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- and -

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Attorneys for the Debtor and Debtor in Possession

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

-----X		
	:	
<i>In re</i>	:	
	:	Chapter 11
AMBAC FINANCIAL GROUP, INC.,	:	
	:	Case No. 10-15973 (SCC)
Debtor.	:	
	:	
-----X		

NOTICE OF FILING OF AMENDED EXHIBIT A (AMENDED TAX SHARING AGREEMENT), EXHIBIT F (OFFER LETTER), AND EXHIBIT G (RULING REQUEST AGREEMENT) TO THE FOURTH AMENDED PLAN OF REORGANIZATION OF AMBAC FINANCIAL GROUP, INC.

PLEASE TAKE NOTICE that on March 9, 2012, Ambac Financial Group, Inc., as debtor and debtor in possession in the above-captioned case (the "Debtor"), filed its fourth amended plan of reorganization (the "Fourth Amended Plan") with the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court").¹

¹ Capitalized terms used but not defined herein have the meanings set forth in the Fourth Amended Plan.



PLEASE TAKE NOTICE THAT attached hereto as Exhibit 1 is the Amended TSA which shall be attached to the Fourth Amended Plan as Exhibit A; attached hereto as Exhibit 2 is the Offer Letter which shall be attached to the Fourth Amended Plan as Exhibit F; and attached hereto as Exhibit 3 is the Ruling Request Agreement which shall be attached to the Fourth Amended Plan as Exhibit G.

PLEASE TAKE FURTHER NOTICE that the hearing to consider confirmation of the Fourth Amended Plan is scheduled to commence on **March 13, 2012 at 11:00 a.m. (prevailing Eastern Time)** before the Honorable Shelley C. Chapman, United States Bankruptcy Judge, in Courtroom 610 at the Bankruptcy Court, located at One Bowling Green, New York, New York 10004 (the "Confirmation Hearing").

PLEASE TAKE FURTHER NOTICE that the Confirmation Hearing may be adjourned from time to time by the Debtor without further notice other than by such adjournment being announced in open court or by a notice of adjournment filed with the Bankruptcy Court and served upon parties entitled to receive notice in the Debtor's chapter 11 case.

Dated: March 9, 2012
New York, New York

Respectfully Submitted,

/s/ Peter A. Ivanick
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EXHIBIT 1

(Exhibit A – Amended TSA)

TAX SHARING AGREEMENT

This amended and restated Tax Sharing Agreement ("Tax Sharing Agreement") is executed on [●], 2011 by and among Ambac Financial Group, Inc. (formerly known as AMBAC Inc., and hereinafter referred to as "AFGI" or "Parent") and each of the other corporations that is a signatory to this Tax Sharing Agreement below.

WHEREAS, Parent and each of the Subsidiaries (as defined below), including Ambac Assurance Corporation (formerly known as AMBAC Indemnity Corporation) ("AAC"), are includible corporations in an affiliated group of corporations of which AFGI is the common parent, all within the meaning of Section 1504 of the Internal Revenue Code of 1986, as amended (the "Code").

WHEREAS, Parent and the Subsidiaries are parties to a tax sharing agreement dated as of July 18, 1991 (the "1991 TSA"), as amended by Amendment No. 1, effective as of October 1, 1997 ("Amendment No. 1"), as amended by Amendment No. 2, effective as of November 19, 2009 ("Amendment No. 2"), and as amended by Amendment No. 3, effective as of January 1, 2010 ("Amendment No. 3"), which sets forth a method to allocate and settle among them the consolidated federal tax liability of the Group (as defined below) and certain other related matters.

WHEREAS, Parent filed a petition in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"), under chapter 11 of title 11 of the United States Code (the "Bankruptcy Code"), on November 8, 2010, as referenced by Case No. 10-15973 (SCC) (the "Chapter 11 Case").

WHEREAS, Parent intends to continue to file consolidated federal income tax returns on behalf of itself and the other Members (as defined below) of the Group.

NOW THEREFORE, in consideration of the mutual covenants contained herein, the parties agree as follows:

1. Effective Date. The effective date of this Tax Sharing Agreement (the "Effective Date") shall be the later of (a) the Bankruptcy Plan Confirmation Date (as defined below) and (b) the date on which a non-stayed order is entered by the Rehabilitation Court (as defined below) approving the transactions contemplated by the Mediation Agreement (as defined below); provided, however, that once this Tax Sharing Agreement becomes effective, it shall have effect for all Taxable Periods (as defined below) beginning on or after January 1, 2011, subject to the following:

- (a) For purposes of subparagraph 3(c), this Tax Sharing Agreement shall have effect as of October 1, 2011, and the portion of the Taxable Period beginning on October 1, 2011 and ending on December 31, 2011 shall be considered a separate Taxable Period.

- (b) The 1991 TSA as amended by Amendment No. 1 and Amendment No. 2 (the "Prior Agreement") shall remain in effect with respect to all Taxable Periods beginning before January 1, 2011. For the avoidance of doubt:
- (i) In the event that tax attributes of the Group, including, but not limited to, NOLs (as defined below), AMT NOLs (as defined below) and tax credit carryforwards, arising in a Taxable Period beginning prior to January 1, 2011 are carried over to a Taxable Period beginning on or after January 1, 2011, the effect, in the Taxable Period to which the tax attribute is carried over, shall be determined by applying the provisions of this Tax Sharing Agreement; and
- (ii) In the event that tax attributes of the Group, including, but not limited to, NOLs, AMT NOLs, and tax credit carryforwards, arising in a Taxable Period beginning on or after January 1, 2011 are carried back to a Taxable Period beginning prior to January 1, 2011, the effect, in the Taxable Period to which the tax attribute is carried back, shall be determined by applying the provisions of the Prior Agreement; provided that any carryback of any portion of the Allocated AAC NOL Amount, Allocated AAC AMT NOL Amount, Post-Deconsolidation Allocated NOL Amount, Post-Deconsolidation Allocated AMT NOL Amount or Post-Determination Date NOLs shall be subject to subparagraph 3(c) of this Tax Sharing Agreement with respect to such Taxable Period.
- (c) Prior to the Effective Date, payments shall be made by the Subsidiaries to Parent, and by Parent to the Subsidiaries, in accordance with the provisions of the Prior Agreement.
- (d) Within sixty (60) days after the Effective Date, Parent shall calculate, in the case of each Subsidiary, the difference between (i) the aggregate amount paid (prior to the Effective Date) by the Subsidiary to Parent pursuant to the Prior Agreement with respect to Taxable Periods beginning on or after January 1, 2011, and (ii) the aggregate amount that would have been payable (prior to the Effective Date) by the Subsidiary to Parent with respect to such Taxable Periods if such payments had been determined under this Tax Sharing Agreement. If the amount in clause (i) exceeds the amount in clause (ii), this excess shall be paid by Parent to the Subsidiary no later than ninety (90) days after the Effective Date. If the amount in clause (ii) exceeds the amount in clause (i), this excess shall be paid by the Subsidiary to Parent no later than ninety (90) days after the Effective Date.

2. Defined Terms. For purposes of this Tax Sharing Agreement, the following terms shall be defined as follows:

"AAC AMT" for a Taxable Period shall mean, with respect to the AAC Subgroup, the AMT liability, if any, that the AAC Subgroup would have for such Taxable Period determined on a Separate Subsidiary Basis.

"AAC AMT NOL Usage Amount" shall mean, with respect to any Taxable Period, the amount determined pursuant to subclause 3(c)(iii)(3).

"AAC Federal Tax Usage Amount" shall mean, with respect to any Taxable Period, the sum of the amounts due and payable by the AAC Subgroup under clauses 3(c)(i) and 3(c)(ii).

"AAC Notional AMT Amount" shall mean, with respect to any Taxable Period, the aggregate amount of the increase in the AAC Subgroup's AMT liability that would have been owed and payable with respect to such Taxable Period (determined on a Separate Subsidiary Basis), disregarding any exclusion from gross income pursuant to Section 108(a) of the Code, to the extent that no portion of the (i) Allocated AAC AMT NOL Amount or (ii) Post-Deconsolidation Allocated AMT NOL Amount within the applicable NOL Usage Tier or Usage Tiers, as the case may be, would have been available in connection with such determination with respect to such Taxable Period (after applying all applicable modifications provided in subparagraph 3(c)).

"AAC Notional Federal Tax Amount" shall mean, with respect to any Taxable Period, the aggregate amount of the increase in the AAC Subgroup's Federal Tax liability that would have been owed and payable with respect to such Taxable Period (determined on a Separate Subsidiary Basis), disregarding any exclusion from gross income pursuant to Section 108(a) of the Code, to the extent that no portion of the (i) (A) Allocated AAC NOL Amount or (B) Post-Deconsolidation Allocated NOL Amount within the applicable NOL Usage Tier or Usage Tiers, as the case may be, or (ii) AFGI NOL Amount, as the case may be, would have been available in connection with such determination with respect to such Taxable Period (after applying all applicable modifications provided in subparagraph 3(c)).

"AAC Subgroup" shall mean AAC and any direct or indirect Subsidiary of AAC, including Everspan, which would be treated as an includable corporation of an affiliated group of corporations under Section 1504(a) of the Code as if AAC were the common parent of such affiliated group; provided, however, that for purposes of paragraphs 3, 4 and 5 and subparagraphs 6(e) and 6(f), the AAC Subgroup shall be treated as a single separate Subsidiary of the Group.

"AAC Subsidiary" shall mean any Subsidiary included in the AAC Subgroup.

"Adjustment Event" shall mean any event resulting in the application of Treasury Regulation Section 1.1502-36 to AAC or the AAC Subgroup, other than a Deconsolidation Event.

"AFGI NOL Amount or AFGI NOLs" shall mean, with respect to any Taxable Period, the NOLs of the Group MINUS the sum of (i) the Allocated AAC NOL Amount that has not been previously utilized to offset income for Federal Tax purposes and (ii) the portion of the Post-Determination Date NOLs that has not been previously utilized to offset income for Federal Tax purposes, in each case, as determined as of the end of such Taxable Period (or the portion of each Taxable Period ending on the date of the occurrence of a Deconsolidation Event).

"AFGI Subgroup" shall mean each Member of the Group other than any Member included in the AAC Subgroup.

"AFGI Subsidiary" shall mean each Subsidiary other than any Subsidiary included in the AAC Subgroup.

"Allocated AAC AMT NOL Amount" shall mean the lesser of (i) \$2.934 billion and (ii) the total amount of Pre-Determination Date AMT NOLs MINUS the Debt Related Income MINUS the IRS Settlement Amount.

"Allocated AAC NOL Amount" shall mean the lesser of (i) \$3.65 billion and (ii) the total amount of Pre-Determination Date NOLs MINUS the Debt Related Income MINUS the IRS Settlement Amount.

"AMT" shall mean the alternative minimum tax imposed pursuant to Sections 55 through 59 of the Code.

"AMT NOL or AMT NOLs" shall mean any NOL or NOLs as determined for purposes of the AMT provisions of the Code, including any adjustments or limitations provided pursuant to Sections 55 through 59 of the Code.

