

Segregated Account, and the rehabilitation of the Segregated Account are set forth in my first affidavit in this matter (dated May 19, 2010), in the Findings of Fact Nos. 1-6, 19-32, and 36 of this Court's May 27, 2010 decision (Dkt. 136), and this Court's January 24, 2011 Order Confirming the Plan of Rehabilitation, all of which are incorporated here by reference.

3. I make this affidavit in support of the motion by the Commissioner of Insurance of the State of Wisconsin, as court-appointed rehabilitator (the "Rehabilitator") of the Segregated Account, to approve a settlement reached with three of the four members of the group known in these proceedings as the "LVM Bondholders."

4. On behalf of the Rehabilitator, I have been directly involved in the regulatory analysis of the proposed settlement and commutation of Municipal Bond Insurance Policy No. 17548BE (the "Insurance Policy") and Surety Bond No. SB1080BE (the "Surety Bond") (collectively "the LVM Policies"), both of which were allocated to the Segregated Account on March 24, 2010. The Insurance Policy insures payment of principal and interest on Las Vegas Monorail Project Revenue Bonds, 1st Tier Series 2000 (the "1st Tier Bonds") having an original principal amount of \$451,448,217.30. The Surety Bond guarantees payments from a debt service reserve fund for the 1st Tier Bonds in a total amount of \$20,991,807.50. In addition, Ambac owns \$8.5 million in principal amount of 1st Tier Bonds (the "Ambac-Owned Bonds").

5. The 1st Tier Bonds were issued pursuant to a senior indenture by and between the Director of the State of Nevada Department of Business and Industry and Wells Fargo Bank, N.A., as trustee (the "LVM Trustee"). The proceeds from the 1st Tier Bonds were used to fund the acquisition and upgrade of an existing 0.8 mile monorail system in downtown Las Vegas and construct approximately 3.0 miles of new guideway for the monorail system (the "Las Vegas Monorail"). The 1st Tier Bonds are payable from the stream of revenues produced by the Las

Vegas Monorail. The Las Vegas Monorail is owned, managed and operated by the Las Vegas Monorail Company, a nonprofit public benefit corporation organized under Nevada law (“LVMC”). LVMC filed a Chapter 11 bankruptcy on January 13, 2010, In re: Las Vegas Monorail Co., Case No. BK-S-10-10464-BAM (Bankr. Nev.) (the “Nevada LVM Bankruptcy”). A plan of reorganization has not yet been confirmed in the Nevada LVM Bankruptcy. Ambac and the Segregated Account have actively participated in the Nevada LVM Bankruptcy proceedings to protect their interests, including with respect to a pending appeal taken from that proceeding.

6. The Segregated Account and Ambac recently reached a settlement (the “Settlement Agreement”) with three of the four members of the LVM Bondholders. Those settling members are Nuveen Asset Management, Restoration Capital Management LLC, and Stone Lion Capital Partners L.P. (the “LVM Settling Bondholders”). Together, the LVM Settling Bondholders hold more than two-thirds of the aggregate principal amount of the LVM Bonds. The single non-settling member of the LVM Bondholders group holds only approximately 6.5% of the LVM bonds.

II. THE SETTLEMENT AGREEMENT

7. The Settlement Agreement provides two alternative means for resolving the Segregated Account’s exposures under the LVM Policies. The first is a commutation (the “Commutation”) of the LVM Policies. The second is a fall-back alternative that calls for Ambac to offer to purchase (the “Purchase Offer”) from all bondholders their interests in the LVM Policies. A copy of the Settlement Agreement is attached to the Rehabilitator’s accompanying motion for approval.

8. Under the Commutation, the Segregated Account and Ambac would be completely released from the LVM Policies in exchange for (i) a cash payment of \$111 million, (ii) delivery of \$90 million (principal amount) in Segregated Account surplus notes and (iii) transfer of the Ambac-Owned Bonds to the LVM Trustee for the benefit of the holders of 1st Tier Bonds. The cash payment and surplus notes would be reduced by the amount of cash payments made or surplus notes issued, if any, under the LVM Policies between the date of the Settlement Agreement and the closing of the Commutation. The Settlement Agreement includes certain conditions that must be met in order to complete the Commutation, including the LVM Trustee obtaining an order from a different court authorizing the LVM Trustee to settle and resolve all claims against Ambac under the LVM Policies. The Settlement Agreement requires the Commutation to be completed by August 31, 2011 (the “Commutation Termination Date”). The Settlement Agreement also allows either party to cease pursuing the Commutation if it is reasonably likely that the Commutation will not be completed by the Commutation Termination Date.

