

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. Roger A. Peterson is the appointed special deputy commissioner. 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 subsequently was 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 30 years. Without restructuring, 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 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 were expected to mature within approximately 4 years, and certain CDOs of ABS policies, most of which were not expected to mature for 20 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, which must maintain a minimum surplus as regards policyholders of \$100,000,000. 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),

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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, including revisions that supersede original procedures, 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.

Multiple parties-in-interest appealed the order approving the rehabilitation plan. On October 24, 2013, the Wisconsin Court of Appeals issued a decision affirming Judge Johnston's approval of the plan. In the decision, the court noted at length the Rehabilitator's broad discretion with regard to plans of rehabilitation, and held that the Office of the Commissioner of Insurance enjoys "great weight deference" with regard to its interpretation of ch. 645, Wis. Stat. "After giving full consideration to the objections, contentions, and arguments and after a careful examination of the record before us and of the circuit court's findings and conclusions of law," the Court of Appeals wrote, "we conclude that the circuit court properly exercised its discretion in confirming the rehabilitation plan at issue in this case." The Wisconsin Supreme Court subsequently denied review of the Court of Appeals' decision.

Pursuant to a motion approved on June 4, 2012, 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 first round of interim partial cash distributions was effectuated on September 20, 2012.

On April 30, 2013, Ambac Financial Group, Inc. (AFGI) 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 finalized agreements to resolve and settle (i) the claims filed by the Internal Revenue Service (IRS) 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. The terms of the settlement included: (i) a payment to the IRS by the Segregated Account of \$100 million; (ii) a payment to the IRS by AFGI of \$1.9 million; (iii) AFGI's consolidated tax group, including Ambac and the Segregated Account, relinquishing its claims to loss carry-forwards resulting from losses on credit default swap contracts arising on or before December 31, 2010, to the extent that such carry-forwards exceed \$3.4 billion; and (iv) certain payments by Ambac for the use of net operating losses generated by the AFGI consolidated tax group prior to September 30, 2011.

Pursuant to a motion approved on August 2, 2013, the Segregated Account began making supplemental cash payments in excess of the current 25% cash payment percentage on certain permitted policy claims for the purpose of maximizing reimbursements payable to Ambac. The supplemental payments effectively pay for themselves out of reimbursements that, without these payments, would be otherwise unavailable to the rehabilitation and, as a result, reduce the outstanding unpaid permitted policy claims owed on the subject policies while maintaining the claims-paying resources available for other Segregated Account policy claimants. The first round of supplemental payments was effectuated on August 20, 2013.

On March 13, 2014, the Rehabilitator announced the receipt of favorable rulings from the IRS regarding certain tax issues associated with potential amendments to the rehabilitation plan for the Segregated Account.¹

On April 21, 2014, 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.¹ The Amendments will

¹ Note: For the purpose of clarity, information from 2014 has been added.

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modify 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 would receive a combination of cash payments (Interim Payments) and deferred amounts will be established equal to the remaining balance of such claims (Deferred Amounts). Payments of Deferred Amounts will be made at such times as the Rehabilitator deems 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 will accrete at an effective annual rate of 5.1%. Permitted General Claims will be 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 will increase Interim Payments. The 25% level specified in the original rehabilitation plan will be increased to the level of 45%. Hence, after the rehabilitation plan is amended, (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%.

To maintain parity among policyholders, the Rehabilitator will effectuate a Deferred Payment to provide that policyholders that have received 25% cash payments on Permitted Policy Claims since the Interim Payments began on September 20, 2012, will receive an

equalizing payment in cash in an amount equal to 26.67% of such holders' Deferred Amounts, including the value of Accretion. The Amendments require proportionate redemptions on Segregated Account Surplus Notes, as and when payments are made on Deferred Amounts, including the equalizing payment referenced above. Pursuant to the terms of the Settlement Agreement entered into by Ambac Assurance Corporation and various settling counterparties on June 7, 2010, Ambac Assurance Corporation is also required to make proportionate redemptions on its Surplus Notes if the Segregated Account redeems any Segregated Account Notes.

The Rehabilitator's motion for approval of the Amendments was approved by William D. Johnston, the presiding judge for the Wisconsin Circuit Court for Dane County, on June 11, 2014.¹

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 of December 31, 2013, there were no adjustments to the assumption of the Segregated Account's liabilities under the reinsurance policy between the Segregated Account and General Account as a result of this provision.

As of December 31, 2013, the Ambac Assurance Corporation Segregated Account reported assets of \$121,202,797, liabilities of \$(321,436,312), and surplus of \$442,639,109. As of December 31, 2013, the Segregated Account has disbursed \$1,383,364,938 to policyholder trustees and claim submitting agents, on \$5,287,799,996 of permitted policy claims. The negative liability exists because the General Account's reinsurance policy provides coverage on surplus notes issued in satisfaction of claims.

¹ Note: For the purpose of clarity, information from 2014 has been added.

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 45 proof-of-claim forms filed and they are being reviewed to determine amounts payable, if any.

As of December 31, 2013, Partnership Health Plan had assets of \$10,017,912, liabilities of \$5,276,803, and surplus of \$4,741,109.