"Annual AMT NOL Usage Credit" shall mean, subject to subclause 3(c)(iii)(4):

- i. with respect to the Taxable Period beginning on October 1, 2011, \$1 million;
- ii. during the second (2nd) through seventh (7th) Taxable Periods following the Taxable Period beginning on October 1, 2011, the sum of (1) \$3 million and (2) the excess of \$3 million over the lesser of (Y) the portion of the Annual AMT NOL Usage Credit actually utilized in the immediately prior Taxable Period and (Z) \$3 million;

- iii. during the eighth (8th) Taxable Period following the Taxable Period beginning on October 1, 2011, the sum of (1) \$10 million and (2) the excess of \$3 million over the lesser of (Y) the portion of the Annual AMT NOL Usage Credit actually utilized in the immediately prior Taxable Period and (Z) \$3 million; and
- iv. during the ninth (9th) Taxable Period following the Taxable Period beginning on October 1, 2011 and any Taxable Period thereafter, the Annual AMT NOL Usage Credit shall be equal to the sum of (1) \$10 million and (2) the excess of \$10 million over the lesser of (Y) the portion of the Annual AMT NOL Usage Credit actually utilized in the immediately prior Taxable Period and (Z) \$10 million.

"Bankruptcy Plan" shall mean the Plan of Reorganization of Ambac Financial Group, Inc. filed with the Bankruptcy Court on July 6, 2011 (as amended, supplemented or otherwise modified).

"Bankruptcy Plan Confirmation Date" shall mean the date on which an order is entered pursuant to Bankruptcy Code Section 1129 by the Bankruptcy Court confirming the Bankruptcy Plan.

"Carryback Payment" shall have the meaning provided in subparagraph 5(a).

"Cash Grant" shall mean the \$30 million paid by AAC to AFGI (through an escrow account) pursuant to the Mediation Agreement.

"Closing Date" shall have the meaning provided in paragraph 11 of the Mediation Agreement.

"CODI" shall mean cancellation of indebtedness income as determined under Sections 61(a)(12) and 108(a) of the Code and the Treasury Regulations thereunder.

"Cooperation Agreement" shall mean the Cooperation Agreement, dated as of March 24, 2010, among AAC, the Segregated Account, AFGI and the Rehabilitator, as amended.

"Cost Allocation Agreement" shall mean the Expense Sharing and Cost Allocation Agreement effective as of the Effective Date among AFGI, AAC and the affiliates listed on Schedule A thereto.

"Debt Related Income" shall mean any Interest Recapture plus any CODI, in each case, realized by AFGI or an AFGI Subsidiary in connection with the Bankruptcy Plan and the Chapter 11 Case.

"Deconsolidation Event" shall mean any event that results in neither AAC nor any entity that, pursuant to Section 381 of the Code, succeeds to the tax attributes of AAC described in Section 381(b) of the Code, being characterized as an includible corporation with the Group, all within the meaning of Section 1504 of the Code.

"Determination Date" shall mean September 30, 2011.

"Effective Date" shall have the meaning provided in paragraph 1.

"Estimated Tax Payments" shall mean, for a Taxable Period, the aggregate payments for such Taxable Period provided in paragraph 4 hereof.

"Everspan" shall mean Everspan Financial Guarantee Corp.

"Federal Tax" shall mean any tax imposed under the Code other than AMT.

"Final Determination" shall have the meaning provided in subparagraph 5(a).

"Group" shall mean (i) Parent and (ii) any corporation (whether now existing or hereafter formed or acquired) which is includible in the affiliated group, as defined in Section 1504(a) of the Code, which includes Parent (or a new common parent if the affiliated group of which Parent is the common parent as of January 1, 2011 remains in existence under Treasury Regulation Section 1.1502-75(d)(3)).

"Initial Date" shall mean the date on which Parent ceased to be a member of the affiliated group of which Citicorp is the common parent.

"Interest Recapture" shall mean the amount of any interest expense of AFGI or an AFGI Subsidiary that is disallowed pursuant to Section 382(l)(5)(B) of the Code upon the consummation of the Bankruptcy Plan or otherwise related to the Chapter 11 Case.

"IRS" shall mean the U.S. Internal Revenue Service.

"IRS Dispute" shall mean the adversary proceeding (including appeals, if any) initiated by AFGI as debtor in the Chapter 11 Case against the IRS (captioned Ambac Financial Group, Inc. vs. United States of America, Case No. 10-04210).

"IRS Settlement Amount" shall mean an amount to be determined upon the execution of a closing agreement with respect to the IRS Dispute.

"Maximum Annual AMT NOL Usage Credit" shall mean, with respect to any Taxable Period, an amount of the Annual AMT NOL Usage Credit

equal to the excess, if any, of (i) the AAC AMT NOL Usage Amount (determined before giving effect to the Annual AMT NOL Usage Credit) over (ii) the AAC Federal Tax Usage Amount, such excess, subject to the payment provisions of subclause 3(c)(iii)(2).

"Mediation Agreement" shall mean the mediation agreement, dated as of September 21, 2011, by and among AFGI, AAC, the Segregated Account, the Wisconsin Office of the Commissioner of Insurance, the Rehabilitator and the Official Committee of Unsecured Creditors of AFGI.

"Member" shall mean each corporation (whether now existing or hereafter formed or acquired), including Parent and each of the Subsidiaries, that is entitled, or required, to join with Parent in filing a consolidated federal income tax return with the Group.

"NOL or NOLs" shall mean any net operating loss or losses as determined pursuant to Section 172 of the Code.

"NOL Usage Table" shall mean the table contained in subclauses 3(c)(i)(2), 3(c)(ii)(2) and 3(c)(iii)(3).

"NOL Usage Tier" shall mean the applicable tier for calculating payments as described in each NOL Usage Table.

"Post-Deconsolidation Allocated AMT NOL Amount" shall mean an amount equal to (i) the Allocated AAC AMT NOL Amount MINUS (ii) the Pre-Deconsolidation Utilized AMT NOL Amount; provided, however, that AFGI, in its sole discretion, may increase the Post-Deconsolidation Allocated AMT NOL Amount.

"Post-Deconsolidation Allocated NOL Amount" shall mean an amount equal to (i) the Allocated AAC NOL Amount, MINUS (ii) the Pre-Deconsolidation Utilized NOL Amount; provided, however, that AFGI in its sole discretion, may increase the Post-Deconsolidation Allocated NOL Amount.

"Post-Determination Date AMT NOLs" shall mean, subject to subparagraph 6(f), any AMT NOLs directly accruing and attributable to the AAC Subgroup (determined on a Separate Subsidiary Basis) after the Determination Date.

"Post-Determination Date NOLs" shall mean, subject to subparagraph 6(f), any NOLs directly accruing and attributable to the AAC Subgroup (determined on a Separate Subsidiary Basis) after the Determination Date.

"Pre-Deconsolidation Utilized AMT NOL Amount" shall mean the aggregate portion of the Allocated AAC AMT NOL Amount deemed

utilized by the AAC Subgroup to offset income for AMT purposes pursuant to the provisions of clause 3(c)(iii) following the Determination Date and on or prior to the date on which a Deconsolidation Event occurs (including any AMT NOLs that were not directly or indirectly subject to the payment requirements of clause 3(c)(iii)).

"Pre-Deconsolidation Utilized NOL Amount" shall mean the aggregate sum of the Allocated AAC NOL Amount deemed utilized by (i) the AAC Subgroup to offset income for Federal Tax purposes pursuant to the provisions of subclause 3(c)(i)(2) and (ii) the AFGI Subgroup to offset income for Federal Tax purposes pursuant to the provisions of clause 3(c)(vii), in each case, following the Determination Date and on or prior to the date on which a Deconsolidation Event occurs (including any NOLs that were not directly or indirectly subject to the payment requirements of clause 3(c)(i)).

"Pre-Determination Date AMT NOLs" shall mean, subject to subparagraph 6(f), any AMT NOLs generated by the Group on or prior to, and existing as of, the Determination Date, not taking into account the consequences of any settlement with respect to the IRS Dispute.

"Pre-Determination Date NOLs" shall mean, subject to the provisions of subparagraph 6(f), any NOLs generated by the Group on or prior to, and existing as of, the Determination Date, not taking into account the consequences of any settlement with respect to the IRS Dispute.

"Recovery Payment" shall have the meaning provided in subparagraph 5(d).

"Rehabilitation Court" shall mean the Circuit Court of Dane County Wisconsin, with respect to the Segregated Account rehabilitation proceeding, Case No. 10-cv-1576.

"Rehabilitator" shall mean the rehabilitator of the Segregated Account appointed by the Rehabilitation Court.

"Segregated Account" shall mean the segregated account of AAC, established pursuant to a plan of operation which sets forth the manner by which AAC shall establish and operate such segregated account in accordance with Wis. Stat. Section 611.24(2).

"Separate Subsidiary Basis" shall mean the Federal Tax liability and AMT liability, taking into account all items of income, gain, deduction, loss, credits (including AMT credits), tax item carryforwards or carrybacks or other similar tax attributes that each Subsidiary would have for such Taxable Period (including interest and penalties related to items attributable to each Subsidiary) determined as if such Subsidiary had filed

its own federal tax return for any such Taxable Period and for all prior Taxable Periods beginning on or after the Initial Date employing the methods and principles of accounting, elections and conventions actually used in the determination of the Federal Tax and AMT liabilities of the Group; provided, however, in each case, that for purposes of paragraph 3, the AAC Subgroup shall be characterized as having available for its use only the NOLs, AMT NOLs and AMT credits specifically allocated to, or made available for use by, the AAC Subgroup pursuant to (and subject to the limitations provided in) clauses 3(c)(i)(1), 3(c)(i)(3), 3(c)(ii)(1), 3(c)(iii)(1), 3(c)(iv)(1) and 3(c)(iv)(2), MINUS the portion of any NOLs described in the last sentence of clause 3(c)(vii)(3).

"Separate Subsidiary Tax" for a Taxable Period shall mean, with respect to each Subsidiary, the Federal Tax liability and AMT liability that each Subsidiary would have for such Taxable Period (including interest and penalties related to items attributable thereto) determined on a Separate Subsidiary Basis; provided, however, that (i) prior to a Deconsolidation Event, the AAC Subgroup shall be treated as a single separate Subsidiary of the Group and (ii) after a Deconsolidation Event, the AAC Subgroup shall be treated as a single corporation that is not included in any affiliated group as defined in Section 1504 of the Code and that is filing its own separate federal tax return; provided further, in each case, that for purposes of paragraph 3, the AAC Subgroup shall be characterized as having available for its use only the NOLs, AMT NOLs and AMT credits specifically allocated to, or made available for use by, the AAC Subgroup pursuant to (and subject to the limitations provided in) clauses 3(c)(i)(1), 3(c)(i)(3), 3(c)(ii)(1), 3(c)(iii)(1), 3(c)(iv)(1) and 3(c)(iv)(2), MINUS the portion of any NOLs described in the last sentence of clause 3(c)(vii)(3).

