Report

of the

Examination of

Everspan Financial Guarantee Corp.

New York, New York

As of December 31, 2016

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
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February 27, 2018

Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

EVERSPAN FINANCIAL GUARANTEE CORP.
New York, New York

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Everspan Financial Guarantee Corp. (hereinafter also Everspan or the company) was conducted in 2012 and 2013 as of December 31, 2011. The current examination covered the intervening period ending December 31, 2016, and included a review of such 2017 and 2018 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the “Financial Data” section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Investment Review

The Capital Markets Bureau of the NAIC was engaged by the Office of the Commissioner of Insurance to perform a review of the company’s invested assets portfolio as of December 31, 2016. The results of that review were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the findings of the review.

II. HISTORY AND PLAN OF OPERATION

Everspan Financial Guarantee Corp. was incorporated under the laws of the state of Wisconsin on January 11, 1968, as Sentry Indemnity Company, and commenced business on January 24, 1968. From 1968 through 1987, as an indirect wholly owned subsidiary of Sentry Insurance a Mutual Company, it wrote a full spectrum of property and casualty insurance coverages through independent agents. On December 17, 1987, all of the insurance risk liabilities on the company's then-existing book of business were transferred to an affiliated reinsurance pool led by Sentry Insurance a Mutual Company through a block assumption agreement. The corporate charter was then sold to College Construction Loan Insurance Association (hereinafter also CCLIA), then a subsidiary of the Student Loan Marketing Association (hereinafter also Sallie Mae). On January 21, 1988, the corporate name was changed to Connie Lee Insurance Company.

CCLIA was incorporated on February 13, 1987, and was organized as a government-sponsored enterprise authorized by Congress under Title VII of the Higher Education Act (Title VII). In 1988, CCLIA sold capital stock to the United States of America through the United States Department of Education and sold additional shares of capital stock to Sallie Mae. CCLIA was founded with a governmental mandate to provide credit enhancement for higher education financing and acquired the company to serve as a wholly owned insurance subsidiary dedicated to providing financial guaranty insurance for debt issued by institutions of higher education.

In 1988, the company began operations from offices in the District of Columbia as a reinsurer of financial guaranty insurance restricted to insuring the bonds of colleges, universities, and teaching hospitals. In October of 1991, Connie Lee Insurance Company received an AAA rating as a primary insurer from Standard & Poor's and wrote its first direct policy on November 14, 1991.

On September 30, 1996, the Omnibus Consolidated Appropriations Act, 1997, was signed into law. This act mandated privatization of CCLIA and withdrawal of its status as a U.S. government-sponsored enterprise. While this act removed restrictions on CCLIA's charter and authorized the company, as CCLIA's wholly owned insurance subsidiary, to underwrite all sectors of financial guaranty insurance, it also required CCLIA to purchase the United States Department of Education's equity interest in CCLIA. In November of 1996, CCLIA changed its name to Construction Loan Insurance Corporation (hereinafter also CLIC). In February 1997, CLIC purchased all of the shares of common stock that were held by the United States Department of Education.

Effective December 18, 1997, Ambac Assurance Corporation (hereinafter also Ambac), a Wisconsin-domiciled insurance company and wholly owned subsidiary of Ambac Financial Group, Inc., purchased CLIC (renamed Connie Lee Holdings, Inc.) and its wholly owned subsidiaries, Connie Lee Insurance Company (renamed Everspan Financial Guarantee Corp. in 2008) and Connie Lee Management Services. The company's operations were moved to Ambac's offices in New York, New York. Upon Ambac's acquisition of control of the company, the company suspended writing new business and has been in runoff ever since that time. On September 5, 2017, Connie Lee Holdings, Inc., was dissolved and ownership interests in Everspan were transferred to Ambac Assurance Corporation.

