

Companies in Liquidation or Rehabilitation

Ambac Assurance Corporation Segregated Account, in Rehabilitation

Ambac Assurance Corporation Segregated Account was placed in rehabilitation on March 24, 2010. This rehabilitation is under the supervision of Judge Richard G. Niess of the Circuit Court for Dane County, Wisconsin. Daniel J. Schwartz is the special deputy commissioner for this rehabilitation and has served in this capacity since February 17, 2016.

Ambac Assurance Corporation (“Ambac”), headquartered in New York, New York, is the successor to American Municipal Bond Assurance Corporation, which was incorporated in Wisconsin on September 29, 1970. The company operates as a financial guaranty insurer, and its principal business is the guaranty of timely payment of principal and periodic interest when due on credit obligations. The company is licensed in all U.S. states, the District of Columbia, Guam, Puerto Rico and U.S. Virgin Islands.

In the mid-1990s, Ambac began offering financial guaranty insurance on riskier, higher-margin private “structured finance” investments, including residential mortgage-backed securities (“RMBS”) and collateralized debt obligations of asset-backed securities (“CDOs of ABS”). When the riskier insured structured finance investments began to deteriorate en masse during the economic crisis of 2008, Ambac’s projected future liabilities grew while its credit ratings and statutory surplus plummeted. Consequently, its prospects for writing new business evaporated, it stopped writing new policies, and it initiated an informal run-off.

These events created a hazard for policyholders. At the time of rehabilitation, Ambac’s investment portfolio assets had a market value of approximately \$8 to \$9 billion, plus an estimated \$1.5 to \$2 billion in future unearned premiums discounted to present value. The inopportune sale of Ambac’s long-term, then undervalued assets would have resulted in a “fire sale” as opposed to a fair and equitable distribution for the benefit of policyholders as a whole.

Absent restructuring efforts, there was an increasing risk that policyholders who presented short-tail claims in the early years would have received payment for a larger percentage of their claims than policyholders who presented claims in the more distant future.

As part of the restructuring and with the approval of the Office of the Commissioner of Insurance, Ambac

established an optional segregated account pursuant to s. 611.24, Wis. Stat., effective March 24, 2010 for the purpose of segregating certain segments of its liabilities and consenting to the subsequent rehabilitation of the Segregated Account under Chapter 645 of the Wisconsin Statutes. Policies allocated to the Ambac Assurance Corporation Segregated Account (“Segregated Account”) are primarily those policies with material projected impairments, including the books of RMBS, most of which were expected to mature within approximately four years, and certain CDOs of ABS policies, most of which were not expected to mature for twenty or more years, as well as certain other policies with provisions that could result in loss of control rights or demands to pay non-economic, accelerated damages at the expense of other policyholders of Ambac. Ambac allocated to the Segregated Account all liabilities assumed as reinsurer under reinsurance agreements. To support the Segregated Account, Ambac also allocated to it a \$2 billion secured note (which has now been fully paid) and a last-dollar reinsurance policy limited only by the assets of, and a minimum surplus as regards policyholders of \$100,000,000 in the General Account of Ambac. Ambac also allocated to the Segregated Account its limited liability interest in Ambac Credit Products, LLC, Ambac Conduit Funding LLC, Aleutian Investments LLC and Juneau Investments LLC.

Ambac was appointed as a Management Services Provider to the Segregated Account under a Management Services Agreement for so long as such agreement is in effect. Nothing prevented the Segregated Account from retaining additional service providers. In addition, pursuant to the terms of a Cooperation Agreement, Ambac and the Segregated Account have agreed on certain matters related to decision-making, information sharing, tax compliance and allocation of expenses.

On April 21, 2014, following receipt of certain favorable rulings from the IRS, the Rehabilitator filed a motion in the Circuit Court of Dane County, Wisconsin for approval of certain proposed amendments (the “Amendments”) to the plan of rehabilitation, which were approved by the Rehabilitation Court on June 11, 2014. These Amendments modified the mechanism for handling claims under the rehabilitation plan. Instead of a combination of cash payments and interest-bearing surplus notes pursuant to the

original plan, holders of Permitted Policy Claims received a combination of cash payments (“Interim Payments”) and deferred amounts established equal to the remaining balance of such claims (“Deferred Amounts”). Payments of Deferred Amounts were to be made at such times as the Rehabilitator deemed appropriate, in his sole discretion, based on an analysis of estimated liabilities, available claims-paying resources and other considerations relevant to equitable treatment of claims and the best interests of policyholders. With the exception of adjustments for certain under-collateralized transactions, Deferred Amounts accreted at an effective annual rate of 5.1%. Permitted General Claims were entitled to receive Junior Deferred Amounts accreting at 5.1% per year, instead of junior surplus notes bearing interest at 5.1%, as specified by the original rehabilitation plan.