"Subsidiary" shall mean each corporation, or association taxable as a corporation, that is an includible corporation within the meaning of Section 1504 of the Code with respect to the Group, the AAC Subgroup, or both the Group and the AAC Subgroup, as the case may be.

"Taxable Period" shall mean any taxable year (or portion thereof) ending after the Initial Date with respect to which a federal income tax return is filed on behalf of (i) the Group, (ii) the AAC Subgroup or (iii) AAC.

3. Provisions Relating to Payments. For each Taxable Period, the parties hereto shall make payments to each other in accordance with this Tax Sharing Agreement as follows:

(a) Payments to Parent and AAC.

- (i) For each Taxable Period of the Group, each AFGI Subsidiary shall pay to Parent the Separate Subsidiary Tax due with respect to such AFGI Subsidiary no later than the due date (excluding extensions)

of the Group's consolidated federal tax return for the Taxable Period in question.

- (ii) For each Taxable Period of the Group beginning prior to the occurrence of a Deconsolidation Event, AAC on behalf of the AAC Subgroup, shall pay to Parent the Separate Subsidiary Tax due with respect to the AAC Subgroup no later than the due date (excluding extensions) of the Group's consolidated federal tax return for the Taxable Period in question; provided, however, that, solely for purposes of this clause 3(a)(ii), in the event that AAC is required to make a payment to Parent pursuant to subclause 3(c)(i)(3) with respect to the Taxable Period, the Separate Subsidiary Tax of the AAC Subgroup for the Taxable Period shall be calculated by treating any portion of the AFGI NOL Amount that is utilized by the AAC Subgroup as if such NOLs had been generated by the AAC Subgroup rather than by AFGI or an AFGI Subsidiary; and provided further that to the extent that Parent has not previously made all payments to AAC required under this Tax Sharing Agreement and the Prior Agreement, AAC shall be entitled to offset and retain any portion of the payment of Separate Subsidiary Tax that would otherwise be due to Parent.
- (iii) For each Taxable Period of the Group beginning prior to the occurrence of a Deconsolidation Event, AAC on behalf of the AAC Subgroup shall pay to Parent any amounts due pursuant to subparagraph 3(c) hereof no later than forty-five (45) days after the due date (excluding extensions) of the Group's consolidated federal tax return for the Taxable Period in question; provided, however, that any such amounts due prior to the Closing Date shall be deposited in an escrow account established pursuant to the Mediation Agreement and subsequently transferred to AFGI on the Closing Date; provided further, that AAC shall be entitled to offset and retain any portion of any amounts due pursuant to subparagraph 3(c) to the extent that Parent has not previously made all payments to AAC required under this Tax Sharing Agreement and the Prior Agreement.
- (iv) With respect to any Taxable Period of the AAC Subgroup beginning after a Deconsolidation Event, AAC shall provide AFGI with (1) a copy of any tax return that includes the AAC Subgroup and that reflects the utilization of any portion of the Post-Deconsolidation Allocated NOL Amount or Post-Deconsolidation Allocated AMT NOL Amount and (2) a reasonably detailed written calculation either of the amounts due to Parent under clauses 3(c)(ii) or 3(c)(iii) or an explanation of why no amounts are due, in each case, at least thirty (30) days before the filing of

such tax return. If AFGI agrees in writing within thirty (30) days of the receipt of the items referenced in (1) and (2) above with AAC's calculation of the amounts due to AFGI, AAC shall pay to AFGI any amounts due pursuant to subparagraph 3(c) no later than the due date of such tax return including extensions; provided, however, that AAC shall be entitled to offset and retain any portion of any amounts due pursuant to subparagraph 3(c) to the extent that Parent has not previously made all payments to AAC required under this Tax Sharing Agreement and the Prior Agreement. Any disputed item related to such tax return shall be subject to the dispute resolution and payment provisions of paragraph 8.

- (v) For each Taxable Period of the Group, each AAC Subsidiary (other than AAC) shall pay to AAC (1) such Subsidiary's allocable portion of the AAC Subgroup's Separate Subsidiary Tax, as determined solely in AAC's discretion, no later than the due date (excluding extensions) of the Group's consolidated federal tax return for the Taxable Period in question and (2) such subsidiary's allocable portion of the AAC Subgroup's amount due to Parent under clause 3(a)(iii), as determined solely in AAC's discretion, no later than forty-five (45) days after the due date (excluding extensions) of the Group's consolidated federal tax return for the Taxable Period in question.

(b) Payments by Parent.

- (i) To the extent that payments made by any AFGI Subsidiary pursuant to clause 3(a)(i) and paragraph 4 exceed the Separate Subsidiary Tax liability of such AFGI Subsidiary for a Taxable Period, AFGI shall, no later than thirty (30) days after the filing of the Group's consolidated federal tax return with respect to such Taxable Period, pay such excess to such AFGI Subsidiary.
- (ii) To the extent that payments made by AAC on behalf of the AAC Subgroup pursuant to clause 3(a)(ii) and paragraph 4 with respect to a Taxable Period exceed the Separate Subsidiary Tax liability of the AAC Subgroup for such Taxable Period, AFGI shall, no later than thirty (30) days after the filing of the Group's consolidated federal tax return with respect to such Taxable Period, pay such excess to AAC; provided, however, that Parent shall be entitled to offset and retain any portion of such excess to the extent that AAC has not previously made all payments required under this Tax Sharing Agreement and the Prior Agreement.
- (iii) With respect to (1) any Taxable Period of the Group that does not include a Deconsolidation Event or (2) the portion of any Taxable Period of the Group prior to the occurrence of a Deconsolidation

Event, to the extent that payments made by AAC on behalf of the AAC Subgroup pursuant to subparagraph 3(c) exceed the payments required to be made thereunder, AFGI shall, no later than thirty (30) days after the filing of the Group's consolidated federal tax return with respect to such Taxable Period, pay such amounts to AAC; provided, however, that Parent shall be entitled to offset and retain any portion of such excess to the extent that AAC has not previously made all payments required under this Tax Sharing Agreement and the Prior Agreement.

- (iv) For each Taxable Period of the Group beginning on or prior to the date on which a Deconsolidation Event occurs, Parent shall pay to AAC on behalf of the AAC Subgroup any amounts due pursuant to clause 3(c)(vii) hereof no later than the due date (excluding extensions) of the Group's consolidated federal tax return with respect to such Taxable Period.
 - (v) For the avoidance of doubt, the provisions of paragraph 5 shall be taken into account with respect to any payments made as a result of a Final Determination or Carryback Payment (as such terms are defined below).
- (c) Payments Related to the Notional Utilization of NOLs. For purposes of determining any payments required under this subparagraph 3(c) related to the notional utilization of NOLs:
- (i) **Allocated AAC NOL Amount during Consolidation**. Subject to clauses 3(c)(iv) through 3(c)(viii):
 - (1) *Allocated NOLs*. Unless and until there has been a Deconsolidation Event, the aggregate amount of Pre-Determination Date NOLs allocated to, and available for use by, the AAC Subgroup to offset income for Federal Tax purposes shall be an aggregate amount equal to the Allocated AAC NOL Amount.
 - (2) *NOL Usage Payment*. The AAC Subgroup in the aggregate may utilize Pre-Determination Date NOLs to offset income for Federal Tax purposes in an amount up to the Allocated AAC NOL Amount (to the extent not previously utilized in a prior Taxable Period pursuant to this subclause 3(c)(i)(2)). During any Taxable Period that the AAC Subgroup offsets income for Federal Tax purposes by utilizing any portion of the available Allocated AAC NOL Amount with respect to any NOL Usage Tier set forth in the NOL Usage Table below (taking into account all prior NOL utilization within each NOL Usage Tier during any

Taxable Period), AAC shall make payments to AFGI within the time and in the manner prescribed herein in an amount equal to (Y) the applicable percentages with respect to the applicable NOL Usage Tier, multiplied by (Z) the AAC Notional Federal Tax Amount attributable to the utilization of such portion of the Allocated AAC NOL Amount within the applicable NOL Usage Tier or NOL Usage Tiers, as the case may be.

NOL Usage Tier	Allocated AAC NOL Amount	Applicable Percentage
A	The first \$0.479 billion	15%
B	The next \$1.057 billion after NOL Usage Tier A	40%
C	The next \$1.057 billion after NOL Usage Tier B	10%
D	The next \$1.057 billion after NOL Usage Tier C	15%

(3) *Additional Payment.* Beginning on the fifth (5th) anniversary of the Effective Date prior to the occurrence of a Deconsolidation Event, and, subject to AFGI's consent (not to be unreasonably withheld), the AAC Subgroup may utilize NOLs to offset income for Federal Tax purposes in any Taxable Period in an amount up to the AFGI NOL Amount (less any portion of the AFGI NOL Amount utilized by any Member of the AFGI Subgroup in a prior Taxable Period or the current Taxable Period pursuant to clause 3(c)(vii)). During any Taxable Period that the AAC Subgroup utilizes any portion of the AFGI NOL Amount to offset income of the AAC Subgroup for Federal Tax purposes, AAC shall make a payment to AFGI within the time and manner prescribed herein in an amount equal to 25% multiplied by the AAC Notional Federal Tax Amount determined with respect to the AAC Subgroup's use of such NOLs, provided that the entire amount of the NOLs comprising the Allocated AAC NOL Amount has been previously subject to subclause 3(c)(i)(2).

(ii) **Allocated AAC NOL Amount following a Deconsolidation Event.** Subject to clauses 3(c)(iv) through 3(c)(viii):

(1) *Allocated NOLs.* Following the occurrence of a Deconsolidation Event, the aggregate amount of Pre-Determination Date NOLs allocated to, and available for use by, the AAC Subgroup to offset income for Federal Tax

purposes shall be an aggregate amount equal to the Post-Deconsolidation Allocated NOL Amount.

- (2) *NOL Usage Payment.* The AAC Subgroup in the aggregate may utilize Pre-Determination Date NOLs to offset income for Federal Tax purposes in an amount up to the Post-Deconsolidation Allocated NOL Amount (to the extent not previously utilized in a prior Taxable Period pursuant to clause 3(c)(i) or this clause 3(c)(ii)). During any Taxable Period that the AAC Subgroup offsets income for Federal Tax purposes by utilizing any portion of the available Post-Deconsolidation Allocated NOL Amount with respect to any NOL Usage Tier set forth in the NOL Usage Table below (taking into account all prior NOL utilization within each NOL Usage Tier during any Taxable Period, including any utilization of any portion of the Allocated AAC NOL Amount under clause 3(c)(i)), AAC shall make payments to AFGI within the time and in the manner prescribed herein in an amount equal to (Y) the applicable percentages with respect to the applicable NOL Usage Tier, multiplied by (Z) the AAC Notional Federal Tax Amount attributable to the utilization of such portion of the Allocated AAC NOL Amount within the applicable NOL Usage Tier or NOL Usage Tiers, as the case may be.

