additional economic losses (11/18/10 Barranco at 151:11-23). Thus, while OCI recognized that there was some uncertainty regarding the outcome of any litigation regarding the Bank Group's assertion of mark-to-market damages as policy losses, it concluded that, at the least, the Bank Group's regular, course-of-business losses would be treated as insurance policy claims under the CDS structure. (11/17/10 Peterson at 30:6-14.)

45. The Bank Group exposures, if realized, would have wiped out Ambac's claims-paying resources and harmed all other policyholders. (11/15/10 Dilweg at 147:10-14.) Therefore, OCI recognized that the Bank Settlement was a necessary component of any realistic, equitable solution for addressing Ambac's hazardous financial condition. (11/15/10 Dilweg at 149:9-21.)

46. OCI eventually involved itself directly in negotiations concerning the Bank Group liabilities. The talks evolved into a tri-party negotiation among Ambac, the Bank Group, and OCI, with OCI playing the role of referee or facilitator of the negotiations. OCI's involvement was crucial in bringing Ambac and the Bank Group together on a final settlement. (11/16/10 Peterson at 146:14-147:1.)

47. The Bank Group and Ambac reached an agreement in principle on the Bank Settlement shortly before March 24, 2010. Several objectors later moved to enjoin the Bank Settlement, and that motion was denied after a lengthy hearing on May 25, 2010. The Findings of Fact and Conclusions of Law issued by this Court on May 27, 2010, as well as the first affidavits of Roger Peterson and Cathleen Matanle, provide further details about the terms and background of the settlement and its relation to the then-contemplated Plan.

48. The Bank Settlement was fully consummated on June 7, 2010. The settlement commuted the Bank Group's CDS policies in exchange for a capped settlement payment of $2.6 billion in cash and $2 billion in surplus notes. The Bank Settlement did not authorize dividends to Ambac's holding company, Ambac Financial Group, Inc. ("AFGI"), but capped them, and OCI retains absolute full discretion as to whether, when, and under what conditions to allow any dividends. (11/16/10 Peterson at 227:3-19.)

E. OCI's Examination of Regulatory Options

49. In late 2009 and early 2010, OCI's independent analysis of Ambac showed that, while a successful Bank Settlement was necessary and beneficial to policyholders, it alone would not resolve the many remaining significant risks for the insurer and its policyholders. (11/16/10 Peterson at 147:8-23.) OCI concluded that regulatory action was necessary to restrain the increased outflow of claims-paying resources to satisfy short-term policy claims in order to protect the broader base of policyholders, long-tail as well as short-tail. (11/18/10 Peterson at 29:23-30:2.)

50. OCI looked at all regulatory options for Ambac. (11/15/10 Dilweg at 151:12-21.) OCI's overarching goal was an orderly runoff of some of the most complicated financial instruments ever created (11/15/10 Dilweg at 152:25-153:6), in a manner that would be fair and equitable with the least possible disruption to policyholders (11/15/10 Dilweg at 155:4-11). OCI's interests were in protecting policyholders; it had no interest in improving the financial condition of AFGI, particularly if it came at the expense of policyholders. (11/15/10 Dilweg at 189:11-16.)

51. As OCI investigated Ambac's book of business, it became aware of various default triggers in a large number of its contracts. A general or full rehabilitation of Ambac could have triggered costly defaults across many of those contracts and crystallized

substantial losses from a variety of different contractual obligations, which was sometimes referred to in the testimony as "collateral damage." (11/16/10 Peterson at 152:2-12.) In addition, Ambac's municipal book is vast, reaching from major public works projects such as stadiums and public transportation systems to local hospitals, sewerage or sanitary districts. A loss of coverage for these municipalities could have created chaos in the municipal bond markets. (11/15/10 Dilweg at 143:9-22.)

52. Each of Ambac's policies and sets of policies contained different covenants and triggers, and it may not have been possible to effectively enjoin the exercise of all such triggers. (11/16/10 Dilweg at 71:15-21.) Specifically, OCI found that numerous Ambac policies and transaction documents included "triggers" that could be "pulled" upon being subject to a rehabilitation or liquidation proceeding. (11/16/10 Dilweg at 117:21-118:1.) These obligations include collateralized loan obligations ("CLOs") and commercial asset-backed securities ("Commercial ABS"), which were often negotiated on an individualized basis, resulting in each transaction having its own unique structure and triggers (11/16/10 Peterson at 153:25-155:4.) These categories of transactions also posed a risk of mark-to-market damages. (11/16/10 Peterson at 155:14-16.) In addition, Ambac's swap surety policies also often had contractual triggers associated with them. (11/16/10 Peterson at 156:13-15.)

53. The Commercial ABS book included the Dunkin' Brands, Sonic Corporation, and Hertz Corporation transactions described in prior affidavits in these proceedings. Those transactions are merely examples of a larger book of Commercial ABS transactions, however. (11/16/10 Peterson at 155:5-9.)

54. OCI sought an approach that would address up to 40 years of potential policy liabilities in a manner that would not trigger covenants and cause defaults in the thousands

of Ambac policies or throw policyholders back into an uncertain insurance market. (11/15/10 Dilweg at 145:25-146:22.)

55. Although OCI was reluctantly prepared to commence a full rehabilitation of all of Ambac if the Ambac board did not consent to a voluntary, limited rehabilitation of the Segregated Account, OCI much preferred the latter, more surgical option. OCI was concerned regarding the potential adverse effects of a full rehabilitation, including the pulling of default triggers, massive mark-to-market losses, and the loss of durable coverage to policyholders. (11/16/10 Peterson at 161:2-17.) Full rehabilitation could have also resulted in downstream collateral damage to certain issuers and policyholders, such as the Commercial ABS issuers. (11/16/10 Peterson at 161:20-162:18.)

56. OCI also considered and rejected the alternative of a liquidation of Ambac. The decision not to liquidate Ambac was not a difficult one, and did not require extensive study for OCI to conclude that liquidation would result in treating policyholders less favorably than a narrower rehabilitation. (11/16/10 Peterson at 174:16-175:5.)

57. The disadvantages of liquidation were substantial. First, liquidation requires the cancellation of insurance contracts with 15 days notice, leaving all policyholders suddenly without coverage for future losses on obligations up to 40 years in duration. (11/16/10 Peterson at 162:23-163:11.) Second, because replacement coverage is largely unavailable for many Ambac obligations for which losses are expected, OCI reasonably predicted that the massive policy cancellations required by a liquidation would have resulted in policy-by-policy litigation over damages for future anticipated losses, which if allowed would have likely been treated as breach-of-contract claims in the liquidation priority structure of Wis. Stat. § 645.68. (11/16/10 Peterson at 169:12-22, 171:3-11.) Third, liquidation would have caused a number of

costly defaults due to triggers, as well as mark-to-market damage claims in contracts calling for them. (11/16/10 Peterson at 162:23-163:11.) These claims would likely be treated at contractual damages under Wis. Stat. § 645.68, as well, leaving policyholders with projected actual losses to seek distribution at the same class level as policyholders seeking immediate damages related to acceleration and other contractual triggers. (11/16/10 Peterson at 162:23-163:11.) Fourth, all policyholders seeking damages based on future losses or contractual triggers would be left to compete for distributions from a much smaller pool of claims-paying resources, because liquidation as of March 24, 2010 would have required Ambac to return more than $2 billion in unearned premium to policyholders (many of whom hold policies for which losses are not expected) and would eliminate Ambac's right to receive over $1 billion in future premiums. (11/16/10 Peterson at 171:12-172:14; *see also*, Amendment No. 2 to Disclosure Statement at pp. 10-12.)

58. The liquidation analysis OCI provided in Amendment No. 2 to the Disclosure Statement incorporates and applies financial numbers to the same considerations that initially informed OCI's judgment regarding the disadvantages of liquidation. (11/16/10 Peterson at 174:5-15.) It remains OCI's conclusion that liquidation would have had severe drawbacks and disadvantages to Ambac policyholders. (11/16/10 Peterson at 177:2-4).

59. OCI could not have liquidated just the Segregated Account, as that action would have automatically triggered the rehabilitation or liquidation of the General Account under Wis. Stat. § 611.24(3)(e). (11/16/10 Peterson at 172:22-173:2.) A rehabilitation of the General Account would have the same adverse effects on those policies as a full rehabilitation of both accounts (*id.*), and it would as a practical matter likely result in the liquidation of both accounts.

60. Recognizing that a full rehabilitation or liquidation would have triggered covenants across almost all policies and caused other adverse consequences and collateral damages, OCI determined that a segregated account approach would have the most beneficial outcome for all policyholders. (11/15/10 Dilweg at 151:12-21.)

61. OCI has previously used the segregated account statute in connection with other insurance delinquency proceedings. It usually has done so by commencing rehabilitation of the insurer as a whole, then creating a segregated account and moving it out of rehabilitation to carry on a part of the insurer's business. (11/16/10 Peterson at 157:19-159:3.) OCI took the opposite approach here—leaving the bulk of the insurer and its assets outside rehabilitation and rehabilitating a segregated account—due to the existence of the triggers in transactions insured by Ambac relating to delinquency proceedings and asset transfers. (11/16/10 Peterson at 159:4-18.) That approach was appropriate here for several reasons, including those outlined above. (11/16/10 Peterson at 167:21-173:2.)

62. Although it is unlikely given Ambac's financial condition, keeping Ambac subsidiary Everspan Financial Guarantee Corporation outside of rehabilitation sustains the possibility of someday writing new, profitable business in the municipal bond sector. (11/17/10 Peterson at 44:20-46:10.) If Everspan can get to a point where it can profitably write business, it would enhance the value for policyholders in the Segregated and General Accounts because all profits of Everspan would inure to Ambac, not AFGI. (11/18/10 Peterson at 98:3-9, 109:2-11.)