9. The Settlement Agreement provides for the Purchase Offer alternative in the event that the Commutation does not occur by the Commutation Termination Date or the parties cease pursuing the Commutation. Under the Purchase Offer, Ambac will commence an offer to purchase from all holders of 1st Tier Bonds their rights in the LVM Policies, through a synthetic commutation. The synthetic commutation will provide for the full and complete termination and release of all obligations of Ambac and the Segregated Account under the LVM Policies with respect to bondholders participating in the Purchase Offer, but preserve for those settling bondholders their rights as bondholders against LVMC. The Segregated Account would remain liable on the LVM Policies with respect to those holders of 1st Tier Bonds who do not accept the

Purchase Offer. The LVM Settling Bondholders have agreed to accept the Purchase Offer, subject to certain conditions.

10. If all holders of 1st Tier Bonds were to accept the Purchase Offer, then the Segregated Account would provide consideration consisting of (i) a cash payment of \$111 million, (ii) delivery of \$81 million (principal amount) in Segregated Account surplus notes and (iii) transfer of the Ambac-Owned Bonds to the LVM Trustee for the benefit of the holders of 1st Tier Bonds. If fewer than all bondholders were to accept the Purchase Offer, then the consideration would be reduced proportionately. The cash payment and surplus notes would be reduced by the amount of cash payments made or surplus notes issued, if any, under the LVM Policies to settling bondholders between the date of the Settlement Agreement and the closing of the Purchase Offer.

11. Under both the Commutation and the Purchase Offer, the surplus notes issued for the benefit of the LVM Settling Bondholders (the “LVM Surplus Notes”) would rank *pari passu* with any surplus or contribution notes or similar obligations of the Segregated Account or of Ambac’s General Account. Payments of principal and interest on the LVM Surplus Notes would be subject to the prior approval of OCI.

III. THE SETTLEMENT AGREEMENT IS IN THE BEST INTEREST OF THE SEGREGATED ACCOUNT AND ITS POLICYHOLDERS.

12. The Rehabilitator has monitored the status of the LVM Policies and commutation negotiations between Ambac and the LVM Settling Bondholders since the commencement of this rehabilitation proceeding through regular meetings with Ambac and its advisors. Consistent with the Plan of Operation, the Rehabilitator had representatives of Ambac handle much of the

day-to-day negotiating work on behalf of the Segregated Account, with the Rehabilitator, through me, OCI, and OCI's advisors, actively monitoring those negotiations.

13. In considering whether the Settlement Agreement is in the best interests of the Segregated Account and its policyholders, the Rehabilitator considered information about the claims that holders of 1st Tier Bonds would have absent consummation of the Settlement Agreement. Jefferies & Co. and Gordian Group, LLC—the professional financial advisors that OCI first retained in early 2008 in regard to Ambac, and that the Rehabilitator continues to use in regard to the Segregated Account—actively assisted the Rehabilitator in its monitoring and evaluation of projected losses under the LVM Policies. Subject to contractual confidentiality undertakings, our financial advisors had access to confidential Ambac information directly and through its professional financial advisors regarding the LVM Policies.

14. In addition, the law firm representing the interests of the Segregated Account and Ambac in the Nevada LVM Bankruptcy proceedings retained Conway Del Genio Gries & Co., LLC (“CDG”), a financial advisory firm with expertise in the analysis and valuation of businesses and assets such as the LVMC's monorail system, to assist in the development of revenue and expense forecasts, residual value analyses and policy claim estimates. CDG's analysis showed present values of potential residual values for the monorail. The CDG analysis is consistent with the expectations OCI and the Rehabilitator developed based upon their own concurrent and ongoing assessment. Based on our extensive evaluation of this exposure over time, the Rehabilitator and its financial advisors believe that the CDG analysis is fair and reasonable and useful to the Rehabilitator for purposes of making informed regulatory decisions about the LVM Policies and the proposed Settlement Agreement. In discussing the CDG analysis, the Rehabilitator does not waive in any respect his contractual and statutory

confidentiality privileges and protections against producing any further or other information pertaining to the CDG analysis, work product or any other Ambac-related information in OCI's possession.