Ambac Assurance Corporation is the principal operating entity within the holding company system led by Ambac Financial Group, Inc., and provides various operating functions and services on behalf of its affiliates, including Everspan, pursuant to various intercompany agreements. Further discussion of Everspan's holding company system, significant affiliates, and intercompany agreements is included in the section of this report captioned "Affiliated Companies."

The company is licensed in the District of Columbia, Puerto Rico, and all U.S. states except Virginia. In Virginia, the company is allowed to conduct business on a surplus lines basis.

The following chart is a summary of the net insurance premiums written by the company in 2016. The financial experience of the company is discussed in the "Financial Data" section of this report.

Line of Business	**Direct Premium**	**Reinsurance Assumed**	**Reinsurance Ceded**	**Net Premium**
Financial guaranty	$0	$0	$1,210	$(1,210)
Total All Lines	$0	$0	$1,210	$(1,210)

In 2016 Everspan had no direct written premiums or reinsurance assumed. The company's annual earned premiums are derived solely from premiums that were remitted to the company in prior years as up-front premiums at the inception of multiple-year financial guaranty policies.

Premiums written by the company in prior years, but not yet earned, are recorded in the company's accounts as unearned premium liability that is carried forward from year to year until fully earned during successive insurance coverage years. Premiums for current-year coverages are reversed out of unearned premium liability and are either earned by the company or are ceded to Ambac Assurance Corporation as written premium. Reinsurance ceded in 2016 reflected $1,210 of 2016 current coverage-year premiums written on a direct basis in prior years and ceded as written premium in 2016. Recognition of current-year reinsurance cessions as written premium results in the company recognizing negative annual net premiums written.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of four members. The directors are elected annually by the company's sole shareholder to serve a one-year term. The board elects all officers annually. Directors are employees of Ambac Financial Group, Inc., or its subsidiaries and are not paid any fees or other compensation for their services as directors but would be reimbursed for travel and related expenses incurred in attending meetings.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expiry
Claude LeBlanc New York, New York	President and Chief Executive Officer Ambac Financial Group, Inc.	2018
David Trick Franklin Lakes, New Jersey	Executive Vice President, Chief Financial Officer and Treasurer Ambac Financial Group, Inc.	2018
Stephen M. Ksenak Maplewood, New Jersey	Senior Managing Director and General Counsel Ambac Financial Group, Inc.	2018
David N. Abramowitz Brooklyn, New York	Managing Director Ambac Assurance Corporation	2018

Officers of the Company

The officers serving at the time of this examination are as follows:

Officer	Office	2016 Compensation
Claude LeBlanc	President and Chief Executive Officer	$ 0*
David Trick	Executive Vice President, Chief Financial Officer, and Treasurer	1,848,952
David N. Abramowitz	Managing Director, General Counsel and Secretary	579,196
Robert B. Eisman	Senior Managing Director and Chief Accounting Officer	898,225
Stephen M. Ksenak	Senior Managing Director, Assistant General Counsel and Assistant Secretary	1,377,903

* Claude LeBlanc began his employment with the company effective January 1, 2017.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. There were no Everspan board committees at the time of the examination.

The company relies on the Audit Committee of Ambac Financial Group, Inc., and the Audit and Risk Assessment Committee of Ambac Assurance Corporation for the selection of the independent auditors and internal auditors, the review of audit findings and accounting and control policies, assessment of the adequacy of internal controls and risk management, quality of Everspan's financial disclosures, and compliance with Ambac's Code of Business Conduct.

IV. AFFILIATED COMPANIES

Everspan is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. Insurers are indicated in bold typeface. A brief description of the significant affiliates follows the organizational chart.