63. Policyholders in the General Account and the Segregated Account are advantaged by the Segregated Account rehabilitation approach utilized by OCI here, as compared to the alternatives of full rehabilitation or liquidation of Ambac. (11/16/10 Peterson at 168:10-14.)

F. Allocations to the Segregated Account

64. A threshold challenge for the Segregated Account/General Account structure was making evaluations as to which policies need to be allocated to the Segregated Account. Mr. Peterson was personally involved in the allocation process. OCI, its financial advisors, and Ambac worked daily for roughly six weeks to divide Ambac's business into categories, to identify and discuss the various contractual triggers and where they existed, and made sure that they understood the risks associated with various books of policies and, in some cases, individual policies (11/16/10 Peterson at 177:17-181:1). They also assessed whether certain performing deals should remain in the General Account. (11/16/10 Peterson at 181:2-23.)

65. Allocations were based on evaluations of potential losses, credit and collateral deterioration of the underlying deals, risks associated with contractual triggers, risks associated with accelerations of loss, and risks associated with certain deal structures (including increases in interest rates), from certain categories of business down to the individual policy level. (11/17/10 Peterson at 157:19-160:7.) As Mr. Peterson testified, "We didn't put policies in the Segregated Account for the fun of it. There w[ere] risks associated with those policies or groups of policies that we felt it was necessary to protect the overall structure for rehabilitation that we were developing[.]" (11/17/10 Peterson at 158:13-17.)

66. Ambac's disputed contingent liability to objector One State on the One State Street lease with AFGI was allocated due to the material size of the potential liability, which, if left outside the Segregated Account, would benefit a disputed general contract creditor (One State) at the expense of Segregated Account policyholders. (11/18/10 Peterson at 58:12-59:8; *see also* Fourth Peterson Affidavit ¶¶ 3-4.)

67. The policies in which objectors Lloyds and Depfa have an interest were allocated because the trust in question is in a negative asset position and is using principal to make current interest payments on the securities. Moreover, there are contractual rights to increase the interest rates, which, if exercised, would lead to further losses of the underlying principal. (11/18/10 Peterson at 116:3-20; 11/18/10 Barranco at 165:3-7.) Further, more detailed explanations of the rationale for the allocation of this policy are provided in certain affidavits of Roger Peterson and Cathleen Matanle. (Fourth Peterson Affidavit ¶¶ 5-6, 10; Second Matanle Affidavit ¶¶ 13-22.)

68. Because projecting losses on Ambac's student loan policies depended on so many factors unique to each transaction, OCI determined that it needed more time to evaluate most of those policies to determine whether allocation to the Segregated Account was appropriate. (11/16/10 Peterson at 180:3-12.) It therefore called for an assessment period for these policies in the initial Plan of Operation for the Segregated Account, which was filed with this Court on March 24, 2010.

69. David Barranco was extensively involved in the process for assessing and determining which student loan policies should be allocated to the Segregated Account. (11/18/10 Barranco at 140:21-145:20.) Mr. Barranco's testimony made clear that the process for assessing the student loans was thorough, cautious, and the result of extensive deliberations with OCI. (*Id.*) The process ensured that only those policies with significant current or anticipated future losses were allocated to the Segregated Account. (*Id.*) Although Mr. Barranco and Ambac were involved in the assessment process, it was OCI that ultimately decided which student loan policies should be allocated to the Segregated Account. (11/18/10 Barranco at 200:13-17.)

G. Capital Structure of the Segregated Account

70. The triggers and covenants in many Ambac policies also required OCI to take care in creating the capital structure for the Segregated Account. Specifically, a number of Ambac's policies and contracts, including the majority of its traditional municipal bond policies, contained provisions restricting Ambac's transfer of assets away from the General Account. Tripping these asset-transfer triggers would have created massive litigation as well as substantial loss to Ambac. (11/16/10 Peterson at 156:16-157:14.)

71. Therefore, rather than allocating hard assets directly to the Segregated Account at its establishment, OCI opted to capitalize the Segregated Account through two instruments from the General Account: a Secured Note for $2 billion and an Excess-of-Loss Reinsurance Agreement, both of which can be drawn upon on demand to cover permitted Segregated Account claims as they arise pursuant to the Plan. (11/16/10 Peterson at 195:21-196:21.)

72. OCI determined that the Secured Note and Reinsurance Agreement provided a permanent funding mechanism that adequately capitalized the Segregated Account. (11/17/10 Peterson at 172:11-21.) Those agreements are expected to exist throughout the life of the Segregated Account to providing the funding necessary to make cash payments and to make payments on the surplus notes. (11/17/10 Peterson at 173:1-8.) Substantially all of the assets that would be available to all policyholders prior to the establishment of the Segregated Account are, in fact, available to the Segregated Account through the Secured Note and Reinsurance Agreement.

73. The Secured Note and Reinsurance Agreement give OCI and the Rehabilitator power to modify those agreements (or to modify the Plan in a manner that affects

payments under them), but Ambac does not have such authority. (11/17/10 Peterson at 181:24-182:21.)

74. Both the Secured Note and Reinsurance Agreement include provisions stating that the General Account's obligations to make a given payment to the Segregated Account is suspended if that payment would cause the General Account's surplus to fall below $100 million. OCI included this provision to ensure that the General Account would not fall below the minimum surplus requirements established by regulators in other states where it does business. (11/16/10 Peterson at 199:12-15.) OCI does not reasonably anticipate that the $100 million floor will be reached or would limit cash payments on demand to the Segregated Account. (11/16/10 Peterson at 197:19-198:45.) Moreover, the issuance of surplus notes actually adds to the statutory surplus under the accounting applicable to such notes, thus reducing the risk that the $100 million surplus floor will ever be reached. (11/16/10 Peterson at 196:22-197:6.) As a result, the $100 million floor does not effectively subordinate Segregated Account policies. (*See, e.g.*, 11/17/10 Peterson at 202:18-23.)

75. Thus, subject only to the improbable situation where the $100 million surplus floor is reached, all assets of the General Account are available to pay Segregated Account claims under the Plan. (11/16/10 Peterson at 199:16-23.) Based on the foregoing, as well as the determination that the Secured Note and Reinsurance Agreement were sufficient to meet the cash flow needs of the Segregated Account under the Plan, OCI determined the capitalization of the Segregated Account to be adequate. (11/16/10 Peterson at 199:6-11, 199:24-200:3; 11/18/10 Peterson at 59:13-25.) The Court finds that this determination was and remains reasonable and well-founded.

76. The Reinsurance Agreement includes a standard "follow-the-fortunes" provision, which is modified only to acknowledge that payments will be made in accordance with the Plan. (11/17/10 Peterson at 185:17-186:6.) The Reinsurance Agreement as a whole, including the follow-the-fortunes provision, amounts to an absolute requirement that Ambac make cash payments and Surplus Note payments consistent with the Plan. (11/17/10 Peterson at 188:21-189:4; 11/18/10 Peterson at 106:8-10, 106:21-24, 108:5-11.)

H. Pre-Filing Notice

77. On the same day the Secured Note, Reinsurance Agreement, and other initial documents pertaining to the establishment of the Segregated Account were signed, OCI petitioned this Court for rehabilitation of the Segregated Account and entry of the Injunction Order.

78. Providing advance notice of the establishment of the Segregated Account and the petition for rehabilitation to all policyholders would have jeopardized the rehabilitation, because it would have given policyholders the right to act on their triggers and accelerate damages prior to entry of the Injunction Order preventing such acts. (11/16/10 Peterson at 165:4-12.)

79. Further, to identify all of the policyholders and underlying beneficiaries and engage in confidential, pre-rehabilitation negotiations with them was impossible given the trading in the underlying securities insured by Ambac. (11/17/10 Peterson at 40:3-13.) For example, OCI had no way of identifying the objecting RMBS Funds as Segregated Account policy beneficiaries prior to their appearance in this Court. (11/18/10 Peterson at 126:1-11.)

I. Continued Supervision and Control Over the General Account

80. At present, OCI does not project substantial losses on General Account policies, and such losses are expected to be immaterial in comparison to the losses on Segregated

Account policies. While Ambac classifies a limited number of General Account policies as having a significant risk of some future losses, the expected claims on such policies if losses occur are likely to be small, particularly in comparison to policies in the Segregated Account. (11/16/10 Peterson at 191:21-193:21.) There are currently $850 to $900 million in pending loss claims in the Segregated Account that have accumulated since the commencement of this rehabilitation, compared to about $13 million in General Account claims during that same time frame. (11/16/10 Peterson at 192:3-194:3.)

81. OCI has and will continue to closely monitor economic conditions and their impact on Ambac's financial condition and the Plan. Because this is financial guarantee insurance, as opposed to catastrophe insurance, "losses don't develop overnight" and OCI is confident that it will become aware of any increase in projected material losses in the General Account before such losses occur. (11/17/10 Peterson at 142:7-143:9.)

82. Given the structure of this rehabilitation and the capitalization of the Segregated Account, OCI is conscious of the risks of unfairness to Segregated Account policyholders—and risks to the Plan as a whole—if financial conditions develop such that policy claims and other liabilities of the General Account develop to the point where they would have a material effect on Ambac's available claims-paying resources. (*See, e.g., id.*)

83. OCI has retained its authority to take additional regulatory action if policies or other potential liabilities of the General Account threaten the fair and equitable treatment of Segregated Account policyholders under the Plan, including a rehabilitation of the General Account if necessary. (11/17/10 Peterson at 127:16-23.) If losses in the Segregated Account and/or General Account develop to the point where the Plan is endangered or becomes unfair, OCI has the tools to modify the Plan with Court approval, broaden the rehabilitation, or

take other regulatory steps to ensure the fair and equitable treatment of policyholders. (11/16/10 Peterson at 211:3-14.)

