

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 was appointed as special deputy rehabilitator, but was replaced in this capacity by Roger A. Peterson effective January 14, 2011. Current and more detailed information regarding the rehabilitation is available at ambacpolicyholders.com.

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 hazard for policyholders. At the time of rehabilitation, Ambac's investment portfolio

assets had 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 immediately 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 Chapter 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 four 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

Ambac Assurance Corporation Segregated Account, in Rehabilitation (continued)

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 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.

A rehabilitation plan was approved by Judge Johnston on January 24, 2011. Procedures for submitting claims have been communicated to the applicable trustees and are posted on the Web site, ambacpolicyholders.com. Counterparties on credit default swaps may not trigger and submit mark-to-market claims, but may submit scheduled payment claims.

On June 4, 2012, the Court granted two motions brought by the Rehabilitator. Pursuant to the first approved motion, the Segregated Account commenced cash payments of 25% of each permitted policy claim that has arisen since the inception of rehabilitation proceedings and 25% of each policy claim to be submitted and permitted in the future. The second approved motion allowed Ambac Assurance Corporation to exercise two call options to purchase the principal amount of \$789,179,236 in surplus notes for \$188,446,303, which was projected to materially increase policyholder recoveries. The first round of interim partial cash distributions was effectuated on September 20, 2012.

As a result of Hurricane Sandy, Ambac Assurance Corporation, the Management Services Provider to the Segregated Account, closed its principal offices in New York on October 29, 2012, and temporarily relocated to its disaster recovery site in Kingston, New York. Continuity of systems and operations were maintained and the principal offices of Ambac Assurance Corporation were reopened on November 26, 2012.

In late December 2012, the Congressional Joint Committee on Taxation (Joint Committee) completed its review of the offer (Offer) to the United States made by Ambac Financial Group, Inc., the Official Committee of Unsecured Creditors of Ambac, Ambac Assurance Corporation, the Segregated Account of Ambac Assurance Corporation, the court-appointed Rehabilitator of the Segregated Account and the Wisconsin Office of the Commissioner of Insurance to resolve and settle (i) the claims filed by the Internal Revenue Service against the estate of Ambac Financial Group, Inc., in its Chapter 11 proceeding, (ii) Ambac Financial Group, Inc.'s related adversary proceeding against the United States, and (iii) other related litigation brought by the United States against or involving Ambac Assurance Corporation and the Segregated Account (IRS Settlement). The Joint Committee has no objection to the Offer and will issue a response of "no adverse criticism" subject to the satisfaction of certain conditions, including (a) execution of closing documentation acceptable to the United States, (b) approval of the IRS Settlement by the United States Bankruptcy Court for the Southern District of New York, and (c) the payment by Ambac Financial Group, Inc., of \$1.9 million and the payment by Ambac Assurance Corporation and/or the Segregated Account of \$100 million to the United States.

Ambac Assurance Corporation's General Account is not in a court receivership proceeding.

Ambac Assurance Corporation's General Account is not obligated to make payments on the secured note or the reinsurance policy it provided to the Segregated Account if its surplus as regards to policyholders is (or would be) less than \$100,000,000. As a result of these provisions, as of December 31, 2012, \$163.7 million of the Segregated Account's liabilities was not assumed by Ambac Assurance Corporation's General Account under the reinsurance policy with the Segregated Account.

As of December 31, 2012, the Ambac Assurance Corporation Segregated Account reported assets of \$592,032,376, liabilities of \$653,843,900, and surplus of \$(61,811,524). As of December 31, 2012, the Segregated Account has disbursed \$1,061,667,118 to policyholder trustees and claim submitting agents, representing 25% of permitted policy claims of \$4,246,668,484.

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. On October 27, 2011, Richard A. Hinkel was appointed special deputy liquidator succeeding Mr. Peterson.

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.

On May 25, 2010, the liquidator was ordered to make a final distribution to creditors and to settle disputed claims. Including the partial payment, claimants received 100% of the allowed claims plus 5% interest.

On October 27, 2011, the liquidator was authorized to make a proprietary distribution of \$100,000 to Community Living Alliance. The funds were disbursed on November 11, 2011.

Distributions were made for late filed claims on May 30, 2012. A proprietary distribution of \$230,000 was made to Community Living Alliance also on May 30, 2012. On July 12, 2012, \$194 was turned over to the state of Wisconsin as unclaimed property. On September 26, 2012, a proprietary distribution of remaining assets totaling \$6,908 was made to Community Living Alliance.

Over the course of the liquidation \$4,648,820 was paid out for claims and interest, \$219,671 was paid for administrative expenses, and \$336,908 was distributed to Community Living Alliance.

As of December 31, 2012, Health Plan for Community Living, Inc., had no assets, liabilities, or surplus and the liquidation was closed.

Master Plumbers' Limited Mutual Liability Company, in Rehabilitation

Master Plumbers' Limited Mutual Liability Company (Master Plumbers') was placed in rehabilitation on March 29, 1994, by the Circuit Court for Dane County, Wisconsin. Steven J. Junior was appointed as special deputy rehabilitator effective April 20, 2012. Society Insurance, a mutual company, performed 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. This assessment was never collected.

As of December 31, 2011, Master Plumbers' reported assets of \$1,117,211, liabilities of \$384,046, and surplus of \$733,165.

Pursuant to a decision of Judge Frank D. Remington on April 20, 2012, Master Plumbers' was merged with and into Society Insurance, a mutual company, effective April 1, 2012. Under the merger agreement, the assessment of the policyholders was rendered null and void and any claims that may arise from time to time under a Master Plumbers' policy shall be covered by Society Insurance, a mutual company, which has succeeded to all assets and liabilities of Master Plumbers' by virtue of the merger.

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 was replaced as special deputy rehabilitator by Steven J. Junior on July 28, 2011.

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 established 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, are to 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 82% of the total liabilities of the general account have entered into commutation agreements with NNIC.

As of December 31, 2011, the general account of NNIC reported assets of \$43,563,063, liabilities of \$38,866,295, and surplus of \$4,696,768. As of December 31, 2011, the segregated account of NNIC reported assets of \$43,280,110, liabilities of \$38,583,342, and surplus of \$4,696,768.

The company was released from court-supervised rehabilitation on January 20, 2012. The possession of the company's property and control of its business have been restored to it.