Organizational Chart
As of December 31, 2016

Ambac Financial Group, Inc. (Delaware)
- Ambac Asset Management, Inc. (Delaware)
- **Ambac Assurance Corporation** (Wisconsin, NAIC No. 18708)
  - **Ambac Assurance Corporation Segregated Account** (Wisconsin, NAIC No. 13763) (Note #1)
    - Ambac Credit Products, LLC (Delaware)
    - Ambac Conduit Funding, LLC (Delaware)
      - Juneau Investments, LLC (Delaware) (Note #2)
  - **Ambac Assurance UK Limited** (United Kingdom)
  - Ambac Capital Corporation (Delaware)
    - AE Global Holdings, LLC (Delaware) (Note #3)
      - AE Global Asset Funding, LLC (Delaware)
      - AE Global Investments, LLC (Delaware)
    - Ambac Capital Funding, Inc. (Delaware)
    - Ambac Investments, Inc. (Delaware)
  - Ambac Financial Services, LLC (Delaware)
  - **Ambac Japan Co., Ltd.** (Japan)
  - Connie Lee Holdings, Inc. (Delaware)
    - **Everspan Financial Guarantee Corp.** (Wisconsin, NAIC No. 24961)
  - Ortley Investments, LLC (Delaware)
  - Phoenix Holdings Fund LLC (Delaware)
    - Aztec Holdings Portfolio I, LLC (Delaware)
    - Archer Holdings Portfolio I, LLC (Delaware)
    - Bearcat Holdings Portfolio I, LLC (Delaware)
    - Osprey Holding I LLC (Delaware)
    - Osprey Holdings II, LLC (Delaware)
    - Triton Real Estate Holdings I LLC (Delaware)

Note #1: Ambac Assurance Corporation Segregated Account is an optional segregated account of Ambac Assurance Corporation established pursuant to s. 611.24, Wis. Stat.

Note #2: Juneau Investments, LLC, is 99% owned by Ambac Conduit Funding, LLC, and 1% owned by Ambac Assurance Corporation Segregated Account.

Note #3: AE Global Holdings, LLC, is 50% owned by Ambac Assurance Corporation and 50% owned by Assured Guaranty US Holdings Inc.

Ambac Financial Group, Inc.

Ambac Financial Group, Inc. (hereinafter also Ambac Financial), was incorporated on April 29, 1991, in the state of Delaware and is the parent holding company for the Ambac Financial Group. Ambac Financial filed a voluntary petition for Chapter 11 reorganization on November 8, 2010, and emerged from bankruptcy on May 1, 2013. Prior to reorganization Ambac Assurance Corporation had already taken over the provision of most administrative services that had previously been provided by Ambac Financial. All employees of the group, with the exception of those employed by Ambac Assurance UK Limited, are employed by Ambac Assurance Corporation. None of the direct or indirect subsidiaries of Ambac Financial are actively engaged in issuing new financial guaranty insurance or other financial investment and service products for either public or private business sectors. Ambac Financial Services, LLC, still enters into derivatives contracts, particularly swaps, to manage its hedge portfolio.

As of December 31, 2016, Ambac Financial's audited GAAP basis consolidated financial statements reported assets of $22,635,702,423, liabilities of $20,657,677,762, and total stockholders' equity of $1,978,024,661. Operations in 2016 provided reported net income of $74,843,228.

Ambac Assurance Corporation

Ambac Assurance Corporation is a Wisconsin-domiciled insurance company authorized to transact surety and financial guaranty insurance. Ambac is the principal operating subsidiary of Ambac Financial. All operations of the group are performed by employees of Ambac. Ambac stopped writing new business during 2008. On March 24, 2010, certain policies that had been issued by Ambac were allocated to the Ambac Assurance Corporation Segregated Account (hereinafter also Segregated Account). The Segregated Account was immediately placed into rehabilitation by the Wisconsin Office of the Commissioner of Insurance. Ambac has written financial guaranty insurance on credit obligations issued in three primary markets: the U.S. public finance market, the U.S. structured finance and asset-backed securities market, and the international credit obligation market.