84. OCI's witnesses testified at length regarding its commitment to take such actions as necessary to protect policyholders. The General Account remains under the auspices of OCI's supervision, both as a Wisconsin-domiciled insurer subject to OCI's regulatory authority and as a contractual party under the Secured Note and Reinsurance Agreement subject to the Rehabilitator's authority to oversee and enforce contractual obligations. OCI cannot offer guarantees regarding future financial conditions, but it has assured policyholders and this Court that it is not self-interested and will continue to act in the interests of policyholders and the public generally—as opposed to the interests of AFGI or any individual policyholder, to the extent such interests conflict with those of policyholders as a whole—in taking appropriate steps to protect the fairness of the Plan. (11/16/10 Dilweg at 61:14-62:2.)

J. AFGI's Bankruptcy

85. OCI's actions in response to learning of AFGI's imminent intent to file for bankruptcy provide an example of the use of the tools available to OCI and the Rehabilitator to protect Segregated Account policyholders and subordinate creditors. OCI acted swiftly to protect the interests of the Segregated Account by demanding allocation of certain potential liabilities that are below policyholder priority status to the Segregated Account, and by negotiating with the Ambac bondholder creditor group to ensure that potentially valuable Net Operating Loss (NOL) credits are not destroyed in bankruptcy by the actions of AFGI's bondholders. (11/15/10 Dilweg at 169:3-170:21.)

86. OCI's arrangement with AFGI's bondholders seeks to protect NOLs against contingencies that are in the control of AFGI and its creditors. Ambac's ability to actually use the NOLs is limited, and therefore OCI is exploring negotiation over a portion of the

NOLs that it cannot use to the holding company in exchange for greater certainty that the NOLs it might be able to use will not be destroyed due to certain actions of the holding company's creditors in the AFGI bankruptcy. (11/16/10 Peterson at 229:11-231:4.) The viability of the Plan is not dependent on the continued existence and use of NOLs, and none of the financial Plan scenarios submitted to this Court rely upon the use of NOLs. (11/16/10 Peterson at 231:25-232:7.)

87. The arrangement also calls for the resolution of a disputed, relatively small $38 million portion of prior tax allocations from AFGI to Ambac that are related to alleged accounting errors. (11/16/10 Peterson at 232:22-233:6.) The rest of the disputed tax allocations, which total approximately $700 million, are subject to the jurisdiction of this Court and the priority structure adopted by the Plan due to the timely, pre-bankruptcy allocation of those disputed liabilities by the Rehabilitator and OCI to the Segregated Account.

88. OCI's actions to protect the claims-paying assets of the General Account from AFGI's creditors are consistent with its actions to date in protecting policyholders from lower-priority creditors. OCI has not permitted dividends from Ambac to AFGI in over 18 months, and has "absolutely no expectation" that it will permit dividends to the parent company while the Segregated Account remains in rehabilitation. (11/15/10 Dilweg at 220:19-23, 221:24-222:11; 11/16/10 Peterson at 226:4-20.) Due to Ambac's financial condition, any dividend to AFGI would require OCI's advance approval. (11/16/10 Peterson at 227:20-25.)

K. OCI's Disclosures Regarding the Plan are Sufficient.

89. OCI filed and provided notice of the Plan on October 8, 2010. OCI also submitted a wealth of information regarding the Plan, which has been described in detail above.

90. OCI's disclosures were intended to provide as much information as possible given confidentiality concerns and the need to acknowledge retained flexibility in the Plan. (11/16/10 Peterson at 182:22-183:3.) The Court finds that the information provided was more than sufficient for the Court and the public to assess the fairness and rational basis of the Plan and its specific provisions.

L. The Plan Follows the Priority Structure of Wis. Stat. § 645.68.

91. The Plan anticipates claims arising in three classes designated by Wis. Stat. § 645.68: administrative claims (Class 1); policy claims (Class 3); and general creditor claims (Class 5). Other claims that fall into other classes are possible—for example, a federal government claim for taxes, or a claim by AFGI's bondholders—and OCI has assured the Court that it will take necessary steps to ensure the appropriate treatment of such claims under Wis. Stat. § 645.68 if and when such liabilities become less speculative.

92. Under the Plan, allowed administrative claims receive full cash payments as they arise. Allowed policy claims receive payments part in cash and part in interest-bearing Surplus Notes as they arise. Allowed general creditor claims receive payments in interest-bearing Junior Surplus Notes (which are subordinate to other Surplus Notes) as they arise.

93. While the majority of Ambac's CDS exposures were settled in the Bank Settlement, a relatively small amount (which are not expected to generate material losses) are presently in the Segregated Account. (11/17/10 Peterson at 89:1-15.) None of the credit default obligations that have been allocated to the Segregated Account are "synthetic" or "naked" swaps; like the Bank Group, the remaining CDS holders own the underlying securities and could incur

actual losses. (11/18/10 Barranco at 195:13-196:12.) The Plan treats any claims under these policies as policy claims, consistent with OCI's past characterization of Ambac's CDS obligations as insurance.

94. The Plan treats claims under reinsurance agreements as general creditor claims, consistent with the established precedent of other jurisdictions cited in OCI's briefing in support of the Plan and consistent with OCI's past practices in rehabilitations and liquidations under Chapter 645.

95. The Plan's implementation of the priority structure of Wis. Stat. § 645.68, including its treatment of reinsurance and contract claims, is consistent with OCI's past practices regarding treatment of claims in other rehabilitation and liquidation proceedings. (11/16/10 Peterson at 218:5-219:3.)

M. The Initial Cash-Note Split on Policy Claims is Reasonable.

96. The Plan contemplates payments on Segregated Account policy liabilities through a mix of cash and interest-bearing Surplus Notes. The Plan calls for an initial cash percentage of 25 percent of the allowed claim and a Surplus Note percentage of 75 percent, and OCI intends to begin making claims payments and issuing Surplus Notes as soon as possible following confirmation of the Plan. (11/16/10 Peterson at 215:8-16.). As is clear by the Disclosure Statement and the testimony of OCI witnesses, the initial cash-note split is a rational product of OCI's substantial study of the projected claims and claims-paying resources of Ambac.

97. As explained by Mr. Peterson, the Disclosure Statement includes an illustration of the sustainability of that cash percentage under four different economic scenarios, which forecast Ambac's future financial condition with reference to a number of variables from economic scenarios developed by Moody's. (11/17/10 Peterson at 132:23-133:23, 135:2-10.)

The stress case scenario utilized in two of the scenarios is derived from an economic model from Moody's described as being worse than 90 percent of the possible outcomes based on existing financial data. (11/17/10 Peterson at 135:14-18.)

98. The scenarios also include as a variable Ambac's recovery or non-recovery of additional claims-paying resources from defendants in various lawsuits alleging breaches of representations and warranties (the "R&W Litigation"). (11/16/10 Peterson at 204:16-206:4.)

99. With regard to Ambac's claims-paying resources, the scenarios utilized a 5.1 percent reinvestment rate, which was a blended rate incorporating all of Ambac's investments. (11/17/10 Peterson at 137:11-138:14.) The liquidity of Ambac's claims-paying resources is also incorporated into the Plan's cash-note split determination. (11/16/10 Peterson at 189:23-190:2.) Ambac's claims-paying resources have various levels of liquidity, and therefore OCI classified Ambac's claims-paying resources according to their liquidity in projecting cash flows. The liquidity consideration was important because some of Ambac's less liquid assets are trading below their par value, but are reasonably expected to recover over time. (11/16/10 Peterson at 188:16-189:22.)

100. Peterson was involved in developing the four scenarios. (11/16/10 Peterson at 201:17-22.) OCI created the scenarios to provide a scope of potential outcomes for payments on the Surplus Notes, as affected by key variables. (11/16/10 Peterson at 202:1-6.)

101. OCI and its advisors reviewed a number of documents and other information to formulate these loss estimates, including but not limited to cash flow estimates for insured transactions, the structures of the transactions, historical cash flow information, projections of future cash flows, Ambac's loss estimates on General Account policies and its

credit risk processes for making those assessments, and Ambac's past estimates of loss, and actual losses. (11/17/10 Peterson at 115:20-121:15.) OCI's estimates for loss reflected in the Disclosure Statement reflect its independent judgment and differ from Ambac's reported estimates. (11/17/10 Peterson at 58:21-59:19.)

102. Because they are an illustrative effort to show total ultimate recovery, the scenarios do not depict payments on the Surplus Notes and have no direct relevance as to whether or when payments will be made. (11/16/10 Peterson at 205:25-206:14.) The feasibility of payments on the Surplus Notes will be evaluated by OCI on at least an annual basis and more frequently, if necessary and appropriate, and its findings will be reported to the Court. (11/16/10 Peterson at 206:18-25.) OCI intends to make payments as soon as possible, so long as it does not expose the Segregated Account to the possibility of being unable to make cash payments in the future. (11/16/10 Peterson at 207:4-13.)

103. The cash-note split percentage was kept low at the outset to protect against the possibility of Ambac in the future finding itself unable to pay the cash portion. (11/16/10 Peterson at 207:4-10.) The split percentage incorporates a conservative approach to Ambac's claims-paying resources and creates a cushion against worse-than-expected financial outcomes. For that reason, establishing reserves for long-term policies, as requested by the LVM Funds and Wells Fargo LVM, would have been duplicative of OCI's already-conservative approach to claims-paying resources. (11/16/10 Peterson at 208:9-21; 11/18/10 Peterson at 53:3-21.) Even under the worst of the four scenarios presented by OCI, Ambac would still have a sufficient cushion above the 25 percent cash payments with which to pay at least some of the Surplus Note obligations. (11/16/10 Peterson at 209:5-11.)

