

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, by William D. Johnston, a Lafayette County Circuit Court Judge, presiding by a judicial assignment order of the Circuit Court for Dane County, Wisconsin. Kimberly A. Shaul is appointed as special deputy rehabilitator.

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's present corporate organization was established in connection with a corporate restructuring executed on June 18, 1985, under the supervision of the Wisconsin Commissioner of Insurance. Under the 1985 restructuring, the business of the company's predecessor legal entity, American Municipal Bond Assurance Corporation, was transferred to a successor legal entity, AMBAC Indemnity Corporation, which was subsequently renamed Ambac Assurance Corporation. 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.

From its founding in 1970 until the 1990s, Ambac's business was almost exclusively related to traditionally low-risk, low-margin public finance bonds. In the mid-1990s, however, Ambac began to diversify by 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 present hazard for policyholders. Ambac's investment portfolio assets have a current market value of approximately \$8 to \$9 billion, plus an estimated \$1.5 to \$2 billion in future unearned premiums discounted to present value. Many of Ambac's

assets would not yield fair value if liquidated today and used to pay short-term claims. The inopportune sale of Ambac's long-term, presently undervalued assets would result in a net loss of claims-paying resources available to all policyholders – 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 Ambac might not have been able to satisfy all claims made under the company's policies as they developed over the next thirty years. Without restructuring, there was an increasing risk that policyholders who presented short-tail claims in the next several 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 ch. 645, Wis. Stat. 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 will mature within approximately five years, and certain CDOs of ABS policies, most of which will not 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 and a last-dollar reinsurance policy limited only by the assets of 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.

All assets within the Segregated Account will be available exclusively for satisfying liabilities attributable to the Segregated Account. Pursuant to s. 611.24 (3) (b), Wis. Stat., any income, gains and losses, whether or not realized, from assets and investments attributable to the

Ambac Assurance Corporation Segregated Account, in Rehabilitation (continued)

Segregated Account, if any, will be credited to or charged against the Segregated Account without regard to other income, gains or losses of Ambac's General Account.

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 prevents 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.

At the time the rehabilitation was ordered, the rehabilitation plan was not yet final and ready for approval. As part of the rehabilitation process, it is expected that a plan of rehabilitation will be finalized for Court approval. On March 24, 2010, the Court issued an order for temporary injunctive relief that shall remain effective until further order of the Court. Policyholders and other claimants

should submit their notices of claim or similar demands for payment pursuant to the procedures and service requirements specified in their policies or contracts, and those notices of claim or similar demands for payment shall be tracked and recorded by the Rehabilitator or his authorized representatives so they may be processed for payment pursuant to the terms and conditions specified in whatever form of final plan of rehabilitation is approved by the Court following notice and hearing. Counterparties on credit default swaps may not trigger and submit mark-to-market claims, but may submit scheduled payment claims.

Ambac Assurance Corporation's General Account is not in any form of receivership proceeding.

As of March 31, 2010, the first period for which it reported, the Ambac Assurance Corporation Segregated Account reported assets of \$2,002,198,133, liabilities of \$2,001,972,603, and surplus of \$225,530.

Health Plan for Community Living, Inc., In Liquidation

Health Plan for Community Living, Inc., was placed into liquidation on April 29, 2008. Roger A. Peterson was appointed as special deputy liquidator.

Health Plan for Community Living, Inc., was headquartered in Madison, Wisconsin, and had business in force only in Wisconsin. Health Plan for Community Living, Inc., 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 369 members were transitioned into another partnership program prior to May 1, 2008.

On May 13, 2008, 797 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 November 20, 2008. On February 19, 2009, 51 additional notices were sent out to creditors that were not included on the May 13, 2008, mailing. These creditors had until August 31, 2009, to file a claim. On August 7, 2009, the liquidator was ordered to make a 35% distribution on processed claims. Checks totaling \$1,219,729 were distributed to creditors.

As of December 31, 2009, Health Plan for Community Living, Inc., reported assets of \$3,806,635, liabilities of \$3,397,926, and surplus of \$408,709.

Master Plumbers' Limited Mutual Liability Company, In Rehabilitation

Master Plumbers' Limited Mutual Liability Company was placed in rehabilitation on March 29, 1994, by the Circuit Court for Dane County, Wisconsin. Roger A. Peterson is appointed as special deputy rehabilitator. Society Insurance, a Mutual Company, performs claim adjustment and administrative services for the rehabilitator pursuant to a contract approved by the court.

Master Plumbers' issued assessable policies and was licensed only in Wisconsin. The company wrote worker's compensation, other liability, and auto liability coverage for plumbers. All policies were written on an annual basis with January 1 effective dates.

In December 1993, pursuant to an order issued by the Commissioner, the company levied an assessment upon its policyholders equal to one additional annual premium. Collection of this assessment has been deferred until such time as funds may be needed. To date, it has not been necessary to collect this assessment.

As of December 31, 2009, Master Plumbers' reported assets of \$1,154,960, liabilities of \$872,765, and surplus of \$282,195.

Northwestern National Insurance Company of Milwaukee, Wisconsin, in Rehabilitation

Northwestern National Insurance Company of Milwaukee, Wisconsin (NNIC) was placed in rehabilitation on March 12, 2007. Roger A. Peterson is appointed as special deputy rehabilitator.

NNIC was incorporated as a Wisconsin domestic stock property and casualty insurance corporation on February 20, 1869. NNIC wrote both direct insurance and reinsurance. In 1986, the company began a run-off operation. Since that time, except for mandatory writings, including guaranteed renewable accident and health insurance policies, assignments, and retroactive adjustments and endorsements to prior year policies, NNIC has written no new business.

Affiliates Universal Reinsurance Corporation and Bellefonte Underwriters Insurance Company were merged with and into NNIC effective January 1, 1991, and June 30, 1991, respectively. These affiliated insurers were also in run-off prior to the mergers.

By a stipulation and order dated May 13, 2004, the Commissioner and NNIC agreed that, pursuant to a restructuring plan, NNIC would establish a segregated account from which it would satisfy its obligations to its direct policyholders and certain other obligations. All other obligations of NNIC, including reinsurance obligations, would be satisfied from NNIC's remaining funds in its general account.

As part of the restructuring plan, NNIC offered reinsureds an opportunity to voluntarily commute all business ceded by the reinsureds to its general account. Approximately 75% of the total number of reinsureds representing approximately 71% of the total liabilities of the general account have entered into commutation agreements with NNIC.

On or about April 18, 2007, a Notice of Appeal was filed with the Wisconsin Court of Appeals raising certain challenges to the rehabilitation order and plan of rehabilitation. On August 30, 2007, the Wisconsin Court of Appeals entered an order dismissing the appeal, thereby enabling the rehabilitator and his delegates to proceed in implementing the rehabilitation plan. Due to the delay occasioned by the appeals process, the rehabilitation court amended the effective date of the plan from March 12, 2007, to September 1, 2007, and set October 31, 2007, as the deadline for the distribution of discounted liability calculations to reinsureds that had not voluntarily commuted all business they had ceded to NNIC's general account. The rehabilitation completed distribution of initial commutation payments under the terms of the rehabilitation plan in December 2008. Upon conclusion of a limited number of claim matters, it is anticipated that the company will be released from rehabilitation.

As of December 31, 2009, the general account of NNIC reported assets of \$56,944,436, liabilities of \$52,131,805, and surplus of \$4,812,631. As of December 31, 2009, the segregated account of NNIC reported assets of \$55,789,834, liabilities of \$50,977,203, and surplus of \$4,812,631.