As of December 31, 2016, Ambac's statutory basis financial statements reported admitted assets of $5,450,295,797, liabilities of $4,473,818,601, and surplus as regards policyholders of $976,477,196. Operations in 2016 provided reported net income of $359,051,809. Ambac was examined concurrently with Everspan as of December 31, 2016, and the results of that examination are expressed in a separate report.

Ambac Assurance Corporation Segregated Account in Rehabilitation

The Segregated Account was created by Ambac on March 24, 2010, and put into rehabilitation on that day. It is being managed by Daniel J. Schwartzer, a Special Deputy Commissioner of the Wisconsin Office of the Commissioner of Insurance, who reports to the Wisconsin Commissioner of Insurance in his capacity as Rehabilitator. The rehabilitation is under the supervision of Judge Richard G. Niess of the Circuit Court for Dane County, Wisconsin. Ambac was contracted to provide operations services for the Segregated Account. Most policies selected for the Segregated Account were policies other than municipal bond policies.

As of December 31, 2016, the Segregated Account reported assets of $8,196,047, liabilities of $(373,091,363), surplus of $381,287,410, and net income of $0. 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, 2016, the Segregated Account had disbursed approximately $3,184,000,000 to policyholder trustees and claim submitting agents, and approximately $606,000,000 in commutation payments, including the issuance of $53,000,000 in surplus notes at par value, on $6,783,898,119 of permitted policy claims and amounts paid or permitted to bondholders under commutations.

Connie Lee Holdings, Inc.

Connie Lee Holdings, Inc. (hereinafter also CL Holdings), serves as the intermediate holding company parent of Everspan. CL Holdings was originally incorporated on February 12, 1987, under the name College Construction Loan Insurance Association. CL Holdings was established by Congress as a private for-profit stock corporation in the District of Columbia, mandated to acquire and capitalize a wholly owned insurance company to provide financial guaranty insurance for credit securities issued by higher education institutions. CL Holdings was later redomiciled to Delaware. Ownership of CL Holdings was acquired by Ambac effective December 18, 1997. On September 5, 2017, Connie Lee Holdings, Inc., was dissolved and ownership interests in Everspan were transferred to Ambac Assurance Corporation.

As of December 31, 2016, CL Holdings' unaudited GAAP basis consolidated financial statements reported assets of $235,868,057, liabilities of $1,301,871, and stockholders' equity of $234,566,186. Operations in 2016 provided reported net income of $3,495,644.

Agreements with Affiliates

In addition to common staffing and management control by Ambac Assurance Corporation, Everspan's relationship to its affiliates is affected by various written agreements. The affiliated reinsurance agreement is discussed in the "Reinsurance" section of the examination report. A brief summary of the other agreements follows:

1. Tax-Sharing Agreement—The domestic affiliates of Ambac Financial have all been part of a tax-sharing agreement since it first became effective July 18, 1991, or since they became part of the group. Since then, the agreement has been amended three times. Under the agreement, Ambac Financial annually files a consolidated federal income tax return on behalf of itself and its subsidiaries. Each subsidiary pays Ambac Financial the federal income tax they would owe if the subsidiary had filed separately. This amount is due no later than the due date of the consolidated federal income tax return for the taxable period. This agreement was replaced by an amended and restated agreement that was signed on March 14, 2012. The agreement was effective as of March 14, 2012, but remained subject to early termination until the IRS settlement was closed. The restated agreement was amended as of April 29, 2013. The amendments to the restated agreement primarily concern details about the allocation of the use of certain net operating loss carryforwards (NOLs) among the affiliated companies. Because the NOLs are a material asset of post-bankruptcy Ambac Financial, the companies have made a serious effort to protect the NOLs from any adverse tax consequences and to make the best use of the NOLs.