104. The initial cash-note split fairly balances the interests of short-tail policyholders who wish to be paid immediately, and long-tail policyholders concerned about Ambac having adequate resources to cover their future claims. (11/17/10 Peterson at 143:15-144-3.)

N. The Plan's Cash-Note Split is More Favorable to Segregated Account Policyholders than Liquidation.

105. Certain objectors have argued that the Plan's treatment of policyholders and general creditors is not demonstrably better for them than the outcome of a liquidation of Ambac, and that the Plan should include an "opt-out" allowing them to immediately recover the hypothetical liquidation value of their future claims. That would be contrary to past practice in Wisconsin. OCI's past rehabilitation plans for other insurers have not included a liquidation value opt-out. (11/17/10 Peterson at 11:7-13.) Nor has a Wisconsin rehabilitation court required OCI to provide a technical analysis comparing the projected outcomes under a rehabilitation plan to a hypothetical liquidation of the insurer. (11/17/10 Peterson at 12:25-13:3.)

106. Nevertheless, to address the objectors' liquidation argument, OCI provided such an analysis to the Court, which puts specific figures to OCI's prior, reasonable explanations for why liquidation or a rehabilitation of Ambac as a whole would be less favorable to policyholders than their anticipated recoveries under the Plan. *See* Disclosure Statement at pages 8-9 and Amendment No. 2 to Disclosure Statement at pages 6-9. This analysis, together with the prior explanations of the risks and likely outcomes of a liquidation of Ambac or the Segregated Account and further explication of those consequences by OCI's witnesses, clearly and convincingly demonstrate that the Plan provides a more favorable outcome for policyholders than the full rehabilitation or liquidation of Ambac on March 24, 2010 or any time thereafter, or

the liquidation of the Segregated Account with an accompanying rehabilitation or liquidation of the General Account, which would be required under Wis. Stat. § 611.24(3)(e).

107. The Court further finds that liquidation would not have been favorable even for holders of the 63 outstanding policy claims on March 24, 2010 which would likely be paid in full in a liquidation, because those claims were just a part of much larger losses expected in the future for those claimants. (11/17/10 Peterson at 13:8-15:2.)

108. Policyholders would also have a less favorable outcome if the Segregated Account were found to be invalid or illegally established. Under such circumstances, OCI would be obligated to take a different regulatory course—likely full rehabilitation—with accompanying further delays in payment, uncertainty regarding triggers, and greater overall losses, to the detriment of all policyholders. (11/17/10 Peterson at 15:3-16:13.)

109. For example, roughly $3 billion in mark-to-market exposures remain in the General Account, most if not all presently covered by partial forbearance agreements that would not apply if the General Account were placed in full rehabilitation or liquidation. (11/17/10 Peterson at 78:9-79:21.) The actual loss exposure on those policies is nominal, but the mark-to-market exposure is extensive. (11/17/10 Peterson at 130:2-10.) This and other examples provided by OCI illustrate how a rehabilitation or liquidation of the General Account, whether on March 24, 2010 or any subsequent time to date, would substantially add to the overall loss claims without adding any corresponding increase to the claims-paying resources available to satisfy claims of both accounts.

O. The Plan's Use of Surplus Notes is Fair.

110. The form of the surplus notes is based on a template that OCI has approved for issuance of surplus notes by insurers. (11/16/10 Peterson at 184:20-185:4.) Key provisions, such as retaining OCI discretion on timing and amount of payment of interest and

principal, were part of the template. (11/16/10 Peterson at 185:6-10, 185:23-25.) OCI management staff members are "sticklers about surplus notes being maintained very closely" to the template, which OCI has deemed to be fair for use with other Wisconsin insurers. (11/16/10 Peterson at 186:1-10.)

111. OCI intends to ensure that the Surplus Notes issued by the Segregated and General Accounts will be treated equally. (11/16/10 Peterson at 184:10-19.) There are no material differences between the Surplus Notes issued by the two accounts. (11/16/10 Peterson at 185:11-22.)

112. The June 7, 2020 maturity date appearing on the form of the Surplus Notes has no particular relevance except to ensure that the Segregated Account Surplus Notes remain *pari passu* with the General Account Surplus Notes issued as part of the Bank Settlement, which mature on that date. (11/16/10 Peterson at 209:14-24.) The Plan allows for amendment between now and 2020 to adjust payments under the Surplus Notes. (11/18/10 Peterson at 22:20-22, 46:23-47:16.) Sometime before the June 2020 maturity date, OCI will assess the need to modify that date to allow continuation or reissue of Surplus Notes after 2020. (11/16/10 Peterson at 210:3-11.)

113. Prior to the confirmation hearings, OCI sought and obtained a "no-action letter" from the Securities and Exchange Commission, stating that the SEC would not take enforcement action relating to the issuance of the Surplus Notes. The SEC no-action letter adds value to the notes by making them less susceptible to challenge and more tradable in the market. (11/16/10 Peterson at 214:8-18.)

114. OCI has reached out to trustees to coordinate and make the surplus note administration and delivery process as efficient as possible. (11/17/10 Peterson at 239:4-9;

11/18/10 Peterson at 118:9-119:6; 120:24-121:7.) The only documented, additional administrative cost for the trustees is a $175 or $180 charge related to certain market identifier reports for each policy, which can be reduced by up to 90 percent with an annual subscription. (11/18/10 Peterson at 119:10-17, 120:9-23.) OCI has taken care to work with trustees to avoid imposing unreasonable burdens upon them, and has assured the Court that it will continue to do so as administrative challenges arise. At present, however, the Court finds the additional administrative burdens identified by the trustees in their objections to the Plan to be *de minimis* in the context of the Plan and in light of the scope and magnitude of the amounts at issue in this rehabilitation.

P. Ambac's Role in Plan Administration Under the Management Services Agreement

115. The Plan contemplates the continuation of the Segregated Account's Management Services Agreement with Ambac, whereby Ambac provides the necessary personnel and expertise to administer, advise, and engage in the day-to-day operations of the Segregated Account. The Management Services Agreement seeks to utilize the extensive experience and accumulated knowledge of Ambac employees for the benefit of the Segregated Account, while OCI retains full control over the relationship. (11/15/10 Dilweg at 157:25-159:4, 161:15-23.)

116. The management services relationship with Ambac is a "tremendous benefit" to the Segregated Account. (11/16/10 Peterson at 215:20-23.) To adequately administer the business of the Segregated Account, it was essential for OCI to retain qualified Ambac staff with working knowledge of the relevant transactions, established relationships with the counterparties and policyholders, and experience in exercising the control rights and mitigating losses associated with any given policy. OCI could not provide such services on its own.

(11/15/10 Dilweg at 161:2-11.) To replicate this knowledge and experience with a new staff would have been difficult and very inefficient. (11/16/10 Peterson at 215:23-216:13.)

117. As was clear from the testimony of Ambac executives David Barranco and Cathleen Matanle, the Ambac staff providing services under the Management Services Agreement are committed and exceptionally knowledgeable regarding the policies and business at issue. (11/15/10 Dilweg at 162:19-163:15.) The problems at Ambac were not attributable to personnel there, particularly the remaining non-executive personnel, but rather to economic conditions that plagued the financial guarantee industry as a whole. (11/15/10 Dilweg at 164:7-21.) Indeed, all of Ambac's five or six competitors in the financial guarantee insurance industry that had written policies on mortgage exposures and other asset-backed securities have failed or are on the brink of failure. (11/16/10 Peterson at 138:3-8, 21-25.)

118. OCI has effective checks in place to monitor the management services relationship. Mr. Peterson and Ms. Shaul make regular visits to Ambac's New York offices, have developed relationships with the existing staff for the management services provider, and have implemented processes and procedures to maintain control over the day-to-day operations of the Segregated Account and the administration of Segregated Account pursuant to the Management Services Agreement. (11/16/10 Peterson at 216:14-217:24; 11/17/10 Peterson at 196:13-201:19.) The management services relationship has guidelines in place that govern the relationship in the day-to-day management of the Segregated Account and allow for greater role understanding. (11/15/10 Dilweg at 160:14-161:1.)

119. As management services provider, Ambac has established a separate leadership team focusing on the policies in the Segregated Account and has roughly 30 employees devoted to the Segregated Account. (11/18/10 Barranco at 134:18-136:4.) Mr.

Barranco is one of three Ambac employees who serve as the leadership team for Ambac in its role as the management services provider for the Segregated Account. (11/18/10 Barranco at 134:18-135:4.) The other members of the leadership both have at least nine years of experience working at Ambac. (11/18/10 Barranco at 135:18-21.)

120. The leadership team regularly meets with Ms. Shaul, Mr. Peterson, and OCI's outside legal counsel and financial advisors to discuss all major issues affecting the Segregated Account. (11/18/10 Barranco at 136:8-137:3.) The meetings provide a forum for OCI to ensure that Ambac, as management services provider, is effectively carrying out OCI's plans. (11/18/10 Barranco at 138:4-14.)

121. OCI representatives also participate in Ambac's day-to-day operational meetings regarding particular insurance policies that are allocated to the Segregated Account, and OCI decides whether to approve Ambac's proposals with respect to those policies. (11/18/10 Barranco at 137:18-138:21.)

122. OCI may terminate the Management Services Agreement if necessary, with provisions in place to maintain confidentiality of financial information. (11/18/10 Peterson at 117:23-118:2.)

123. The Plan provisions providing certain civil immunities to those responsible for administering the Plan, including the management services provider, are necessary to facilitate frank and open assessment and advice from individuals charged with administering the Plan, with the assurance that their views and expertise will not lead to civil liability. (11/16/10 Dilweg at 14:1-14.) The Plan provides for judicial review of disputed claims, thus adequately protecting policyholders against unfairness or errors by OCI or Ambac in the claims administration process. (11/18/10 Peterson at 117:2-9.)