NOL Usage Tier	Allocated AAC NOL Amount	Applicable Percentage
A	The first \$0.479 billion	15%
B	The next \$1.057 billion after NOL Usage Tier A	40%
C	The next \$1.057 billion after NOL Usage Tier B	10%
D	The next \$1.057 billion after NOL Usage Tier C	15%

- (iii) **AAC AMT Excess Usage Amount.** Subject to clauses 3(c)(iv) through 3(c)(viii):

- (1) *Allocated AMT NOLs.* The aggregate amount of Pre-Determination Date AMT NOLs allocated to, and available for use by, the AAC Subgroup to offset income for AMT purposes shall be an aggregate amount equal to the Allocated AAC AMT NOL Amount.
- (2) *AMT NOL Usage Payment.* The AAC Subgroup may utilize (i) prior to a Deconsolidation Event, Pre-

Determination Date AMT NOLs to offset income for AMT purposes in an amount up to the Allocated AAC AMT NOL Amount (to the extent not previously utilized in a prior Taxable Period without regard to whether such AMT NOLs were directly or indirectly subject to the payment requirements of this clause 3(c)(iii)) or (ii) following a Deconsolidation Event, Pre-Determination Date AMT NOLs to offset income for AMT purposes in an amount up to the Post-Deconsolidation Allocated AMT NOL Amount (to the extent not previously utilized in a prior Taxable Period without regard to whether such AMT NOLs were directly or indirectly subject to the payment requirements of this clause 3(c)(iii)). During any Taxable Period that the AAC Subgroup offsets income for AMT purposes by utilizing any portion of the Allocated AAC AMT NOL Amount or Post-Deconsolidation Allocated AMT NOL Amount, as the case may be, AAC shall make payments to AFGI within the time and in the manner prescribed hereunder in an amount equal to the excess of (Y) the AAC AMT NOL Usage Amount over (Z) the AAC Federal Tax Usage Amount.

- (3) *AAC AMT NOL Usage Amount.* During any Taxable Period that the AAC Subgroup offsets income for AMT purposes by utilizing any portion of the available Allocated AAC AMT NOL Amount or Post-Deconsolidation Allocated AMT NOL Amount with respect to any NOL Usage Tier or NOL Usage Tiers, as the case may be, set forth in the NOL Usage Table below (taking into account all prior AMT NOL utilization within each NOL Usage Tier during any Taxable Period), the AAC AMT NOL Usage Amount shall equal (Y) the applicable percentages with respect to the applicable NOL Usage Tier or NOL Usage Tiers, as the case may be, multiplied by (Z) (I) the AAC Notional AMT Amount attributable to the utilization of such portion of the Allocated AAC AMT NOL Amount or the Post-Deconsolidation Allocated AMT NOL Amount, as the case may be, within the applicable NOL Usage Tier or NOL Usage Tiers, as the case may be, MINUS (II) the Annual AMT NOL Usage Credit applicable with respect to such Taxable Period; provided that the utilization of the Annual AMT NOL Usage Credit in any Taxable Period shall not exceed the Maximum Annual AMT NOL Usage Credit.

AMT NOL Usage Tier	AAC AMT NOL Usage Amount	Applicable Percentage
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A	The first \$0.387 billion	15%
B	The next \$0.849 billion after AMT NOL Usage Tier A	40%
C	The next \$0.849 billion after AMT NOL Usage Tier B	10%
D	The next \$0.849 billion after AMT NOL Usage Tier C	15%

(4) *Annual AMT NOL Usage Credit Limitation.*

Notwithstanding any other provision of this agreement, (X) with respect to determining the AAC AMT NOL Usage Amount with respect to any Taxable Period, (I) any Annual AMT NOL Usage Credit that is not utilized in any prior Taxable Period, taking into account the Maximum Annual AMT NOL Usage Credit, and subject to the payment requirements of subclause 3(c)(iii)(2) may only be carried to the next succeeding Taxable Period and may not be carried into any other Taxable Period, (Y) the sum of the Annual AMT NOL Usage Credits utilized by the AAC Subgroup, after taking into account the Maximum Annual AMT NOL Usage Credit, shall not exceed in the aggregate \$60 million throughout the period that the AAC Subgroup is required to make any payments pursuant to this paragraph 3 and (Z) the Annual AMT NOL Usage Credit shall not be utilized in the event that the AAC Federal Tax Usage Amount exceeds the AAC AMT NOL Usage Amount (as calculated before giving effect to such Annual AMT NOL Usage Credit).

(5) Amounts shall be due and payable from AAC to AFGI pursuant to subparagraph 3(a) and clauses 3(c)(i), (ii) and (iii) without regard to whether the AAC Federal Tax Usage Amount or AAC AMT NOL Usage Amount arises prior, or subsequent, to a Deconsolidation Event.

(iv) **Post-Determination Date NOLs and AMT NOLs.** Solely for purposes of subparagraph 3(c) or any other provision relating to payments under subparagraph 3(c):

(1) *Post-Determination Date NOLs.* Post-Determination Date NOLs shall be available for use by the AAC Subgroup at no cost and shall not be subject to any NOL usage payments under this subparagraph 3(c). Following the occurrence of a Deconsolidation Event, Post-Determination Date NOLs (to the extent not previously utilized by the

AAC Subgroup in any Taxable Period or portion thereof prior to the occurrence of a Deconsolidation Event) shall be allocated to, and available for use by, the AAC Subgroup.

- (2) *Post-Determination Date AMT NOLs.* Post-Determination Date AMT NOLs shall be available for use by the AAC Subgroup at no cost and shall not be subject to any NOL usage payments under this subparagraph 3(c). Following the occurrence of a Deconsolidation Event, Post-Determination Date AMT NOLs (to the extent not previously utilized by the AAC Subgroup in any Taxable Period or portion thereof prior to the occurrence of a Deconsolidation Event) shall be allocated to, and available for use by, the AAC Subgroup.
- (v) **AAC Subgroup NOL and AMT NOL Carryforwards and Carrybacks.** Solely for purposes of subparagraph 3(c) or any other provision relating to payments under subparagraph 3(c):
 - (1) *NOL Carryforwards.* It is understood that to the extent that the AAC Subgroup has any available Post-Determination Date NOLs, solely for purposes of determining the amount of any NOL usage payments due to AFGI from AAC under this Tax Sharing Agreement pursuant to clauses 3(c)(i) and (ii), such Post-Determination Date NOLs shall be treated as being used prior to the utilization of any Allocated AAC NOL Amount, Post-Deconsolidation Allocated NOL Amount or AFGI NOL Amount.
 - (2) *AMT NOL Carryforwards.* It is understood that to the extent that the AAC Subgroup has any available Post-Determination Date AMT NOLs, solely for purposes of determining the amount of any payments due to AFGI from AAC under this Tax Sharing Agreement pursuant to clause 3(c)(iii), such Post-Determination Date AMT NOLs shall be treated as being used prior to the utilization of any Allocated AAC AMT NOL Amount or Post-Deconsolidation Allocated AMT NOL Amount.
 - (3) *NOL Carrybacks.* It is understood that to the extent that the AAC Subgroup carries back any portion of the Allocated AAC NOL Amount to Taxable Periods beginning prior to January 1, 2011, solely for purposes of determining the amount of any NOL usage payments due to AFGI under this Tax Sharing Agreement pursuant to clauses 3(c)(i) and (ii), such portion of the Allocated AAC NOL Amount carried back to such prior Taxable Periods shall be treated

as being utilized pursuant to subparagraph 3(c). Any such carryback by the AAC Subgroup shall be deemed to be a carryback of Post-Determination Date NOLs prior to a carryback of any portion of the Allocated AAC NOL Amount.

- (4) *NOL Expiration.* Solely for purposes of this paragraph 3(c), in any Taxable Period in which any portion (expressed in U.S. Dollars) of any Post-Determination Date NOLs (including any such NOLs comprising all or a portion of the Post-Deconsolidation Allocated NOL Amount) are deemed utilized pursuant to subclause 3(c)(iv)(1), an equivalent portion (expressed in U.S. Dollars) of the Allocated AAC NOL Amount (including any such NOLs comprising all or a portion of the Post-Deconsolidation Allocated NOL Amount), to the extent that the Allocated AAC NOL Amount has not been utilized in a prior Taxable Period, shall be characterized for purposes of subparagraph 3(c) as arising in the same Taxable Period that such portion of the Post-Determination Date NOLs arose and such portion of the Allocated AAC NOL Amount shall not expire for purposes of this subparagraph 3(c) until the latest Taxable Period to which such portion of the deemed utilized Post-Determination Date NOLs can be carried forward pursuant to Section 172 of the Code.
- (5) *AMT NOL Expiration.* Solely for purposes of this paragraph 3(c), in any Taxable Period in which any portion (expressed in U.S. Dollars) of any Post-Determination Date AMT NOLs (including any such NOLs comprising all or a portion of the Post-Deconsolidation Allocated AMT NOL Amount) are deemed utilized pursuant to subclause 3(c)(iv)(2), an equivalent portion (expressed in U.S. Dollars) of the Allocated AAC AMT NOL Amount (including any such NOLs comprising all or a portion of the Post-Deconsolidation Allocated AMT NOL Amount), to the extent that the Allocated AAC AMT NOL Amount has not been utilized in a prior Taxable Period, shall be characterized for purposes of subparagraph 3(c) as arising in the same Taxable Period that such portion of the Post-Determination Date AMT NOLs arose and such portion of the Allocated AAC AMT NOL Amount shall not expire for purposes of this subparagraph 3(c) until the latest Taxable Period to which such portion of the deemed utilized Post-Determination Date AMT NOLs can be carried forward pursuant to Section 172 of the Code.