2. Expense-Sharing and Cost-Allocation Agreement—Originally effective January 1, 1997, Ambac and certain of its subsidiaries and affiliates entered into an expense-sharing and cost-allocation agreement. It was updated January 1, 2007, and was terminated and replaced by another agreement effective March 14, 2012. Pursuant to the agreement, Ambac allocates a portion of its annual overhead expenses incurred to the participating subsidiaries and affiliates. Ambac also allocates to each respective subsidiary and affiliate direct costs incurred by Ambac that are paid on behalf of the respective subsidiary and affiliate. Estimated allocated and direct costs are to be billed within 20 days of the end of the month and paid within 5 days thereafter. An actual cost true-up is due on a quarterly basis within 55 days of the end of the quarter and payment is due within 60 days of the end of the quarter.

3. Asset Management Agreement—Effective December 18, 1997, Ambac Assurance Corporation will supervise and direct the investment of the assets of Everspan Financial Guarantee Corp. Everspan agrees to reimburse Ambac Assurance Corporation for any direct out-of-pocket costs and expenses incurred in connection with rendering such services and pay on the fifteenth business day of the first month of each quarter a fee to Ambac Assurance Corporation equal to 25% of 0.1% of the weighted average outstanding balance of the assets managed hereunder during the prior year.

V. REINSURANCE

The company ceased writing new business in 1997 and its existing book of business is in runoff, resulting in the company having a limited reinsurance program. Under the company's reinsurance program, Everspan does not have any assumed reinsurance exposure and cedes to its parent a portion of the company's liability for existing risks that were written on a direct basis in prior years. The company's reinsurance contract contained proper insolvency provisions.

The company cedes a portion of the risks on its existing book of business pursuant to a December 18, 1997, excess of loss reinsurance agreement with Ambac. This agreement specifies that Ambac will accept 100% of the company's incurred losses in excess of a specified, variable attachment point defined as policyholder's annual statement statutory surplus less $75 million. The attachment point was $152,653,581 on December 31, 2016. As of December 31, 2016, Everspan has only one remaining obligation with an aggregate net liability of $4,569,825, which matures in December 2018.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2016, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

Everspan Financial Guarantee Corp.
Assets
As of December 31, 2016

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$225,446,176	$	$225,446,176
Cash, cash equivalents, and short-term investments	2,942,319		2,942,319
Receivables for securities	1,378		1,378
Investment income due and accrued	1,691,745		1,691,745
Total Assets	$230,081,618	$	$230,081,618

Everspan Financial Guarantee Corp.
Liabilities, Surplus, and Other Funds
As of December 31, 2016

Other expenses (excluding taxes, licenses, and fees)		$ 43,569
Current federal and foreign income taxes		812,952
Net deferred tax liability		386,366
Unearned premiums		63,976
Payable to parent, subsidiaries, and affiliates		130,487
Write-ins for liabilities:		
Mandatory contingency reserve for adverse losses		990,687
Total Liabilities		2,428,037
Common capital stock	$ 15,000,000	
Gross paid in and contributed surplus	97,927,598	
Unassigned funds (surplus)	114,725,983	
Surplus as Regards Policyholders		227,653,581
Total Liabilities and Surplus		$230,081,618

Everspan Financial Guarantee Corp.
Summary of Operations
For the Year 2016

Underwriting Income		
Premiums earned		$ 30,757
Deductions:		
Other underwriting expenses incurred	$ 444,540	
Total underwriting deductions		444,540
Net underwriting gain (loss)		(413,783)
Investment Income		
Net investment income earned	6,690,905	
Net realized capital gains (losses)	500,937	
Net investment gain (loss)		7,191,842
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		6,778,059
Dividends to policyholders		
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		6,778,059
Federal and foreign income taxes incurred		2,021,758
Net Income		$4,756,301