Q. Recoveries/Other Plan Issues

124. The Plan permits the Segregated Account and Ambac to continue their prior practice of mitigating losses through the R&W Litigation and direct recoveries against securities issuers to recoup prior shortfalls in payments due to holders of those obligations. To the extent those efforts result in cash recoveries to the insurer, those recoveries are added to the General Account rather than the Segregated Account due to the previously discussed triggers requiring assets to remain in the General Account even if they are ultimately used to satisfy Segregated Account liabilities. (11/16/10 Peterson at 202:5-12.)

125. The primary relief sought in the R&W Litigation is the "put-back" of certain non-conforming loans by the RMBS originator and the substitution of conforming loans in the RMBS asset pool, which would improve the financial condition of the security and thus reduce projected losses under those policies. (11/16/10 Peterson at 202:9-24; 11/17/10 Peterson at 63:16-64:1.) The R&W Litigation also concerns roughly $2 billion in claims payments presented to and paid by Ambac prior to the rehabilitation of the Segregated Account. (11/18/10 Peterson at 111:24-112:13.) If there are cash recoveries or cash settlements arising from the R&W Litigation rather than (or in addition to) the put-back remedies, those recoveries will be added to the claims-paying resources of the General Account and be available to fund payments under the Plan. (11/18/10 Peterson at 111:14-19.)

126. The "recoveries" problem argued by several RMBS trustees and holders—namely, that Ambac could recover shortfalls from issuers in 100 percent cash despite paying policy claims caused by such shortfalls on a cash-note split basis—assumes that RMBS securities will recover to the point where there will be actual cash flows from which to obtain recoveries, which is not the case now to any material degree. (11/17/10 Peterson at 231:17-232:21.) In light of the context of the broader Plan, the minority of deals for which recoveries

might be frequent and obtainable, and the complexity of fashioning individualized, fair solutions for the many unique deals and deal structures, the recovery provisions are fair and equitable to policyholders as a whole. (11/17/10 Peterson at 234:4-236:14.)

127. If any inequitable situations arise in the future with regard to recoveries, it is OCI's intent to work out efficient solutions with policyholder trustees for fair allocation of such recoveries. (11/18/10 Peterson at 123:23-124:12.) Article 3.06 of the Plan provides a mechanism for doing so.

R. Alternative Resolutions

128. Article 3.06 of the Plan also expressly provides for alternative resolutions for policyholders. This provision recognizes that policyholders are in different economic positions in regard to delays and uncertainties in payment on surplus notes, and the Plan encourages such policyholders to engage with OCI regarding a resolution of their claims that better suits their priorities without providing unfair treatment to other policyholders. (11/16/10 Peterson at 211:20-212:20.)

129. OCI supervises and manages the commutation process, while utilizing the policy-level expertise of Ambac as management services provider. (11/18/10 Barranco at 160:16-20.) One objective of OCI and Ambac in the commutation process is to maximize the return on capital for Ambac's reserves (11/18/10 Barranco at 161:4-7, 162:19-163:1), which has the effect of increasing the claims-paying resources available to the Segregated Account (11/18/10 Barranco at 200:4-12).

130. OCI's involvement facilitates mutually beneficial settlement among policyholders and the insurer. If policyholders want to settle, OCI has the authority and leverage as Rehabilitator of the Segregated Account and regulator of the General Account to bring the insurer to the settlement table. (11/16/10 Dilweg at 126:7-127:8.) To date, multiple

policyholders have initiated discussions with OCI and Ambac regarding commutations, settlements, amendments, and other alternative resolutions. (11/16/10 Peterson at 212:2-213:12.)

S. The Plan Retains Flexibility to Adjust to Changing Economic Conditions

131. The Plan is developed to be flexible to address uncertainties over time, including the ability to amend and adjust the Plan with Court approval. (11/18/10 Peterson at 25:10-12.) OCI will continue to monitor Ambac's financial condition and take reasonable actions if and when they become necessary. (11/18/10 Peterson at 42:2-7.)

132. The Plan contemplates ongoing review and assessment by OCI, with annual reports to the Court on the financial condition of the Segregated Account, the administration of the Plan, and the propriety of any adjustments to the cash percentage. (11/16/10 Dilweg at 83:18-84:2.)

T. Testimony of James Schacht

133. The objecting parties offered the live testimony of only one person in opposition to the Plan, a paid expert witness named James Schacht. Although Mr. Schacht was shown to have knowledge about rehabilitations and liquidations generally based on his experience with the Illinois Department of Insurance, the Court did not find Mr. Schacht's testimony in opposition to confirmation to be credible or particularly relevant in the context of this Plan and the Wisconsin rehabilitation proceeding.

(a) First, while Mr. Schacht offered testimony regarding "national custom and practice in rehabilitations" (11/19/10 Schacht at 106:7-17, 182:8-14), Mr. Schacht offered no opinions regarding the custom and practice in Wisconsin and admitted that the Wisconsin law governing this rehabilitation differed in material respects from the laws of other states from which he derived his opinions. For example, while he faulted OCI's use of the segregated account

structure here as out of line with national custom and practice, he admitted on cross-examination that "[n]o other state . . . has a statute similar to" Wis. Stat. § 611.24(2), the statute under which OCI established the Segregated Account. (11/19/10 Schacht at 192:22-24.) Similarly, Mr. Schacht noted that Wisconsin's Chapter 645 formed the foundation for a model act later promulgated by the National Association of Insurance Commissioners ("NAIC") and adopted in many states (11/19/10 Schacht at 66:14-67:9), but conceded on cross-examination that the model act deleted the important legislative commentary accompanying Wisconsin's Chapter 645 (which this Court has previously cited in its decisions in this proceeding) and curtailed some of the flexibility that Chapter 645 emphasizes (11/19/10 Schacht at 114:4-20, 115:12-116:5).

(b) Second, Mr. Schacht derived much of his knowledge about national customs and practices from his work with the NAIC, including the NAIC Financial Analysis Working Group (FAWG). (11/19/10 Schacht at 61:7-62:22.) As he acknowledged, OCI witness Roger Peterson is presently the head of FAWG (11/19/10 Schacht at 61:24-62:4), and Mr. Peterson testified that he is actively engaged with regulators in other states through FAWG and other NAIC activities, including discussions specifically relating to Ambac (11/16/10 Peterson at 224:8-225:1). Therefore, to the extent, if at all, that national customs and practices are relevant to this Wisconsin rehabilitation, the Court finds that Mr. Peterson is at least as qualified as Mr. Schacht regarding those customs, is more qualified to testify as to the application of such national customs to Wisconsin's unique

segregated account and rehabilitation statutes, and has more current regulatory expertise.

(c) Third, Mr. Schacht testified that financial guaranty insurance is a "very specialized" type of insurance that presents "unique and different problems than traditional personal [or] commercial property casualty business" insurers. (11/19/10 Schacht at 127:10-16, 175:15-24.) Mr. Schacht admitted, however, that financial guarantee insurance was "not his area of expertise" and he has "never had to deal with the[] sorts of instruments" that formed Ambac's insurance business and dictated OCI's course of action in this rehabilitation. (11/19/10 Schacht at 127:13-16, 128:17-25, 175:15-176:3.) Mr. Schacht acknowledged that OCI has more experience in the realm of financial guarantee insurance. (11/19/10 Schacht at 129:3-14.) This is a particularly important point given that much of Mr. Schacht's criticism was based on his own experiences with other types of insurers in very different contexts (*see generally* 11/19/10 Schacht at 72-81), which did not present the same type of complex and difficult challenges posed by Ambac's business and financial condition (*see generally* 11/19/10 Schacht at 152-57).

(d) Fourth, Mr. Schacht's general criticisms of the Plan ignored or altered the plain language of Wis. Stat. § 645.01(4), which states that the overarching purposes of Chapter 645 proceedings is the "protection of the interests of insureds, creditors, and the public generally, with minimum interference with the normal prerogatives of proprietors" and the "[e]quitable apportionment of any unavoidable loss." Specifically, Mr. Schacht testified that

OCI erred in accounting for the public interest in any respect after the filing of the petition for rehabilitation, and that "equitable apportionment" means "equal apportionment," without reference to whether losses are avoidable or unavoidable. (11/19/10 Schacht at 148:8-149:11, 185:6-10.)

(e) Fifth, Mr. Schacht's specific criticisms of the Plan and OCI's disclosure documents were speculative and not well-founded. For example, he claimed that the liquidation analysis OCI presented was flawed because it omitted assets that he speculated could exist, but for which there was no evidence of their actual existence or their materiality. (*See generally* 11/19/10 Schacht at 93-95, 161-62.) He also acknowledged that Ambac personnel charged with administering the Segregated Account under the management services agreement were "experienced, talented people, the sort of people you need to do a rehabilitation" and recognized that OCI had control over the Management Services Agreement, but faulted OCI for not including in that Agreement controls over their compensation and benefits. (11/19/10 Schacht at 199:23-200:12.) These are not material or sufficiently supported reasons for this Court to reject or modify the Plan.

(f) Finally, Mr. Schacht's opinions are premised on the conclusion that a liquidation of Ambac would be more favorable to policyholders than the Plan; if a liquidation is not more favorable, Mr. Schacht admitted that it is appropriate for the Rehabilitator to pursue the Plan. (11/19/10 Schacht at 188:22-190:23.) This Court has concluded that a liquidation of Ambac would not

be more favorable to policyholders, and therefore rejects the fundamental premise of Mr. Schacht's opinion testimony regarding the Plan.