- (6) For the avoidance of doubt, none of the provisions in subclauses 3(c)(v)(1), 3(c)(v)(4), or 3(c)(v)(5) shall affect the calculation of the AAC Subgroup's Separate Subsidiary Tax for any Taxable Period.
- (vi) **Cash Grant.** The payment of the Cash Grant shall credit against the first \$5 million of payments owed by AAC to AFGI in the aggregate with respect to any Taxable Period under each of NOL Usage Tier A, NOL Usage Tier B and NOL Usage Tier C in clauses 3(c)(i), (ii) or (iii), provided that the sum of credits for all tiers shall not exceed \$15 million.
- (vii) **AFGI NOL Usage.** Notwithstanding any other provision of this Tax Sharing Agreement and solely for purposes of clauses 3(b)(iv) and 3(c)(i) through 3(c)(vii):
- (1) AFGI and any AFGI Subsidiary shall be treated as using any available portion of the AFGI NOL Amount prior to the utilization of any Allocated AAC NOL Amount or Post-Determination Date NOLs.
- (2) (Y) Prior to a Deconsolidation Event, AFGI and any AFGI Subsidiary shall be able to utilize NOLs of the Group (other than any portion of the Allocated AAC NOL Amount and the Post-Determination Date NOLs, except as provided in subclause 3(c)(vii)(3)) in an amount equal to the AFGI NOL Amount, and (Z) following a Deconsolidation Event, the Group shall be able to utilize the aggregate amount of the Group's NOLs, other than the Post-Deconsolidation Allocated NOL Amount and the Post-Determination Date NOLs, in each case, to the fullest extent permitted by the Code without limitation or any requirement to pay or otherwise compensate AAC or any AAC Subsidiary.
- (3) Prior to a Deconsolidation Event, and subject to subclauses 3(c)(vii)(1) and (2) above, if AFGI or any AFGI Subsidiary utilizes (Y) any Allocated AAC NOL Amount to the extent not previously utilized by (I) the AAC Subgroup pursuant to clause 3(c)(i) or (II) any Member of the AFGI Subgroup pursuant to this subclause 3(c)(vii)(3) or (Z) any Post-Determination Date NOLs to the extent not previously utilized by (I) the AAC Subgroup pursuant to clause 3(c)(iv) or (II) any Member of the AFGI Subgroup pursuant to this subclause 3(c)(vii)(3), AFGI shall pay AAC pursuant to this Tax Sharing Agreement an amount equal to 50% multiplied by the aggregate amount of the AFGI Subgroup's Federal Tax liability for the Taxable Period for

which such NOLs were used that otherwise would have been paid by AFGI, or an AFGI Subsidiary, if such portion of the Allocated AAC NOL Amount or Post-Determination Date NOLs were not available for its use. Any such use by AFGI and the AFGI Subsidiaries shall be deemed to be a use of the Allocated AAC NOL Amount prior to a use of the Post-Determination Date NOLs. In addition, any Allocated AAC NOL Amount or Post-Determination Date NOLs used by AFGI or any AFGI Subsidiary pursuant to this subclause 3(c)(vii)(3) are no longer specifically allocated to, or made available for use by, the AAC Subgroup.

(viii) **NOL Usage Table.** In the event that the Allocated AAC NOL Amount is less than \$3.65 billion or the Allocated AAC AMT NOL Amount is less than \$2.934 billion, the size of each NOL Usage Tier provided in the NOL Usage Table will be reduced proportionally. Such proportionate reduction shall be applied separately to the Allocated AAC NOL Amount and the Allocated AAC AMT NOL Amount. For the avoidance of doubt, if the Allocated AAC NOL Amount is 10% less than \$3.65 billion and the Allocated AAC AMT NOL Amount is 20% less than \$2.934 billion, then the size of each NOL Usage Tier within the Allocated AAC NOL Amount will be reduced by 10% as compared to the representative usage tiers shown above and the size of each usage tier within the Allocated AAC AMT NOL Amount will be reduced by 20% as compared to the representative tiers shown in the NOL Usage Table.

4. Estimated Tax Payments. No later than two (2) business days prior to the dates specified for payment of estimated tax in Section 6655 of the Code, each Subsidiary (including the AAC Subgroup) shall pay to Parent an amount equal to the estimated Separate Subsidiary Tax liability of such Subsidiary as required by clauses 3(a)(i) and (ii).

5. Redeterminations of Tax Liabilities.

(a) In General. In the event of any redetermination of any item of income, gain, loss, deduction or credit of any member of the Group for any Taxable Period as a result of an examination by the IRS, any final action by the IRS on an amended return or a claim for refund, the execution of a closing agreement with the IRS or a judicial decision which has become final including, in each case, any determination relating to whether any party to this Tax Sharing Agreement is properly characterized as being includable in the Group or AAC Subgroup (a "Final Determination"), or in the event of any redetermination of any item of income, gain, loss, deduction or credit of any member of the Group for any Taxable Period

which is reflected in an application that is filed with the IRS for a tentative carryback adjustment pursuant to Section 6411 of the Code and that results in a payment by the IRS (a "Carryback Payment"), the Subsidiary Separate Tax, and any other payments required pursuant to subparagraph 3(c), in a manner consistent with this Tax Sharing Agreement with respect to each Subsidiary shall be recomputed for such Taxable Period to take into account such redetermination (including any penalties or additions to tax) in a manner consistent with such revised treatment, and the payments pursuant to paragraph 3 and any tax attributes shall be appropriately adjusted. For the avoidance of doubt, any redetermination that occurs in connection with an application filed with the IRS for a tentative carryback adjustment pursuant to Section 6411 of the Code shall not be treated as being a result of a Final Determination.

- (b) Procedure Relating to Final Determinations. In the case of any adjustment described in the first sentence of subparagraph 5(a) that occurs in connection with a Final Determination, any payment between Parent and any of the Subsidiaries required by such adjustment shall be paid within seven (7) days of the date of a Final Determination with respect to such redetermination, or as soon as such adjustment can practicably be calculated, if later. Such payment shall be made together with interest for the period from the due date for tax returns for the Taxable Period for which tax liability was recomputed to the date of payment at the rate provided for underpayments in Section 6621 of the Code in the case of payments from any Subsidiary to Parent and at the rate provided for overpayments in Section 6621 of the Code in the case of payments to any Subsidiary by Parent.
- (c) Procedure Relating to Carryback Payments. In the case of any adjustment described in the first sentence of subparagraph 5(a) that occurs in connection with a Carryback Payment, any payment between Parent and any of the Subsidiaries required by such adjustment shall be made by wire transfer on the same day that the Carryback Payment is received in immediately available funds from the IRS. Any payment between Parent and any of the Subsidiaries that is described in the first sentence of this subparagraph 5(c) shall not be accompanied by the payment of any additional amount representing interest.
- (d) Trust. Any Carryback Payment received by Parent and any payment received by Parent from the IRS as a result of a claim for refund of federal tax (any such payments as a result of claims for refund and any Carryback Payments are referred to collectively as "Recovery Payments"), and any rights (including, without limitation, all general intangibles related thereto and all proceeds thereof) of Parent to receive a Recovery Payment, shall be held by Parent in trust for AAC to the extent that the amount of the Recovery Payment does not exceed:

- (i) in the case of a Recovery Payment that is a Carryback Payment, the amount that would, upon receipt of the Recovery Payment, be required to be paid by Parent to AAC pursuant to subparagraphs 5(a) and 5(c); or
 - (ii) in the case of a Recovery Payment that is received by Parent from the IRS as a result of a claim for refund of federal income tax, the amount that would, after the Final Determination relating to the claim for refund, be required to be paid by Parent to AAC pursuant to subparagraphs 5(a) and 5(b).
- (e) Provisions Relating to Trust. All amounts held by Parent in trust hereunder shall be held in (and, to the extent reasonably practicable, Parent shall cause third parties to remit such amounts directly to) a segregated account maintained by The Bank of New York Mellon (A) in which Parent shall not deposit, or permit to be deposited, any other amounts (other than earnings on amounts held in trust as contemplated hereby), (B) the title of which such segregated account expressly states that Parent is the account owner as trustee for the benefit of AAC and (C) with respect to which AAC holds a perfected security interest to the extent permitted under applicable law. In furtherance of the foregoing, Parent granted to AAC effective as of November 19, 2009 a security interest in such segregated account, all cash balances from time to time credited to such account and all proceeds of the foregoing. Notwithstanding any provision in this Tax Sharing Agreement to the contrary, the immediately preceding sentence shall be governed by the internal laws of the State of Wisconsin, without regard to conflicts of law principles that provide for the application of the laws of another jurisdiction.
- (f) Security Interest. To the extent that the provisions of subparagraph 5(d) are determined to not establish a trust for the benefit of AAC, Parent shall grant to the extent permitted under applicable law to AAC effective as of the Effective Date, to secure Parent's payment and performance of any obligations owed by it to AAC under this Tax Sharing Agreement, a first priority security interest in all rights (including, without limitation, all general intangibles related thereto and all proceeds thereof) of Parent to receive Recovery Payments to the extent that the amount of the particular Recovery Payment does not exceed:
 - (i) in the case of a Recovery Payment that is a Carryback Payment, the amount that would, upon receipt of the Recovery Payment, be required to be paid by Parent to AAC pursuant to subparagraphs 5(a) and 5(c); or
 - (ii) in the case of a Recovery Payment that is received by Parent from the IRS as a result of a claim for refund of federal income tax, the amount that would, after the Final Determination relating to the

claim for refund, be required to be paid by Parent to AAC pursuant to subparagraphs 5(a) and 5(b).

- (g) Further Actions. To the extent permitted under applicable law: (i) Parent agrees to execute and deliver such agreements, instruments, and other documents, and take such actions, as are reasonably necessary and/or reasonably requested by AAC to protect, perfect, and maintain the perfection of such security interest (including any account control agreement), and hereby authorizes AAC to file any UCC financing statement or other document in furtherance thereof; (ii) Parent irrevocably appoints AAC and its agents as Parent's attorney, with power to receive, open and dispose of all mail addressed to Parent and to endorse Parent's name upon any instruments (including any refund checks) that may come into AAC's or its agents' possession, in each case with respect to the collateral pledged hereunder to AAC; (iii) the foregoing power of attorney is coupled with an interest and may not be revoked by Parent; and (iv) notwithstanding any provision in this Agreement to the contrary, the provisions of subparagraphs 5(f) and this subparagraph 5(g) shall be governed by the internal laws of the State of Wisconsin, without regard to conflicts of law principles that provide for the application of the laws of another jurisdiction.

6. Filing of Tax Returns, Payment of Tax, Etc. The provisions of this paragraph 6 shall be subject to Sections 1.08 and 3.01 of the Cooperation Agreement:

- (a) Parent as Agent. Each Subsidiary hereby appoints Parent as its agent as long as such Subsidiary is a Member of the Group or such Subsidiary's income is included in the consolidated federal tax return filed by the Group, in each case, for purposes of filing such consolidated federal income tax returns, making any election, application or taking any action in connection therewith on behalf of the Members of the Group. Each Subsidiary hereby consents to the filing of such returns and the making of such elections and applications.
- (b) Cooperation. Each of the Subsidiaries shall cooperate with Parent in the filing of any consolidated federal income tax returns for the Group by maintaining such books and records and providing such information as may be necessary or useful in the filing of such returns and executing any documents and taking any actions which Parent may reasonably request in connection therewith. Each Member of the Group will provide Parent with such information or any powers of attorney concerning such returns and the application of this Tax Sharing Agreement as Parent may reasonably request.
- (c) Payment of Tax. For every Taxable Period, Parent will pay or discharge, or cause to be paid or discharged, the consolidated Federal Tax liability or AMT liability, including payments of estimated tax, of the Group.

- (d) Tax and Loss Bonds. To the extent that the purchase of tax and loss bonds is allowable under the Code, and is to the advantage of the Group, such purchase will be made.
- (e) Elections with Respect to an Adjustment Event or Deconsolidation Event.
 - (i) **Unified Loss Elections.**

(1) *Deconsolidation Event.* With respect to any Taxable Period that includes a Deconsolidation Event, AFGI, so long as it is the parent of the Group (or a new common parent if the Group remains in existence under Treasury Regulation Section 1.1502-75(d)(3)), shall, subject to the prior review and approval of the Rehabilitator, make valid and timely elections pursuant to Treasury Regulation Section 1.1502-36, to the extent permitted and provided for thereunder, such that (Y) the NOLs of the AAC Subgroup that exist immediately following such Deconsolidation Event will be an amount equal to the sum of the Post-Determination Date NOLs existing as of the Deconsolidation Event (to the extent not previously utilized in a prior Taxable Period by the Group) and the Post-Deconsolidation Allocated NOL Amount, and (Z) no reduction in the tax basis of any asset of the AAC Subgroup will be required pursuant to Treasury Regulation Section 1.1502-36(d)(4)(i)(D) and no reduction in the amount of any deferred deduction will be required pursuant to Treasury Regulation Section 1.1502-36(d)(4)(i)(C).

