

In the Matter of the Rehabilitation of:

Case No. 10 CV 1576

Segregated Account of Ambac Assurance Corporation

**ORDER MODIFYING AND CONFIRMING PLAN OF REHABILITATION (AS
MODIFIED), 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 appointed Rehabilitator (the “Rehabilitator”) for the Segregated Account of Ambac Assurance Corporation (the “Segregated Account”), to confirm the Plan of Rehabilitation (the “Plan”) for the Segregated Account filed on October 8, 2010, pursuant to Wis. Stat. § 645.33(5).

Based on this Court’s review of the Plan and the briefs, affidavits, exhibits, and other materials on file in these proceedings, as well as the testimony and argument presented at the hearing on confirmation of the Plan, and for good cause shown, the Motion is hereby GRANTED and the Plan is hereby CONFIRMED, with the following modifications:

1. Section 8.01 of the Plan (“Discharge, Release and Injunction”) is hereby deleted and replaced with the following:

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. 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, 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

2. Section 14(a) of the Form of Surplus Note shall be deleted and replaced

with the following:

(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.

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

FINDINGS OF FACT

1. On October 8, 2010, the Rehabilitator filed the Plan with this Court pursuant to Wis. Stat. § 645.33(5) and moved for its confirmation. Although not required to do so by Chapter 645, the Rehabilitator also filed a detailed Disclosure Statement that summarizes the Rehabilitator's findings and conclusions regarding this rehabilitation, further 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.

2. On October 8, 2010, the Rehabilitator provided written notice to all policyholders and other known parties-in-interest about the filing of the Plan, the Disclosure Statement and the Motion, and that the hearing to consider confirmation of the Plan would be scheduled. The notice further 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. The Scheduling Order setting forth the date, time and place of the Court hearing was also made available via the Web site, as well as an explanation of the right of each policyholder to attend the Court hearing and to be heard.

3. The Rehabilitator has determined that (i) the Segregated Account was legally established; (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 facts and circumstances relevant to developing the Plan, and are well within the Rehabilitator's areas of expertise and discretion.

4. Among other things, 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 other claims submitted in compliance with the provisions of the Plan, which 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.

5. A hearing was held on the week of November 15, 2010, which all policyholders and other parties-in-interest were permitted to attend and at which all such parties-in-interest were afforded the opportunity to be heard.

CONCLUSIONS OF LAW

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

2. The Plan 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. 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 concludes that the Plan is more favorable to policyholders, creditors, and the public than a liquidation of the General Account and the Segregated Account or a full rehabilitation of Ambac.

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 adjustment 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, and accordingly, the issuance of Surplus Notes is procedurally fair to policyholders.

6. 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.

NOW, THEREFORE, based upon the foregoing findings of fact, conclusions of law, briefing of the parties, other materials and affidavits on file, evidence and oral argument presented, and for other good cause, it is hereby ORDERED as follows:

1. That the Rehabilitator's motion to confirm the Plan is GRANTED, subject to the modifications described herein.

2. That the Rehabilitator shall modify the Plan as ordered and promptly file the modified version of the Plan to this Court.

3. That 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 to guidelines or further directions to all interested persons in order to carry out the purposes and effects of the Plan.

4. That in accordance with the provisions of the Plan, the Rehabilitator shall post a notice to the Web site advising of the Effective Date of the Plan.

5. That 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. That 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 a trustee for reasonable attorney fees incurred in defending any action arising out of their compliance with this Order.

7. That 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. That 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 Section 7.01 of the Plan.

9. This Court shall retain continuing exclusive jurisdiction over this rehabilitation proceeding and all matters or disputes pertaining to, or arising from, implementation of the Plan.

10. That the Plan (with exhibits) and all other submissions on file relating to it, including the Disclosure Statement and documents referenced therein and other written briefs and 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.

WHEREFORE, IT IS HEREBY ORDERED that the Motion is GRANTED.

Dated: _____

BY THE COURT

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