Everspan Financial Guarantee Corp.
Cash Flow
For the Year 2016

Premiums collected net of reinsurance			$ (1,210)
Net investment income			6,973,859
Total			6,972,649
Commissions, expenses paid, and aggregate write-ins for deductions		$ 439,608	
Federal and foreign income taxes paid (recovered)		2,115,401	
Total deductions			2,555,009
Net cash from operations			4,417,640
Proceeds from investments sold, matured, or repaid:			
Bonds	$39,775,939		
Total investment proceeds		39,775,939	
Cost of investments acquired (long-term only):			
Bonds	48,054,225		
Total investments acquired		48,054,225	
Net cash from investments			(8,278,286)
Cash from financing and miscellaneous sources:			
Other cash provided (applied)		20,454	
Net cash from financing and miscellaneous sources			20,454
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			(3,840,192)
Cash, cash equivalents, and short-term investments:			
Beginning of year			6,782,511
End of Year			$2,942,319

Everspan Financial Guarantee Corp.
Compulsory and Security Surplus Calculation
December 31, 2016

Assets		$230,081,618
Less liabilities		2,428,037
Adjusted surplus		227,653,581
Annual premium:		
Lines other than accident and health	$(1,210)	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		2,000,000
Compulsory Surplus Excess (Deficit)		$225,653,581
Adjusted surplus (from above)		$227,653,581
Security surplus (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)		2,800,000
Security Surplus Excess (Deficit)		$224,853,581

Everspan Financial Guarantee Corp.
New York State Aggregate Risk Limit Calculation
December 31, 2016

Section		**Aggregate Net Liability**		**Aggregate Risk Limit**
A	Municipal Bonds and Investment Grade Utility First Mortgage Obligations	$4,569,825	0.33%	$ 15,233
B	Investment Grade Asset Backed Securities	0	0.67%	0
C	Collateralized Guaranties or Guaranties of Less than 7 years of:	0		0
	Investment Grade Industrial Development Bonds	0	1.00%	0
	Other Investment Grade Obligations	0	1.00%	0
D	Other Investment Grade Obligations	0	1.50%	0
E	Non-investment Grade Consumer Debt Obligations and Asset Backed Securities	0	2.00%	0
F	Guaranties on Non-investment Grade Obligations Secured by First Mortgages on Commercial Real Estate and having a Loan to Value Ratio of less than 80%	0	2.50%	0
G	Other Non-investment Grade Obligations	0	4.00%	0
	Totals	$4,569,825		$ 15,233

Surplus as Regards Policyholders	227,653,581
Contingency Reserves	990,687
Total	228,644,268
Less Aggregate Risk Limit	15,233
Excess of Surplus and Contingency Reserves Over Aggregate Risk Limit	$228,629,035

This schedule calculates the company's minimum capital requirements, based on calculation of aggregate risk limitation pursuant to Article 69 of the New York Insurance Laws. A Wisconsin-domiciled financial guaranty insurer is subject to Wisconsin minimum capital and surplus requirements pursuant to s. Ins 3.08 and ch. Ins 51, Wis. Adm. Code. Everspan is also subject to the minimum capital requirements of the New York Insurance Laws, which are more restrictive than Wisconsin requirements for certain segments of financial guaranty business. The New York aggregate risk limitation requirement serves as an industry standard for the evaluation of minimum capital requirements of a financial guaranty insurer and is used as the minimum standard in Wisconsin. The risk limitation calculation is based on an insurer's guaranteed principal and interest in force on various classes of insured credit obligations.

Everspan Financial Guarantee Corp.
Analysis of Surplus
For the Five-Year Period Ending December 31, 2016

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2016	**2015**	**2014**	**2013**	**2012**
Surplus, beginning of year	$222,880,611	$217,985,189	$213,592,447	$204,496,223	$198,185,643
Net income	4,756,301	4,873,920	4,332,961	4,826,166	8,469,913
Change in net unrealized capital gains/losses					164,398
Change in net deferred income tax	32,048	36,741	131,584	(18,726)	(568,013)
Write-ins for gains and (losses) in surplus:					
Mandatory contingency reserve for adverse losses	(15,379)	(15,239)	(71,803)	4,288,784	(1,755,718)
Surplus, End of Year	$227,653,581	$222,880,611	$217,985,189	$213,592,447	$204,496,223

Everspan Financial Guarantee Corp.
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2016

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. There were no unusual results.