III. ADDITIONAL GENERAL FINDINGS

A. The Segregated Account

134. The Court hereby adopts and reincorporates here by reference those portions of its previously entered Findings of Fact and Conclusions of Law dated May 27, 2010 that pertain to the background facts leading up to this proceeding, the formation of the Segregated Account, the allocation of policies and other liabilities and potential liabilities to the Segregated Account and the rational basis underlying OCI's decision to pursue rehabilitation of the Segregated Account rather than liquidation or rehabilitation of the entire company at the time it commenced this proceeding on March 24, 2010. The Court further adopts and reincorporates here by reference its July 16, 2010 Order and October 26, 2010 Order, both of which address the establishment and rehabilitation of the Segregated Account, the allocations of certain policies thereto, and the propriety of the Injunction Order.

135. The Rehabilitator has determined that (i) the Segregated Account was legally established and adequately capitalized; (ii) the rehabilitation of the Segregated Account is lawful and appropriate; and (iii) the Plan protects the interests of insureds, other creditors of the Segregated Account, and the public generally. This Court finds that those determinations by the Rehabilitator are rational, are based on a well-grounded, detailed investigation and analysis of the relevant facts and circumstances, and are within the Rehabilitator's areas of specialized expertise and discretion.

136. Based on the evidence and the reasonable inferences arising from it, as informed by this Court's familiarity with the legal and practical considerations pertinent to delinquency proceedings, this Court finds that the Plan is more favorable to policyholders,

creditors, and the public than a liquidation of the Segregated Account and General Account, a liquidation of the Segregated Account and rehabilitation of the General Account, or a full rehabilitation of Ambac.

B. The Permitted Claim Treatments Under the Plan

137. Consistent with the uniform past practice in Wisconsin rehabilitation proceedings, the Plan treats allowed claims in accordance with the claim priority provisions of Wis. Stat. § 645.68. The Plan provides that holders of permitted claims for fees, costs and expenses of the administration of the Segregated Account will receive cash in the full amount of such claims. Holders of permitted policy claims will receive, in complete satisfaction of such claims, a combination of cash payments and 5.1% interest-bearing, unsecured surplus notes that are scheduled to mature on June 7, 2020 (the "Surplus Notes"). The cash/Surplus Note split will initially be 25% cash and 75% Surplus Notes, but may be adjusted by the Rehabilitator over time to reflect changes in claims projections and/or the availability of claims-paying resources. Holders of all other permitted, more junior claims submitted in compliance with the provisions of the Plan that are not claims for administrative expenses of the Segregated Account or policy claims, will receive, in complete satisfaction of such claims, 5.1% interest-bearing, unsecured junior surplus notes in a principal amount equal to the dollar amount of such claims.

138. The Plan's treatment of claims is rationally based and approved by the Court as a reasonable, conservative means of promoting the fair and equitable apportionment of unavoidable losses.

C. Adequate Capital Support for the Plan

139. The written evidence and oral testimony introduced by the Rehabilitator supported and confirmed this Court's prior determinations that the Segregated Account was

formed with adequate capital, and that the Secured Note and Reinsurance Agreement constitute a viable, adequate mechanism for funding the obligations of the Plan.

140. The Secured Note and Reinsurance Agreement constitute absolute, unqualified, commitments by the General Account to fund all permitted claims against the Segregated Account in accordance with the terms of the Plan. As demonstrated on the face of the documents and through the testimony of OCI's Roger Peterson, the Secured Note and Reinsurance Agreement contain standard, appropriate procedures and mechanisms for funding permitted claims against the Segregated Account in accordance with the Plan. Permitted claims against the Segregated Account are treated pursuant to the terms and priorities of the Plan on equal footing with claims against the General Account in regard to the shared claims-paying resources of the two Accounts.

141. The only portion of the claims-paying resources of the General Account not fully committed to cover permitted claims of the Segregated Account pursuant to the Plan is a minimum surplus of $100 million, which needs to be maintained in the General Account for licensing and other regulatory purposes. (11/16/10 Peterson at 199:12-15.) That required minimum does not place permitted claims against the Segregated Account pursuant to the Plan at any actual disadvantage relative to permitted claims against the General Account. OCI would take other regulatory action in regard to the General Account in what is presently viewed by OCI to be the unlikely possibility that the financial condition of the General Account would deteriorate to a point where that minimum surplus requirement was threatened. (11/16/10 Peterson at 197:19-198:5.) Moreover, this Court finds that relative to the total amount of claims-paying resources, that minimum is not material to the Plan requirements.

142. The Court finds the testimony of Mr. Peterson and the other written evidence submitted by the Rehabilitator regarding the Secured Note and Reinsurance Agreement, and the adequacy of the support for the Plan obligations to be more credible and well-grounded in the information before the Court than the statements in the paid expert witness affidavits of William Barbagallo and Frederick Bingham submitted by Lloyds and ALL.

D. The Surplus Notes

143. The surplus notes to be issued pursuant to the Plan are in a standard form consistent with the regularly used template maintained by OCI for use in regard to other Wisconsin domiciled insurer's surplus notes. The same form of Surplus Notes to be issued pursuant to the Plan were previously issued by the General Account. The material terms of the General Account Surplus Notes and the Surplus Notes to be issued by the Segregated Account under the Plan are identical as to maturity, interest rate and the other main provisions. Additionally, as explained in the Rehabilitator's written disclosures and the testimony of Mr. Peterson, the Surplus Notes of both Accounts are *pari passu*. The Surplus Notes of each Account may only be paid as allowed by OCI and any and all payments of principal and interest on the Notes approved by OCI shall be on the same terms and conditions regarding the General Account and Segregated Account.

144. The Surplus Notes are in standard form, are fair, and follow the standard requirements of being unsecured obligations that are subordinate to all other indebtedness and payments on them of either principal or interest may be made only with the prior approval of OCI. If OCI does not approve the payment of interest on the Surplus Notes, such interest will accrue and compound annually until paid or otherwise. The manner in which the Surplus Notes will be issued, executed and distributed are as set forth in the Plan and explained in the Disclosure Statement.

145. The Court finds that the terms and conditions of the issuance of the Surplus Notes pursuant to the Plan are procedurally and substantively fair.

E. The RMBS "Policyholders"

146. Throughout this rehabilitation proceeding, a group of six entities named Aurelius Capital Management LP, Fir Tree Inc., King Street Capital Master Fund, Ltd., King Street Capital, L.P., Monarch Alternative Capital LP and Stonehill Capital Management LLC have referred to themselves collectively as the "RMBS Policyholders." However, the testimony at the Hearing demonstrated that none of these entities are "policyholders" of Ambac or the Segregated Account. Their description of themselves as "policyholders" in this proceeding is misleading and inaccurate.

147. While the six entities identified in the prior finding have offered to provide the Court information under seal regarding their particular holdings (s*ee generally* 11/15/10 Statements of Counsel at 116-122), they have never offered or provided proof to the Rehabilitator or this Court as to their standing to assert legal positions in regard to any particular RMBS trust(s), despite repeated inquiries by the Rehabilitator. They have declined to identify the provisions of any particular RMBS trust indenture pursuant to which they claim to have standing to assert positions regarding the interests of a policyholder in this proceeding.

F. Findings Relating to Miscellaneous Other Objections

148. The testimony at the hearing demonstrates that the Plan fairly balances and protects between the competing interests of policyholders with "long-tail" interests and those having "short-tail" interests. Certain of the objectors with "short-tail" interests argued that the Plan is too conservative regarding the percentage of cash being distributed in early years; conversely, objectors with "long-tail" interests argued that the Plan distributes cash too rapidly and should contain provisions for paying a certain percentage of each cash payment into a long-

term "reserve." While neither extreme is satisfied by the intermediate balance struck by the Rehabilitator pursuant to the Plan, the Court finds that the balance struck by the Rehabilitator is fair and reasonable under the circumstances.

149. OCI did not abuse its discretion in approving the allocation of the two Ambac policies insuring the student loan revenue bonds issued by ALL as to which Lloyds and Depfa claim an interest. As reflected in the Fourth Affidavit of Mr. Peterson (at ¶¶ 5-6), the Second Affidavit of Cathleen Matanle (at ¶¶ 13-22) and the testimony of Mr. Peterson and Mr. Barranco at the confirmation hearings, OCI approved the allocation of the two ALL policies because of the high probability that they will result in substantial loss claims due to the structure of the transaction.

150. The evidence introduced at the Confirmation Hearing demonstrates that OCI did not abuse its discretion in regard to the allocation of the other policies pertaining to student loan-backed bonds that were also allocated to the Segregated Account, including the swap policy (No. SW0240BE), which contains contractual triggers that could result in the issuer—the Treasurer—having to make an immediate termination payment if the policy were not assigned to the Segregated Account and the termination triggers not enjoined.

151. As this Court previously found in its May 27, 2010 Findings of Fact, and as further supported by the testimony of Mr. Peterson at the confirmation hearing, the policies on the bonds relating to the Las Vegas Monorail ("LVM") also fit OCI's criteria for allocation to the Segregated Account, and OCI acted within its discretion in approving the allocation of the LVM policies to the Segregated Account. The LVM issuer was in a chapter 11 bankruptcy proceeding in Nevada when the allocation decisions were made (and still is in bankruptcy), and the present value of the loss claims expected on those policies were projected to be the single largest deal

losses of any transaction insured by Ambac. (*Id.*; *see also* attachments to the Rehabilitator's Supplementations to October 8, 2010 Disclosure Statement in Support of Confirmation of the Plan, which denote the LVM exposure as the single largest expected loss in the Segregated Account—over twice as large as the next largest exposure.)