(2) *Adjustment Event.* With respect to any Taxable Period that includes an Adjustment Event, AFGI, so long as it is the parent of the Group (or a new common parent if the Group remains in existence under Treasury Regulation Section 1.1502-75(d)(3)), shall, subject to the prior review and approval of the Rehabilitator, make valid and timely elections pursuant to Treasury Regulation Section 1.1502-36, to the extent permitted and provided for thereunder, such that (Y) the NOLs of the AAC Subgroup that exist immediately following such Adjustment Event will be an amount equal to the sum of the Post-Determination Date NOLs existing as of the Adjustment Event (to the extent not previously utilized in a prior Taxable Period by the Group) and the Post-Deconsolidation Allocated NOL Amount (determined as if the date of the Adjustment Event were a Deconsolidation Event), and (Z) no reduction in the tax basis of any asset of the AAC Subgroup will be required

pursuant to Treasury Regulation Section 1.1502-36(d)(4)(i)(D) and no reduction in the amount of any deferred deduction will be required pursuant to Treasury Regulation Section 1.1502-36(d)(4)(i)(C).

- (ii) **Protective Deconsolidation Elections.** With respect to each Taxable Period of the Group, if AAC or the Rehabilitator notifies AFGI, at least thirty (30) days before the Group tax return is to be filed, that AAC or the Rehabilitator has reasonably determined that there exists uncertainty as to whether or not a Deconsolidation Event or Adjustment Event has occurred during such Taxable Period, AFGI, so long as it is the parent of the Group (or a new common parent if the Group remains in existence under Treasury Regulation Section 1.1502-75(d)(3)), shall, subject to the prior review and approval of the Rehabilitator, make such protective elections or take other similar actions, to the extent permitted by law, so that if such a Deconsolidation Event or Adjustment Event were determined subsequently to have occurred during such Taxable Period, the results contemplated by clause 6(e)(i) would be achieved to the maximum extent permitted thereunder.
- (iii) **Additional Relief.** In addition, if AAC or the Rehabilitator believes that a Deconsolidation Event or Adjustment Event may have occurred in a Taxable Period for which no election or protective election was made pursuant to Treasury Regulation Section 1.1502-36, and if AAC or the Rehabilitator desires to obtain relief from the IRS (whether under Treasury Regulation Section 301.9100 or otherwise) for the failure to make such an election, AFGI shall reasonably cooperate with AAC and the Rehabilitator in obtaining such relief; provided, however, that (i) any costs incurred in connection with obtaining any such relief shall be borne solely by AAC and (ii) AFGI is permitted to review and comment on any written materials provided to the IRS with respect to such relief and attend any meetings or participate in any other communication with the IRS.
- (iv) **Ratable Allocation Election.** If a Deconsolidation Event occurs on a date other than the last day of a Taxable Period of the Group, no election under Treasury Regulation Sections 1.1502-76(b)(2)(ii) or (iii) (a "ratable allocation" election) shall be made in connection with determining the allocation of the items of the AAC Subgroup between the portion of such Taxable Period that ends on the date of the Deconsolidation Event and the remaining portion of such Taxable Period.

- (v) **Consolidated Return Filing by AAC.** For the first Taxable Period of AAC that ends after a Deconsolidation Event, AAC shall make a timely election to file a consolidated federal income tax return with the other members of the AAC Subgroup.
 - (vi) **AMT Credit Allocation.** To the extent permissible under applicable law, upon a Deconsolidation Event AFGI shall allocate to AAC the amount of any unused AMT credits allocable to any AAC AMT.
 - (vii) **Termination.** AFGI's obligations to make elections under this subparagraph 6(e) shall terminate upon the occurrence of any event described in clauses 6(d)(iv), (vii) or (viii) of the Cost Allocation Agreement.
- (f) Allocation Methodologies and Tax Assumptions.
- (i) **NOL Allocation.** The portion of any NOLs generated during the Taxable Period ending December 31, 2011 shall be allocated to either the Pre-Determination Date NOLs or the Post-Determination Date NOLs on the basis of a deemed closing, as of the end of the Determination Date, of the books and records of the AAC Subgroup and the AFGI Subgroup, in each case, as determined on a Separate Subsidiary Basis.
 - (ii) **Group Tax Assumptions.** For purposes of determining amounts of the Group's NOLs, AMT NOLs, AMT credits, taxable income (including any tax item or attribute utilized in determining taxable income) or any other amounts or attributes relevant with respect to determining any payable pursuant to this Tax Sharing Agreement, for Federal Tax and AMT purposes (i) the surplus notes issued by AAC in June 2010 will be considered indebtedness issued by AAC for federal income tax purposes, (ii) the aggregate issue price of the surplus notes issued by AAC in June 2010 and subject to a call option letter agreement shall be treated as equal to \$232 million and (iii) the aggregate issue price of the remaining surplus notes issued by AAC in June 2010 shall be treated as equal to \$1,060 million.

7. State and Local Taxes. In the event that any of the Subsidiaries and Parent is required to file, or elects to file, any combined or consolidated (or similar) state or local income or franchise tax returns or is treated as a member of a unitary group with any Member of the Group, then Parent and any Members of the Group that are required to be included in such returns, or that are requested to be included in such returns by Parent, shall join in the filing thereof, and Parent's obligations to make payments to taxing authorities and the Member's rights to payments from each other shall be determined in a manner as similar as possible to that

provided herein for Federal Tax purposes, except that the use by the AAC Subgroup of net operating losses available for state and local tax purposes will be at no cost to AAC.

8. Resolution of Disputes.

- (a) Except as provided in subparagraph 8(b), if Parent and any Subsidiary are unable to agree upon the calculation, basis or determination of any payments under this Tax Sharing Agreement, after good faith discussions in an attempt to resolve such dispute, the dispute shall be referred to a mutually agreed upon independent accounting firm for resolution. The determination of the accounting firm will be made within sixty (60) days after being selected and shall constitute an arbitral award that is final, binding and non-appealable and upon which a judgment may be entered by a court having jurisdiction thereover and Parent shall pay to such Subsidiary or such Subsidiary shall pay to Parent, as the case may be, such amount, if any, within ten (10) days of the accounting firm's decision. The fees, costs and all other direct or indirect expenses of the accounting firm shall be shared equally by Parent and the applicable Subsidiary.
- (b) In the event that (i) Parent believes any Subsidiary within the AAC Subgroup (including AAC) or the Rehabilitator to be, or (ii) any Subsidiary within the AAC Subgroup (including AAC) or the Rehabilitator, solely with respect to paragraph 5 and subparagraph 6(e), believes Parent to be, in material breach of, or otherwise not complying with their respective material obligations under, this Tax Sharing Agreement, such party shall provide the alleged breaching or non-complying party with a written notice (copied to their last known legal counsel) describing, in reasonable detail, the nature of the alleged breach or non-compliance. Following delivery of such written notice, the parties shall attempt, in good faith, to resolve their dispute. The party served with a notice of breach or non-compliance shall have thirty (30) days to cure the alleged breach or non-compliance. In the event that there is no cure and the parties are unable to resolve their dispute, any party alleging such breach or non-compliance may, not less than forty-five (45) days following delivery of such written notice, seek a judgment from the Rehabilitation Court that the other party has breached this Tax Sharing Agreement. Solely for purposes of resolving such dispute, Parent shall consent to the jurisdiction of the Rehabilitation Court. In the event that the Rehabilitation Court enters a final, non-appealable order in favor of any party alleging such breach or non-compliance, such party may ask the court to grant such further relief as the court deems appropriate in light of the nature and severity of the breach or non-performance, including specific performance, termination of the parties' obligations under this agreement and/or monetary damages.

- (c) The obligations and procedures under subparagraph 8(b) shall terminate after the due date (including extensions) of the Group's consolidated federal tax return for any Taxable Period if:
- (i) all of the following conditions are met as of the beginning of the immediately following Taxable Period
 - (1) no Pre-Determination Date NOLs remain available for use by the AAC Subgroup to offset income for Federal Tax purposes pursuant to the provisions of subclauses 3(c)(i)(1) and (2);
 - (2) no Pre-Determination Date AMT NOLs remain available for use by the AAC Subgroup to offset income for AMT purposes pursuant to the provisions of subclause 3(c)(iii); and
 - (3) no NOLs comprising the AFGI NOL Amount exist regardless of whether AFGI has consented to the use of such NOLs by the AAC Subgroup to offset income for Federal Tax purposes pursuant to subclause 3(c)(i)(3);
 - or
 - (ii) a Deconsolidation Event has occurred during such Taxable Period.

9. Adjudications. In any audit, conference or other proceeding with the IRS, or in any judicial proceedings concerning the determination of the federal income tax liabilities of the Group or any of its Members with respect to any Taxable Period during which each Subsidiary is, or was, a Member of the Group, the Group and each of its Members shall be represented by persons selected by Parent. The settlement and terms of settlement of any issues relating to any such proceeding shall be in the sole discretion of Parent, and each Subsidiary appoints Parent as its agent for the purpose of proposing and concluding any such settlement. The provisions of this paragraph 9 shall be subject to Section 1.08 of the Cooperation Agreement.

10. Binding Effect; Successors. This Tax Sharing Agreement shall be binding upon each of the parties hereto, including each Member of the Group, whether or not such Member was a Member upon the execution of this Tax Sharing Agreement, and each party hereto consents to the terms hereof and guarantees the performance of the agreements contained herein. Parent shall cause each future Member of such Group to assent to the terms of this Tax Sharing Agreement promptly after becoming a Member of such Group. Each party hereto hereby assents to each new Member becoming a party to this Tax Sharing Agreement. This Tax Sharing Agreement shall inure to the benefit of and be binding upon any successors or assigns of the parties hereto.

11. Equitable Interpretation. This Tax Sharing Agreement is intended to allocate the federal income tax liabilities and benefits of the Group in an equitable manner, and any situation

or circumstance concerning such allocation which is not specifically contemplated hereby or provided for herein shall be dealt with in a manner consistent with the underlying principles of allocation of this Tax Sharing Agreement.

12. Costs and Expenses. Except as otherwise provided herein or in the Cost Allocation Agreement, any and all costs and expenses incurred in connection with (i) the preparation of a consolidated or combined (or similar) federal, state or local income or franchise tax return which includes the income, gain, loss, deductions or credits of members of the Group, (ii) the application of the provisions of this Tax Sharing Agreement to the parties hereto or third parties, or (iii) any audit, conference or other proceeding involving the IRS or any other taxing authority to the extent that it relates to any item of income, gain, loss, deduction or credit of any Member of the Group (other than costs and expenses resulting from Parent's failure to file a timely income tax return (including an estimated return) or to pay with such return the tax shown on such return or, if no such return was filed, the tax required to be shown on such return) shall be allocated between Parent and each Subsidiary in a reasonable manner as determined by Parent.