In conjunction with amending the rehabilitation plan, the Rehabilitator increased Interim Payments. The 25% level specified in the original rehabilitation plan was increased to the level of 45%. Hence, the rehabilitation plan, as amended, provided that, (i) holders of Permitted Policy Claims will receive Interim Payments in cash equal to 45% of their claims, and (ii) the Segregated Account will record Deferred Amounts on its books in favor of the respective holders in an amount equal to 55% of such claims, which will accrete at an effective annual rate of 5.1%.

On July 19, 2017, Ambac Financial Group, Inc. and Ambac Assurance Corporation reached a consensual agreement (hereinafter also Transaction) with certain creditors holding large positions in Ambac Assurance Corporation’s outstanding senior surplus notes and deferred payment obligations of the Segregated Account. The Transaction allows Segregated Account policyholders to receive payment in full on all future presented claims, and settled currently outstanding obligations at 93.5 cents on the dollar comprised of:

- 40 cents on the dollar in cash,
- 41 cents on the dollar in tradable senior secured notes,
- 12.5 cents on the dollar in surplus notes.

Wisconsin’s Office of the Commissioner of Insurance believes the Transaction is in the best interests of all policy beneficiaries and stakeholders and provides for a durable exit from rehabilitation for the Segregated Account, which would merge with and into the

General Account of Ambac Assurance Corporation. The Rehabilitator believes this Transaction, including the consideration to be provided to the deferred payment obligation holders and the senior surplus note holders, is superior to maintaining the status quo and continuing the rehabilitation over many years in the hope of achieving a better result. Ambac Assurance Corporation’s General Account has paid all valid General Account policy claims in full. This treatment will continue following the Segregated Account’s exit from rehabilitation and merger with and into the General Account.

Through his counsel, the Wisconsin Commissioner of Insurance, in his capacity as Rehabilitator, filed a motion with the Circuit Court for Dane County, Wisconsin for approval of the Transaction and the final order and discharge in the matter of the rehabilitation of the Segregated Account on September 25, 2017. A hearing on this motion was scheduled for January 4 and 5, 2018. On January 22, 2018 the Circuit Court of Dane County, Wisconsin, approved the second amended plan of rehabilitation for the Segregated Account. On February 12, 2018, the Transaction was consummated with 99% participation of the creditors and on the same date the Segregated Account merged with and into the General Account of Ambac Assurance Corporation. It is anticipated that the Rehabilitator will apply to Judge Richard G. Niess of the Circuit Court of Dane County, Wisconsin for a Final Order and Discharge sometime in 2018.

As of December 31, 2017, the Ambac Assurance Corporation Segregated Account reported assets of \$9,711,507, liabilities of \$(366,512,947), and surplus as regards policyholders of \$376,224,454. Operations in 2017 provided reported net income of \$0 due to the Segregated Account’s agreements with the General Account. The negative liability exists because the General Account’s reinsurance policy provides coverage on \$374,036,566 in surplus notes issued in satisfaction of claims. As of December 31, 2017, the Segregated Account had disbursed approximately \$3,326,000,000 to policyholder trustees and claim submitting agents, and approximately another \$606,000,000 in commutation payments, including the issuance of \$53,000,000 in surplus notes at par value, on \$6,958,830,795 of permitted policy claims and amounts paid or permitted to bondholders under commutations.

Partnership Health Plan, Inc., in Liquidation

Partnership Health Plan, Inc. (Partnership Health Plan), a Wisconsin health maintenance organization insurer, was placed into rehabilitation by Dane County Circuit Court, State of Wisconsin, on January 18, 2013. The rehabilitation proceeding was commenced against Partnership Health Plan after it lost its contract with the Wisconsin Department of Health Services (DHS) to provide Family Care Partnership services.

Partnership Health Plan was headquartered in Eau Claire, Wisconsin, and had business in force only in Wisconsin. Partnership Health Plan contracted with the Department of Health Services to provide managed health and long-term care support to participants in the Family Care Partnership Program, a comprehensive program of services for older adults and people with physical disabilities. The 1,394 members were transitioned into either another partnership program or another long-term care program overseen by DHS effective January 1, 2013.

The insurer was ordered to be liquidated by Dane County Circuit Court, State of Wisconsin, on July 25, 2013.

The Court appointed Richard A. Hinkel as Special Deputy Liquidator of Partnership Health Plan, Inc.

On July 29, 2013, 450 notices were mailed to members, creditors and other parties whose interests may in some way be affected by the liquidation. The deadline for filing claims with the liquidator was January 31, 2014. There were 49 proof-of-claim forms filed and they were reviewed to determine amounts payable, if any. To date payments totaling \$1,718,542 have been made to creditors.

All claims have been reviewed, and those that have been allowed have been paid.

As of December 31, 2017, Partnership Health Plan had assets of \$4,066,422, liabilities of \$10,000, and surplus of \$4,056,422.