152. A number of the objecting parties-in-interest expressed concerns about the unpredictability of future financial events, both generally in the broad economy, and specifically in regard to the claims-paying ability of Ambac to service the requirements of the Plan. The Court finds that the Plan contains adequate flexibility to deal with future changes and challenges within a broad range of reasonably foreseeable possible developments. If future circumstances change beyond what is presently reasonably predictable and foreseeable, the Rehabilitator and OCI have retained broad regulatory powers to return to the Court to implement whatever further plan or regulatory actions may be necessary to protect the interests of policyholders, creditors and the public.

CONCLUSIONS OF LAW

1. The Rehabilitator lawfully exercised his discretion under Wisconsin law and the prior orders of this Court in preparing and submitting the Plan for approval by this Court.

2. The Plan properly furthers the rehabilitation of the Segregated Account by protecting the interests of policyholders, other creditors of the Segregated Account, and the public generally. The Plan equitably apportions unavoidable losses and prevents avoidable losses that would adversely affect those interests.

3. The Plan's claim payment provisions properly and reasonably utilize the priority structure of Wis. Stat. § 645.68 in furtherance of the equitable apportionment of unavoidable losses. The Plan properly treats reinsurance and general creditor claims as subordinate to policyholder claims.

4. The satisfaction of permitted policy claims through (i) the payment of 25% of the amount of such permitted policy claim in cash and (ii) the issuance of Surplus Notes in a principal amount equal to 75% of the amount of such permitted policy claim, is substantively fair and equitable to policyholders in light of the financial condition of the Segregated Account, particularly with the annual reporting, assessment, and potential adjustments called for by the Plan.

5. Policyholders and all other parties-in-interest were afforded fair and reasonable notice and opportunity to be heard concerning confirmation of the Plan and its provisions, including the issuance of Surplus Notes. Accordingly, the issuance of Surplus Notes is procedurally fair to policyholders.

6. The Secured Note and Excess of Loss Reinsurance Agreement provide a legally viable and appropriate mechanism for providing adequate capital to support the requirements of the Segregated Account pursuant to the Plan.

7. The Rehabilitator provided sufficient information to this Court in connection with the confirmation proceedings to determine the value of the claims or interests to be treated pursuant to the Plan and the Surplus Notes to be issued pursuant to the Plan.

8. The proposed issuance of the Surplus Notes by the Segregated Account pursuant to the Plan is procedurally and substantively fair. The Rehabilitator has satisfied the requirements for issuance of the Surplus Notes pursuant to the Plan without registration of the Surplus Notes under the Securities Act of 1933, as amended, in reliance on the exemption from the registration requirements from the Securities Act provided by Section 3(a)(10) thereof, as described in the request by the Rehabilitator's counsel dated November 11, 2010 to the Securities & Exchange Commission and the response thereto by the Securities & Exchange

Commission dated November 12, 2010. Both such documents have been filed with the Court and are posted on the Court-approved Web site.

9. The group consisting of Aurelius Capital Management LP, Fir Tree Inc., King Street Capital Master Fund, Ltd., King Street Capital, L.P., Monarch Alternative Capital LP and Stonehill Capital Management LLC, who have been referred to themselves in this proceeding as the "RMBS Policyholders," are not policyholders in this proceeding. It is further concluded that those entities have not demonstrated the standing to assert positions or arguments as policyholders in this proceeding. They may be heard as parties-in-interest, but not as policyholders.

10. Notwithstanding the pendency of appeals from prior interim pre-confirmation orders of this Court, this Court has continuing competency to proceed with this rehabilitation proceeding, including competency to conduct the hearings on confirmation of the Plan, to enter this Order confirming the Plan, and to exercise continuing authority over post-confirmation matters as specified in this Order. Moreover, any objection that any present appellants may have had to the competency of this Court to continue to preside over this rehabilitation proceeding and the confirmation process during the pendency of those appeals has been waived. Each of the parties-in-interest which have been pursuing appellate rights to date in this matter have continued to actively participate in this rehabilitation proceeding, including active participation at the confirmation hearings.

11. There is no constitutional or statutory requirement that the Rehabilitator offer policyholders the right to opt out of the Plan of Rehabilitation in favor of taking a cash payment equaling the liquidation value of their permitted policy claim. Nor is there any such requirement as to subordinate, non-policy permitted claims. Similarly, there is no requirement

that the Rehabilitator proves that his Plan offers any particular policyholder or creditor, or all policyholders and creditors, a more favorable recovery than might be obtained pursuant to a liquidation. Even if, *arguendo*, a liquidation opt-out or analysis were required, the Rehabilitator's Plan here provides all policyholders and creditors a more favorable future outcome in regard to their claims than they would have received had OCI chosen to place Ambac into a general liquidation proceeding under Chapter 645 on March 24, 2010 or any date thereafter instead of pursuing the present rehabilitation proceeding of just the Segregated Account.

12. The Court concludes that the liquidation analysis set forth in the Rehabilitator's October 6, 2010 Disclosure Statement (at pages 8-9) and in the November 12, 2010 Amendment No. 2 to Disclosure Statement (at § II, pages 6-9), as well as the testimony of Mr. Peterson, fairly and accurately summarize the substantial disadvantages of liquidation over the chosen path of rehabilitating the Segregated Account. The Court similarly concludes that the basis demonstrated by OCI and the Rehabilitator for pursuing the rehabilitation of the Segregated Account rather than a full rehabilitation of all of Ambac and its roughly 15,000 policyholders (as of March 24, 2010) was rational, prudent and in the best interests of all of the policyholders and creditors of Ambac's General and Segregated Accounts and the public generally.

13. Based on the evidence and testimony, the Court further concludes that the Plan provides all policyholders a more favorable future outcome in regard to their claims than they would have received had OCI chosen to place Ambac in a general liquidation or rehabilitation proceeding on any given date following the commencement of these proceedings.

14. As discussed at the confirmation hearings by the Rehabilitator's counsel and in the testimony of OCI's Roger Peterson, the Rehabilitator has considered and discussed

certain of the objections by parties-in-interest and, in an effort to mitigate or eliminate certain of those concerns, the Rehabilitator agreed to make certain modifications to specific provisions of the Plan and related documents. In that regard, the Rehabilitator has amended Articles 4.04(h) and 8.01, and added new section 8.02, all as reflected in the attached red-lined copy of the relevant pages of the Plan, and has amended Section 14(a) of the form of Surplus Note attached to the Plan, as also reflected in the attached red-lined copy of the relevant page of that document. The Court concludes that those changes are reasonable and appropriate.

15. The Plan is feasible and is fair and equitable to policyholders and others with an interest in the Segregated Account. The Plan represents a reasonable response to the financial condition of the Segregated Account and Ambac generally by addressing the serious financial hazards to policyholders, creditors, and the public, maximizing claims-paying resources, and providing flexibility to meet the purposes of rehabilitation on an ongoing basis, with this Court's continued oversight.

ORDER

NOW, THEREFORE, based upon the foregoing Findings of Fact, Conclusions of Law, and the above-described proceedings pertaining to confirmation, and for good cause shown, it is hereby ORDERED as follows:

1. The Rehabilitator's Motion to Confirm the Plan is GRANTED, subject to the above-referenced modifications by the Rehabilitator to Articles 4.04(h), 8.01 and 8.02 of the Plan and Section 14(a) of the form of Surplus Note attached to the Plan, each as reflected in the attached red-lined copy of the relevant pages of the Plan and the form of Surplus Note.

2. The Rehabilitator shall modify the Plan and form of Surplus Note as ordered and promptly file the modified versions of the Plan and Surplus Note with this Court, post them on the Court-approved Web site and serve them on all counsel of record electronically.

3. 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 reasonably necessary to carry out the Plan, including but not limited to the power and authority to interpret the terms and conditions of the Plan and to issue guidelines or further directions to interested persons in order to carry out the purposes and effects of the Plan.

4. In accordance with the provisions of the Plan, the Rehabilitator shall post a notice on the court-approved Web site advising of the Effective Date of the Plan.

5. Each holder or beneficiary of a permitted policy claim, and each party to any instrument or agreement (i) pursuant to which such policy was issued, (ii) which governs the payment of claims under such policy, or (iii) which governs or specifies the subsequent allocation, distribution or disbursement of amounts received pursuant to a policy, including but not limited to any note, indenture, certificate, servicing agreement or other similar instrument or agreement (collectively, "Transaction Documents") shall accept any Surplus Notes delivered to

such holder, beneficiary or other party in accordance with the Plan, together with any cash amount paid to such holder, beneficiary or other party in accordance with the Plan, in full and complete satisfaction of the payment obligation of the Segregated Account for that permitted policy claim, regardless of the existence of any provision in such policy or related Transaction Documents that would otherwise prohibit or restrict such holder, beneficiary or other party from fully discharging the obligations of the Segregated Account.

6. Each holder or beneficiary acting as a trustee for the beneficial holder(s) of any underlying financial instrument(s) insured by a policy allocated to the Segregated Account shall submit any claim for payment under such policy in accordance with the provisions of the Plan by completing and submitting the Proof of Policy Claim Form in full (in the form approved by the Rehabilitator), including the selection of the delivery method for the payment in Surplus Notes. Actions or omissions taken in compliance with this Order by any such holder or beneficiary acting as a trustee shall not be deemed a violation of any provision in the applicable policy or related Transaction Documents that would otherwise prohibit or restrict such holder or beneficiary from complying with this Order. The Segregated Account shall indemnify all such holders or beneficiaries acting as trustees in the manner and under the conditions specified in Article 8.02 of the Plan.

7. The Rehabilitator shall obtain the approval of this Court prior to effectuating any Alternative Resolution (as defined in the Plan) that involves the payment of cash by the Segregated Account in excess of $50 million, and prior to adjusting the percentages of the cash and Surplus Notes to be issued in accordance with the terms of the Plan.

8. By no later than June 1 of each year, the Rehabilitator shall file a report with this Court advising on the status of the rehabilitation in accordance with Article 7.01 of the Plan.