13. Effect of Agreement. This Tax Sharing Agreement shall determine the liability of Parent and each Subsidiary (including, to the extent provided herein, the AAC Subgroup) to each other as to the matters provided for herein, whether or not such determination is effective for purposes of the Code or the Treasury Regulations promulgated thereunder, financial reporting or any other matters. In the event of any conflict or inconsistency between this Tax Sharing Agreement and the provisions of the Mediation Agreement, the provisions of this Tax Sharing Agreement shall govern.

14. References. Except as otherwise specifically provided herein, any references to the sections of the Code, or any Treasury Regulations promulgated thereunder, shall be deemed to refer to any successor provisions and shall refer to such sections, Treasury Regulations or provisions as in effect from time to time. Except as otherwise specifically provided herein, all paragraph references are to paragraphs contained in this Tax Sharing Agreement.

15. Termination.

- (a) This Tax Sharing Agreement shall be terminated on the happening of any of the following events:
 - (i) If the parties agree, in writing, to terminate this Tax Sharing Agreement;
 - (ii) If the Group fails to file a consolidated federal income tax return for any Taxable Period;
 - (iii) With respect to any Subsidiary (other than AAC or any AAC Subsidiary), if such Subsidiary ceases to be a Member of the Group for any reason; provided, however, AAC shall not be required to make payments under clause 3(a)(ii) with respect to any Taxable Period beginning after a Deconsolidation Event; or

- (iv) A condition to the Closing Date not being able to be satisfied.

Notwithstanding the termination of this Tax Sharing Agreement in whole or with respect to any Member, its provisions (X) will remain in effect with respect to any portion of the Taxable Period in which termination occurs which is required to be included in the consolidated federal tax return of the Group, (Y) will remain in effect for all purposes (including with respect to any Subsidiary who ceases to be a member of the Group) with regard to amounts outstanding under this Tax Sharing Agreement prior to its termination and any payments required to be made to Parent by any Subsidiary, or by Parent to any Subsidiary, hereunder including any payments required pursuant to paragraphs 3, 4 and 5 and (Z) will remain in effect with respect to the matters dealt with in subparagraphs 3(a) and (c) and paragraphs 5, 6, 7, 8, 9, 10, 11 and 12 hereof; provided, that in the event that a condition to the Closing Date cannot be satisfied, amounts held in escrow pursuant to clause 3(a)(iii) shall be released to AAC.

16. Notices. Any payment, notice or communication required or permitted to be given under this Tax Sharing Agreement shall be deemed to have been given when deposited in the United States mail, postage prepaid, addressed as follows:

If to Parent:

Ambac Financial Group, Inc.
One State Street Plaza
New York, New York 10004

If to AAC:

Ambac Assurance Corporation
One State Street Plaza
New York, New York 10004

or to such other address as a party shall furnish in writing to the other party.

17. Execution in Counterparts. This Tax Sharing Agreement may be executed in any number of counterparts and by different parties hereto on separate counterparts, each of which counterparts, when so executed and delivered, shall be deemed to be an original and all of which counterparts, taken together, shall constitute but one and the same Tax Sharing Agreement.

18. Parties to this Tax Sharing Agreement. Nothing herein shall in any manner create any obligations or establish any rights against any party to this Tax Sharing Agreement in favor of any person not a party to this Tax Sharing Agreement; provided, however, that, solely with respect to paragraph 5 and subparagraphs 6(e) and 8(b), the Rehabilitator shall be an express third party beneficiary of this Tax Sharing Agreement to the same extent as if it were a party to this Tax Sharing Agreement.

IN WITNESS WHEREOF, the parties have caused this Tax Sharing Agreement to be executed
as of the date first above written.

AMBAC FINANCIAL GROUP, INC.

By: _____
Name:
Title:

AMBAC ASSURANCE CORPORATION

By: _____
Name:
Title:

AMBAC INVESTMENTS INC.

By: _____
Name:
Title:

AMBAC AII CORPORATION

By: _____
Name:
Title:

AMBAC ASSET FUNDING CORPORATION

By: _____
Name:
Title:

AMBAC CAPITAL FUNDING, INC.

By: _____
Name:
Title:

AMBAC CAPITAL CORPORATION

By: _____
Name:
Title:

CONNIE LEE HOLDINGS, INC.

By: _____
Name:
Title:

AMBAC BERMUDA LTD.

By: _____
Name:
Title:

EVERSPAN FINANCIAL GUARANTEE CORP.

By: _____
Name:
Title:

EXHIBIT 2

(Exhibit F – Offer Letter)

Dewey & LeBoeuf LLP
1301 Avenue of the Americas
New York, NY 10019-6092

DEWEY & LEBOEUF

T +1 212 259 8330
F +1 212 259 6333
lhill@dl.com

SUBMITTED PURSUANT TO FRE 408 AND
WISCONSIN STATUTE SECTION 904.08
FOR SETTLEMENT PURPOSES

February 24, 2012

Preet Bharara, Esq.
United States Attorney
Southern District of New York
U.S. Department of Justice
86 Chambers Street
New York, NY 10007

John A. DiCicco, Esq.
Principal Deputy Assistant Attorney General
Tax Division
United States Department of Justice
Washington, D.C. 20530

Re: *Ambac Financial Group, Inc. v. United States*, Adv. Proc. No. 10-4210
(Bankr. S.D.N.Y., filed Nov. 9, 2010);
*In the Matter of the Rehabilitation of Segregated Account of Ambac Assurance
Corp.*, No. 2010CV1576 (Wis. Cir. Ct. for Dane Cnty. Jan. 24, 2011), *petition for
review granted*, No. 2011AP987 (Wis. Aug. 31, 2011);
*In the Matter of the Rehabilitation of Segregated Account of Ambac Assurance
Corporation*, 782 F. Supp. 2d 743 (W.D. Wis. 2011), *appeal docketed*,
No. 11-1158 (7th Cir. Jan. 19, 2011); and
United States v. Wisconsin State Circuit Court for Dane County, et al.,
767 F. Supp. 2d 980 (W.D. Wis. 2011), *appeal docketed*, No. 11-1419
(7th Cir. Feb. 22, 2011).

Dear Messrs Bharara and DiCicco:

Dewey & LeBoeuf LLP is a New York limited liability partnership.

NEW YORK | LONDON | WASHINGTON, DC | ABU DHABI | ALBANY | ALMATY | BEIJING | BOSTON | BRUSSELS
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MADRID | MILAN | MOSCOW | PARIS | RIYADH AFFILIATED OFFICE | ROME | SAN FRANCISCO | SILICON VALLEY | WARSAW

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This letter constitutes an offer to settle the above-referenced proceedings on the terms described below. The settlement would be between the United States, on the one hand, and Ambac Financial Group, Inc. (“Debtor” or “AFGI”), Ambac Assurance Corporation (“AAC”), the Official Committee of Unsecured Creditors of AFGI (“Official Creditors Committee”), the Segregated Account of Ambac Assurance Corporation (the “Segregated Account”)¹, the court-appointed Rehabilitator of the Segregated Account (the “Rehabilitator”) and the Wisconsin Office of the Commissioner of Insurance (“OCI”), on the other hand (collectively, the United States, AFGI, AAC, Official Creditors Committee, Segregated Account, Rehabilitator and OCI are referred herein as the “Parties”).²

¹ On March 24, 2010, the Wisconsin Office of the Commissioner of Insurance (“OCI”) approved the establishment of a segregated account of AAC, pursuant to Wis. Stat. section 611.24(2), to segregate certain non-performing segments of AAC’s liabilities. All policy obligations of AAC not allocated to the Segregated Account remain in the general account of AAC; and, in addition, the Segregated Account contains a secured note issued by the general account (the “Secured Note”). Further, on March 24, 2010, OCI commenced rehabilitation proceedings with respect to the Segregated Account in the District Court of Dane County, Wisconsin to facilitate an orderly run-off and/or settlement of the liabilities in the Segregated Account.

² In this letter, the term “IRS” means the Internal Revenue Service; the term “Code” means the Internal Revenue Code of 1986, as amended; the term “Group” means the “affiliated group” (as defined in Section 1504(a) of the Code) of which AFGI is the common parent, and AAC (including the Segregated Account) is one of the members and the term “CDS Contracts” means all the CDS contracts identified in Attachment A as the pay-as-you-go credit default swap contracts and other CDS contracts with respect to which items of income, gain, deductions, or loss were reflected in any of the federal income tax returns filed by the Group for the tax years ending December 31, 2005, December 31, 2006, December 31, 2007, December 31, 2008, December 31, 2009 or December 31, 2010; the term “CDS Contracts” does not include the CDS contracts identified in Attachment B as CDS contracts with respect to which items of income, gain, deductions, or loss were not reflected in any of the federal income tax returns filed by the Group for the tax years ending December 31, 2005, December 31, 2006, December 31, 2007, December 31, 2008, December 31, 2009 or December 31, 2010; the term “Confirmation Order” means the plan of rehabilitation confirmation order; the term “Bank Settlement Notes” means the surplus notes issued by AAC on June 7, 2010 pursuant to the Settlement Agreement, dated June 7, 2010, among AAC and certain financial institutions as well as the issuance by the Segregated Account of \$50 million in surplus notes on July 29, 2010 in connection with a separate settlement, and the term “Plan of Reorganization” means AFGI’s reorganization plan submitted to the United States Bankruptcy Court for the Southern District of New York as finally amended and confirmed.

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On November 8, 2010, AFGI filed a voluntary case under Chapter 11 of Title 11 of the United States Code seeking bankruptcy protection (“Bankruptcy Case”). On November 9, 2010, AFGI commenced an adversary proceeding in connection with the Bankruptcy Case against the United States (“Adversary Proceeding”), seeking, in part, to obtain an injunction and a declaration that the Debtor applied the proper accounting method with respect to losses on the CDS Contracts. The Adversary Proceeding is captioned *Ambac Financial Group, Inc. and The Official Committee of Unsecured Creditors v. United States of America*, Adv. Pro. No. 10-4210 (SCC). On May 5, 2011, the United States filed its proofs of claim in the Bankruptcy Case against AFGI, thereby asserting a priority claim against the Debtor of \$807,242,021.91 (“IRS Claims”). The IRS Claims seek the return of the tentative tax refunds received by the Group resulting from the claimed recognition of losses in 2007 and 2008 with respect to the CDS Contracts. The Debtor filed its objection to the IRS Claims on June 5, 2011.