	Ratio	**2016**	**2015**	**2014**	**2013**	**2012**
#1	Gross Premium to Surplus	0%	0%	0%	0%	0%
#2	Net Premium to Surplus	0	0	0	0	0
#3	Change in Net Premiums Written	0	0	0	0	0
#4	Surplus Aid to Surplus	0	0	0	0	0
#5	Two-Year Overall Operating Ratio	0	0	0	0	0
#6	Investment Yield	3.0	3.0	3.0	3.4	3.9
#7	Gross Change in Surplus	2	2	2	4	3
#8	Change in Adjusted Surplus	2	2	2	4	3
#9	Liabilities to Liquid Assets	1	1	1	2	3
#10	Agents' Balances to Surplus	0	0	0	0	0
#11	One-Year Reserve Development to Surplus	0	0	0	0	0
#12	Two-Year Reserve Development to Surplus	0	0	0	0	0
#13	Estimated Current Reserve Deficiency to Surplus	0	0	0	0	0

Financial Experience of Everspan Financial Guarantee Corp.

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2016	$230,081,618	$ 2,428,037	$227,653,581	$4,756,301
2015	225,032,289	2,151,678	222,880,611	4,873,920
2014	220,627,463	2,642,274	217,985,189	4,332,961
2013	217,194,190	3,601,743	213,592,447	4,826,166
2012	211,708,103	7,211,880	204,496,223	8,469,913
2011	209,605,307	11,419,664	198,185,643	7,486,105

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2016	$0	$ (1,210)	$ 30,757	0.0%	(36,738.8)%	(36,738.8)%
2015	0	(1,566)	30,478	0.0	(29,612.4)	(29,612.4)
2014	0	(2,922)	143,605	0.0	(16,985.0)	(16,985.0)
2013	0	(7,981)	417,669	(25.0)	(5,862.1)	(5,887.1)
2012	0	(50,830)	3,511,435	1.8	(1,454.4)	(1,452.6)
2011	0	(62,000)	815,631	(43.7)	(1,011.3)	(1,055.0)

The company has not underwritten any new direct business since 1997 and is currently in a voluntary runoff. Since entering into runoff, the company has experienced favorable loss development overall and profitable underwriting results. Surplus has increased by 14.9% since the prior examination.

The company's annual earned premium revenues are derived from earning current-year coverage premiums on policies that were written in prior years, for which premiums were paid up front for all policy coverage years and were recorded by the company as unearned premium liability. Remaining unearned premiums that are available to be earned as premiums in future years equaled $63,976 compared to $4,262,429 at year-end 2011. The company's last remaining financial guaranty risk is scheduled to expire in December 2018.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of capital and surplus reported by the company as of December 31, 2016, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were two specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Board of Directors—It is again recommended that the company hold an annual meeting for the election of directors and other matters, as necessary, in accordance with its bylaws and as required by ss. 180.0804 (1) and 180.0701 (1), Wis. Stat.

   Action—Compliance.

2. Board of Directors—It is again recommended that the board of directors approve investment transactions of the company in accordance with s. 611.51, Wis. Stat.

   Action—Compliance.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Report on Executive Compensation

The State of Wisconsin requires that each Wisconsin-domiciled insurer file a supplement to the annual statement titled “Report on Executive Compensation” pursuant to ss. 601.42 and 611.63 (4), Wis. Stat. This report includes the total annual compensation paid to each director, officer and the four most highly paid members of executive management other than the officers. In addition, the report requires disclosure of all officers and employees whose compensation exceeds specified amounts based on year-end capital and surplus. Compensation reported should include all gross, direct and indirect remuneration paid and accrued during the report year for the benefit of the individual, including wages, salaries, bonus, retirement benefits, deferred compensation, commissions, fees, and other forms of personal compensation. The examination noted that the Report on Executive Compensation filed by the company for the year 2016 did not include the amount paid by the company for medical insurance, vision insurance, dental insurance, or disability insurance. It is recommended that the company comply with s. 611.63 (4), Wis. Stat., by reporting all compensation received by officers or employees in accordance with the instructions stated on the Report on Executive Compensation.