15. The chart below summarizes the Rehabilitator's analysis of the most likely range of the claim exposures for the LVM Policies and provides a percentage comparison to the consideration to be provided by Ambac and the Segregated Account under the proposed Settlement Agreement. All dollar amounts are in millions of dollars. The chart does not include the Ambac-Owned Bonds, which have limited value exclusive of the LVM Policies given the bankruptcy of LVMC and the presently dire financial condition of such debtor. Transfer of the Ambac-Owned Bonds has the effect of marginally increasing each settling bondholders' pro-rata share of the cash and surplus notes under the Commutation and Purchase Offer and the payments they receive, if any, on the bonds in the LVMC bankruptcy proceedings.

| <u>Prospective Losses</u> | Low | Average | High |
|----------------------------------|------------|----------------|-------------|
| | \$ 503.6 | \$ 514.5 | \$ 517.4 |

| <u>Commutation</u> | Consideration | | |
|---|----------------------|----------|----------|
| Cash | \$ 111.0 | \$ 111.0 | \$ 111.0 |
| Cash as a Percentage of Prospective Losses | 22.0% | 21.6% | 21.5% |
| Notes | \$ 90.0 | \$ 90.0 | \$ 90.0 |
| Notes as a Percentage of Prospective Losses | 17.9% | 17.5% | 17.4% |
| Total Consideration | \$ 201.0 | \$ 201.0 | \$ 201.0 |
| Total Consideration as a Percentage of Prospective Losses | 39.9% | 39.1% | 38.8% |

| <u>Purchase Offer</u> | Consideration (assuming acceptance by all bondholders) | | |
|---|---|----------|----------|
| Cash | \$ 111.0 | \$ 111.0 | \$ 111.0 |
| Cash as a Percentage of Prospective Losses | 22.0% | 21.6% | 21.5% |
| Notes | \$81.0 | \$81.0 | \$81.0 |
| Notes as a Percentage of Prospective Losses | 16.1% | 15.7% | 15.7% |
| Total Consideration | \$ 192.0 | \$ 192.0 | \$ 192.0 |
| Total Consideration as a Percentage of Prospective Losses | 38.1% | 37.3% | 37.1% |

16. I believe that the Settlement Agreement, whether it is achieved by the Commutation or the Purchase Offer, is in the best interests of the Segregated Account. As a percentage of the total projected losses, the amount of cash and notes to be paid under the Settlement Agreement is less than the amounts I presently expect the Segregated Account would otherwise have to pay under the confirmed Plan of Rehabilitation with respect to claims made under the LVM Policies.

17. The Settlement Agreement also is in the best interests of the Segregated Account and policyholders because it will resolve the LVM Settling Bondholders' objections to the proposed plan of rehabilitation and the LVM Settling Bondholders' participation in pending appeals taken from these proceedings. The Settlement Agreement is also beneficial to both the settling bondholders and to the Segregated Account because it includes releases and dismissals of claims and appeals and related litigation on the terms and conditions set forth therein; see, *inter alia*, ¶ 3.1(c) and Article IV.

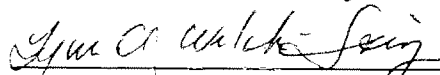
18. As detailed in Exhibit B (see, *inter alia*, ¶ 41), the LVM Trustee has asserted to the Minnesota court that, as compared to the alternatives of continued litigation and other uncertainties, the proposed settlement provides benefits to all of the LVM Bondholders. I believe that the reduction of uncertainties through the settlement is in the best interest of all parties.

Dated this 10th day of February, 2011.



Roger A. Peterson

Subscribed and sworn to before me
this 10th day of February, 2011.



Notary Public, State of Wisconsin.
My Commission: is permanent