9. Consistent with Article 10.02 of the Plan, unless specifically modified by the Plan, the prior orders of this Court shall remain in full force and effect throughout the period of administration of the Plan. Those orders include this Court's March 24, 2010 Orders approving commencement of this proceeding and granting injunctive relief on the terms requested by the Rehabilitator to protect the interests of the Segregated Account. Absent further specific order of this Court to the contrary, the Court's March 24, 2010 Injunction Order shall remain in full force and effect throughout the entire period of administration of the Plan through to termination of the rehabilitation proceeding in accordance with Article 10.05 of the Plan.

10. The Plan (with exhibits) and all other submissions on file relating to it, including the Disclosure Statement (and the attachments, amendments and supplements thereto), and other written materials filed by the Rehabilitator, Ambac, and other parties-in-interest prior to the Plan confirmation hearings were considered by the Court and shall be part of the record for these proceedings.

11. This Court shall retain continuing exclusive jurisdiction and venue over this rehabilitation proceeding and all matters or disputes pertaining to, or arising from, implementation of the Plan or the terms of this Order, including matters and disputes arising out of trustees' compliance with the Plan as described in Article 8.02 of the Plan. Any litigation pertaining to, or arising from, this rehabilitation, the Plan or this Order shall be exclusively venued in this Court.

12. This Order is a final order, appealable as of right, pursuant to Wis. Stat. § 808.03(1).

WHEREFORE, IT IS HEREBY ORDERED that the Motion for Confirmation of the Rehabilitator's Plan is GRANTED.

Dated: _____

BY THE COURT

_____

Honorable William D. Johnston
Lafayette County Circuit Court Judge
Presiding by Judicial Appointment

ATTACHMENT A

Red-Lined Versions of Revised Articles 4.04(h) & 8.01 of the Plan of Rehabilitation

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 that 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.

(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 and only such Claims. 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~~Other than as expressly provided for in this Plan, 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~~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, other than claims of intentional fraud or willful misconduct. 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 sub-paragraph (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

ATTACHMENT B

New Article 8.02
of the Plan of Rehabilitation

8.02 Discharge, Release and Injunction With Regard to Holders and Sub-Trustee/Agents. Each Holder acting on its own behalf or acting in its capacity as a trustee and/or agent for the beneficial holder(s) of any underlying financial instrument(s) insured by a Policy, and any party to the Transaction Documents assigned or delegated in whole or in part duties relating to submitting or processing payment of Policy Claims under the related Transaction Documents (each a "Sub-Trustee/Agent"), shall submit any claim for payment under such Policy in accordance with the provisions of the Plan by completing and submitting the Proof of Policy Claim Form in full (in the form approved by the Rehabilitator), including the selection of the delivery method for the payment in Surplus Notes. Actions taken in compliance with the Plan by any such Holder or Sub-Trustee/Agent shall not be deemed to be a violation of any provision in, or duty arising out of, the applicable Policy or related Transaction Documents. The Segregated Account shall indemnify any such Holder acting in its capacity as a trustee and/or agent for the beneficial holder(s) of any underlying financial instrument(s) insured by a Policy, and any such Sub-Trustee/Agent (each an "Indemnified Party") for any reasonable and documented out-of-pocket losses and costs, including reasonable attorney fees, incurred in defending any lawsuit, action, or similar formal legal proceeding arising out of their compliance with the Plan (excluding losses and costs resulting from the negligence, gross negligence or other misconduct of such Indemnified Parties, *provided, however*, that for purposes of this indemnity, compliance with the Plan shall not be deemed to constitute negligence, gross negligence, or misconduct) (each a "Third Party Liability"), provided (a) no amounts shall be payable by the Segregated Account to any Indemnified Party to the extent that the same shall be reimbursable to them under or pursuant to the Transaction Documents and (b) any Indemnified Party making a claim for indemnification shall have used its best efforts to cause any such lawsuit, action or

similar formal legal proceeding to be brought before the Dane County Circuit Court as part of this Proceeding.

Any indemnification obligation of the Segregated Account under this provision shall further be subject to the following: promptly upon receipt by any Indemnified Party of notice of any claim or of the commencement or threatened commencement of any action against the Indemnified Party which may constitute a Third-Party Liability, such Indemnified Party will cause notice to be given to the Segregated Account in writing of such claim or such commencement or threatened commencement of action or proceeding, together with a copy of any documents received by the Indemnified Party in connection therewith. In the event that any such claim or action shall be asserted against an Indemnified Party, the Indemnified Party shall consent to the intervention by the Segregated Account in any such suit in order to defend against said claim and/or shall tender to the Segregated Account control of the defense and settlement of such claim or action, and shall cooperate with the Segregated Account in such defense and settlement. The Segregated Account shall at all times have the right to employ counsel to represent both the Indemnified Party and the Segregated Account in any claim or action or proceeding, whether or not the Segregated Account has requested intervention or tender of control; provided that in the event the Segregated Account's counsel or the Indemnified Party's counsel determines that there is a legal conflict of interest between the Segregated Account and such Indemnified Party, and neither the Segregated Account nor such Indemnified Party is willing to waive such conflict, then such Indemnified Party shall be entitled to retain one separate counsel, acceptable to the Segregated Account. Until the Segregated Account requests the control of the defense and settlement of such claim or action or unless the Segregated Account has otherwise employed counsel to represent both the Segregated Account and such

Indemnified Party, such Indemnified Party shall have the right to employ its own counsel with respect to such lawsuit, action or similar formal legal proceeding, whose reasonable fees and expenses shall be Third-Party Liabilities (provided that the Segregated Account shall in no event be liable for the legal fees and expenses of more than one firm). Such Indemnified Party giving notice and, if requested, tendering defense of the lawsuit or action required by this paragraph are conditions to the Segregated Account's indemnification obligations hereunder. Further, the Segregated Account shall have no liability for any settlement of any lawsuit or action for which the Segregated Account otherwise agrees herein to indemnify an Indemnified Party unless written notice of such proposed settlement shall have been furnished to the Segregated Account, and the Segregated Account in its sole discretion shall have consented in writing to such settlement.

All persons and entities are enjoined and restrained from commencing or prosecuting any actions, claims, lawsuits or other formal legal proceedings in any state, federal or foreign court, administrative body or other tribunal other than the Court against: (i) any Holder acting in its capacity as a trustee and/or agent for the beneficial holder(s) of any underlying financial instrument(s) insured by a Policy, in respect of such Holder's compliance with the Plan; and/or (ii) any Sub-Trustee/Agent, in respect of such Sub-Trustee Agent's compliance with the Plan. The Court shall have exclusive jurisdiction over such actions, claims, or lawsuits, which must be raised by motion or other filing in the Proceeding.

ATTACHMENT C

Red-Lined Version of Revised Section 14(a) of the Form of Surplus Note

modification, amendment, supplement, consent, waiver or other action shall be conclusive and binding on the holder of this Note and on all future holders of this Note and of any Note issued upon the registration of transfer hereof or in exchange heretofore or in lieu hereof, whether or not notation thereof is made upon this Note. The Fiscal Agency Agreement and the terms of the Notes may, with the prior approval of the Commissioner, be modified or amended by the Issuer and the Fiscal Agent, without the consent of any holders of Notes, for the purpose of (a) adding to the covenants of the Issuer for the benefit of the holders of Notes, or (b) surrendering any right or power conferred upon the Issuer, or (c) securing the Notes, or (d) evidencing the succession of another corporation to the Issuer and the assumption by such successor of the covenants and obligations of the Issuer herein and in the Fiscal Agency Agreement as permitted by the Notes and the Fiscal Agency Agreement, or (e) modifying the restrictions on, and procedures for, resale and other transfers of the Notes to the extent required by any change in applicable law or regulation (or the interpretation thereof) or in practices relating to the resale or transfer of restricted securities generally, or (f) accommodating the issuance, if any, of Notes in book-entry or certificated form and matters related thereto which do not adversely affect the interest of any Note holder in any material respect, or (g) curing any ambiguity or correcting or supplementing any defective provision contained herein or in the Fiscal Agency Agreement in a manner which does not adversely affect the interest of any Note holder in any material respect, or (h) effecting any amendment which the Issuer and the Fiscal Agent may determine is necessary or desirable and which shall not adversely affect the interest of any Note holder, to all of which each holder of any Note, by acceptance thereof, consents.

14. Remedies. Holders of Notes may enforce the Fiscal Agency Agreement or the Notes only in the manner set forth below.

(a) In the event that any state or federal agency shall obtain an order or grant approval for the rehabilitation, liquidation, conservation or dissolution of the Issuer or Ambac Assurance Corporation (other than an Excluded Order), the Notes will upon the obtaining of such an order or the granting of such approval immediately mature in full without any action on the part of the Fiscal Agent or any holder of the Notes, with payment thereon being subject to the Payment Restrictions, and any restrictions imposed as a consequence of, or pursuant to, such proceedings. Notwithstanding any other provision of this Note or the Fiscal Agency Agreement, in no event shall the Fiscal Agent or any holder of the Notes be entitled to declare the Notes to immediately mature or otherwise be immediately payable.

(b) In the event that the Commissioner approves in whole or in part a payment of any interest on or principal of, or any redemption payment with respect to, any Notes and the Issuer fails to pay the full amount of such approved payment on the date such amount is scheduled to be paid, such approved amount will be immediately payable on such date without any action on the part of the Fiscal Agent or any holder of Notes. In the event that the Issuer fails to perform any of its other obligations hereunder or under the Fiscal Agency Agreement, each holder of the Notes may pursue any available remedy to enforce the performance of any provision of such Notes or the Fiscal Agency Agreement; provided, however, that such remedy shall in no event include the right to