VIII. CONCLUSION

Everspan Financial Guarantee Corp. is a wholly owned subsidiary of Ambac Assurance Corporation, and a second-tier wholly owned subsidiary of Ambac Financial Group, Inc., its ultimate controlling person. The company has not underwritten any new direct business since 1997 and is currently in a voluntary runoff. Since entering into runoff, the company has experienced favorable loss development overall and profitable underwriting results. The company's last remaining financial guaranty risk is scheduled to expire in December 2018.

As of December 31, 2016, the company reported assets of $230,081,618, liabilities of $2,428,037, and policyholders' surplus of $227,653,581. Operations for 2016 produced a net income of $4,756,301. Policyholders' surplus has increased from $198,185,843 as of year-end 2011 to $227,653,581 as of year-end 2016. This represents an increase of 14.9% during the period under examination. The following schedule summarizes the cumulative increases and decreases to surplus from December 31, 2011, when policyholders' surplus was last verified by examination, to December 31, 2016:

Policyholders' Surplus, December 31, 2011	$198,185,643
Net income	27,259,261
Mandatory contingency reserve for adverse losses	2,430,645
Change in net deferred income tax	(386,366)
Change in net unrealized capital gains (losses)	164,398
Policyholders' Surplus, December 31, 2016	$227,653,581

The company's annual earned premium revenues are derived from earning current-year coverage premiums on policies that were written in prior years, for which premiums were paid up front for all policy coverage years and were recorded by the company as unearned premium liability. Remaining unearned premiums that are available to be earned as premiums in future years equaled a mere $63,976 at year-end 2016 compared to $4,262,429 at year-end 2011.

The examination resulted in no adjustments to policyholders' surplus or reclassifications to the balance sheet. There was one recommendation made regarding the reporting of executive compensation as a result of the current examination of the company.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 23 - Report on Executive Compensation—It is recommended that the company comply with s. 611.63 (4), Wis. Stat., by reporting all compensation received by officers or employees in accordance with the instructions stated on the Report on Executive Compensation.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Junji M. Nartatez	Insurance Financial Examiner
Sheng Vang	Insurance Financial Examiner
John E. Litweiler	Insurance Financial Examiner-Advanced, Exam Planning & Quality Control Specialist
David A. Jensen	Insurance Financial Examiner-Advanced, Information Systems Audit Specialist
Jerry C. DeArmond	Insurance Financial Examiner-Advanced, Loss Reserve Specialist

Respectfully submitted,

Stephanie A. Falck, CFE
Examiner-in-Charge

XI. SUBSEQUENT EVENTS

On August 15, 2017, the Wisconsin Office of the Commissioner of Insurance approved a change in control of Everspan, whereby Connie Lee Holdings, Inc., would distribute to Ambac Assurance Corporation the common shares of Everspan, together with an intercompany receivable of $40,970 it was owed by Everspan. Following its acquisition of the direct interest in the Everspan common equity on September 5, 2017, Ambac Assurance Corporation dissolved and liquidated Connie Lee Holdings, Inc., effective September 5, 2017.

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 settles 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. The Wisconsin Commissioner of Insurance, in his capacity as 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. As part of the Transaction, the Segregated Account will merge with and into the General Account of Ambac Assurance Corporation. 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 Ambac Assurance Corporation 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 Ambac Assurance Corporation Segregated Account. The plan is intended to facilitate the Segregated Account's exit from rehabilitation and its merger with and and into the General Account of Ambac Assurance Corporation. 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 the 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.