The United States has also sought to assert legal rights against AAC, under Treas. Reg §§ 1.1502-6(a) and 1.1502-78(b)(2), with respect to any deficiency or underpayment of federal taxes against the Group. As authorized by statute, OCI approved the creation of the Segregated Account, which OCI then placed into rehabilitation in the Wisconsin Circuit Court of Dane County (the “Rehabilitation Court”) on March 24, 2010, with the Wisconsin Commissioner of Insurance appointed as Rehabilitator. By order dated November 7, 2010, the Rehabilitation Court approved the allocation of AAC’s federal tax liability for all prior tax years, including any

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liability it may have with respect to the IRS Claims to the Segregated Account.³ On December 8, 2010, the United States removed the Wisconsin rehabilitation proceeding involving the Segregated Account to the United States District Court for the Western District of Wisconsin (the "District Court"). The Rehabilitator moved to remand the proceeding to the Rehabilitation Court, and on January 14, 2011, that motion was granted by the District Court. The United States appealed that decision to the United States Court of Appeals for the Seventh Circuit. On February 9, 2011, the United States filed a complaint and a motion for a preliminary injunction in the District Court seeking, inter alia, to enjoin enforcement of the injunction issued by the Rehabilitation Court and the Confirmation Order against the United States in a case captioned *United States of America v. Wisconsin State Circuit Court for Dane County*, Case No. 11-cv-099. The District Court dismissed that suit for lack of subject matter jurisdiction on February 18, 2011, and the United States filed a notice of appeal on February 22, 2011. The appeals at the Seventh Circuit are pending as Appeal Nos. 11-1158 and 11-1419.

On March 9, 2011, the United States appealed the Order of Confirmation entered by the Rehabilitation Court on January 24, 2011. That appeal, No. 2011-AP-987, was dismissed by the Wisconsin Court of Appeals. The Wisconsin Supreme Court subsequently granted the United States' Petition for Review. The matter has been briefed, argued before, and submitted for decision to the Wisconsin Supreme Court.

AFGI, AAC, the Official Creditors Committee, the Segregated Account, the Rehabilitator, and OCI offer to resolve and settle the disputes described above to avoid the

³ It is acknowledged that the United States disputes that this allocation was effective as to it.

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burden, expense and uncertainty of litigation. The terms of this offer (the "Offer") are as follows:

1. The proposed settlement shall not be effective until this offer has been accepted by the United States, such acceptance including having received a response of "no adverse criticism" from the Congressional Joint Committee on Taxation to effectuate the transactions contemplated in this letter, and the conditions in 28 C.F.R. § 0.163 relating to the settlement of appeals authorized by the Solicitor General shall also have been satisfied, and each of the other conditions below in this paragraph 1 have been satisfied.

- a. The Rehabilitation Court shall have entered an order approving the transactions contemplated in this letter.
- b. The United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") shall have entered an order approving the stipulated dismissal with prejudice of the Adversary Proceeding and approving the other transactions contemplated in this letter, including the Plan of Reorganization.
- c. AFGI (on behalf of itself, AAC, and the other members of the Group) and the IRS shall have entered into a closing agreement under section 7121 of the Code that provides as follows:
 - (1) The closing agreement finally and conclusively resolves the federal income tax liability (and any liabilities in respect of interest under section 6601 of the Code and additions to tax and penalties that may be imposed under the Code with respect to this income tax liability) of the Group for

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the tax years ending December 31, 2003 through and including December 31, 2009.

- (2) The closing agreement also finally and conclusively resolves the federal income tax liability (and any liabilities in respect of interest under section 6601 of the Code and additions to tax and penalties that may be imposed under the Code with respect to this income tax liability) of the Group for the tax year ending December 31, 2010, but only with regard to any income, gain, deduction, or loss on the Group's CDS Contracts.
- (3) The Group (and each of its members) will relinquish all claim to all loss carry-forwards, whether characterized as capital or ordinary, resulting from losses on the CDS Contracts arising on or before December 31, 2010, which might otherwise be available to the Group (or any of its members) to offset future taxable income of the Group (or any of its members) to the extent that these carry-forwards exceed \$3,400,000,000. The \$3,400,000,000 of losses shall be ordinary loss carry-forwards. The Group has also claimed losses that have arisen separate and apart from its CDS Contracts (the "non-CDS NOLs"), but the closing agreement will not address the non-CDS NOLs, to which the IRS reserves all of its rights.
- (4) Nothing contained in the closing agreement or settlement shall be considered an acceptance by the United States of AFGI's tax accounting methodology with respect to the CDS contracts nor an admission by AFGI

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that there were faults in its tax accounting methodology with respect to the CDS contracts. No inference shall be made from the execution of the closing agreement or settlement by the United States regarding the appropriate treatment of credit default swaps for federal income tax purposes.

- (5) The parties to the closing agreement acknowledge that such agreement is the product of arm's length negotiations and supersedes all prior communications, written or oral, with respect thereto. In connection with the negotiations to enter into a closing agreement that satisfies the conditions described in this paragraph 1(c), the Parties agree that no payment shall be required to be made by any members of the Group other than as described in paragraphs 2-4.
- d. Additional conditions precedent to the effectiveness of the proposed settlement are (i) AFGI (on behalf of itself, AAC, and the other members of the Group, whose written consent shall be obtained) and the IRS shall have entered into a closing agreement under section 7121 of the Code providing that neither the issuance of the Bank Settlement Notes⁴ nor the June 9, 2010 Event⁵ (A) caused

⁴ The IRS reserves its right to request a written opinion to be provided by KPMG relating to issues regarding the \$50 million in surplus notes issued on July 29, 2010, and to withhold a final conclusion on the issues set out above prior to receiving such written opinion.

⁵ The "June 9, 2010 Event" refers to AAC's nonpayment of dividends in full to the holders of the auction market preferred shares (AMPS) for six consecutive dividend payment dates thereby entitling the holders of the AMPS, subject to OCI's approval, to elect two members of the board of directors of AAC.

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AAC to fail to be a member of the “affiliated group” (as defined in section 1504(a) of the Code) of which AFGI was the common parent, or (B) resulted in an “ownership change” with respect to AAC for purposes of section 382 of the Code, and (ii) the Internal Revenue Service shall have issued a favorable private letter ruling (“PLR”) providing that upon emergence from bankruptcy AFGI would qualify for the Code section 382(l)(5) exception, without regard to section 382(l)(5)(D); the PLR will be based solely on the information and representations included in the private letter ruling request that shall be submitted by AFGI to the IRS within 60 days of the date of this Offer (the “Original PLR Request”). The condition precedent described in this subparagraph 1(d)(ii) will be satisfied upon the IRS’s issuance of such a PLR based upon the Original PLR Request. In connection with the negotiations relating to (i) and (ii) of this paragraph 1(d), the Parties agree that no payment shall be required to be made by any members of the Group other than as described in paragraphs 2 - 4.

- e. Another condition precedent to the effectiveness of the proposed settlement is that the United States and the Segregated Account shall enter into a separate and independent agreement to create and maintain an escrow account holding a balance of not less than \$100 million in cash or Qualifying Investments as defined in the Escrow Agreement -(the “Escrow Account”). The terms and conditions of
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the Escrow Account are set forth in the form of Escrow Agreement attached hereto as Appendix A.

- f. Approval of the terms of the proposed settlement agreement as set forth herein by the AFGI and AAC Boards of Directors (the "Boards"). Written notice will be provided to the United States within five (5) days of the Boards' vote whether to accept or reject the terms of the Offer, and, after May 31, 2012, approval shall be deemed to have occurred unless notice to the contrary is provided to the United States.

2. Within ten (10) business days following satisfaction of all conditions set forth in paragraph 1: (i) AFGI will pay the United States Department of the Treasury one million nine hundred thousand dollars (\$1,900,000); and (ii) AAC and/or the Segregated Account will pay the United States Department of the Treasury one hundred million dollars (\$100,000,000). The manner in which AAC and/or the Segregated Account effectuates the payment to the IRS will not be construed as a concession of any legal issue by any of the Parties. The payments that are described in the first sentence of this Paragraph 2 and the payments described in paragraphs 3 and 4 will be in full and final satisfaction of the federal income tax liability (and any liabilities in respect of interest under section 6601 of the Code and additions to tax and penalties that may be imposed under the Code with respect to this income tax liability) of the Group to the IRS for (i) the tax years ending December 31, 2003 through December 31, 2009; and (ii) the tax year ending December 31, 2010, but only with regard to items of income, gain, deduction, or loss on the Group's CDS Contracts. Effective at the time of the payment described in the first sentence of

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this paragraph 2, the Group (and all of its members, including AAC) shall waive forever any right to claim any overpayment of any federal income tax, liability (and any overpayment of interest, additions to tax, or penalties with respect to this income tax liability) of the Group for any tax period ended prior to January 1, 2010 and any right to claim any overpayment of any federal income tax liability (and any overpayment of interest, additions to tax, or penalties with respect to this income tax liability), of the Group with regard to items of income, gain, deduction, or loss on the CDS Contracts for the tax year ended December 31, 2010. No portion of the AFGI and AAC payments will be attributable to additions to tax or other penalties under chapter 68 of the Code. No portion of the AFGI and AAC payments, and no portion of the Tier C and Tier D IRS Payments described in paragraphs 3 and 4 below, shall be claimed as a deduction or other tax benefit on any federal tax return for the year of this settlement or any future year.

3. Following the effectiveness of the Tax Sharing Agreement between AFGI and AAC, which is attached as Exhibit A to the Plan of Reorganization (the "TSA"), and the satisfaction of all conditions set forth in paragraph 1, AFGI will pay the IRS an amount equal to twelve and a half percent (12.5%) of any payment made to AFGI by AAC associated with the net operating loss ("NOL") Usage Tier C as defined in the TSA (the "Tier C IRS Payment"). The Tier C IRS Payment, if any, shall be made within five (5) business days following AFGI's receipt of the Tier C payment, if any, made by AAC to AFGI.

4. Following the effectiveness of the TSA and the satisfaction of all conditions set forth in paragraph 1, AFGI will pay the IRS an amount equal to seventeen and a half percent (17.5%) of any payment made to AFGI by AAC associated with the NOL Usage Tier D as

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defined in the TSA (the "Tier D IRS Payment"). The Tier D IRS Payment, if any, shall be made within five (5) business days following AFGI's receipt of the Tier D payment, if any, made by AAC to AFGI.

5. With respect to the Tier C and Tier D payments made by AAC to AFGI, AFGI will disclose in its annual federal tax return the amount of such payments received from AAC for the applicable year. The right of the IRS to receive the Tier C IRS and Tier D IRS Payments shall not be treated for federal income tax purposes or any other purpose as an equity interest in AFGI or in AAC, and AFGI's failure to make Tier C IRS and Tier D IRS Payments will not give the IRS a claim against the Segregated Account, the general account of AAC, or any subsidiary of AAC.

6. Following the satisfaction of all conditions set forth in paragraphs 1 and 2, OCI, the Segregated Account, the Rehabilitator, and AAC will, upon the request of the United States, state in writing to the court that they support any motion brought by the United States seeking to vacate (i) the Opinion and Order entered on January 14, 2011 by the United States District Court for the Western District of Wisconsin in the proceeding captioned *Theodore Nickel v. United States of America*, Case No. 10-cv-778 and (ii) the Opinion and Order entered on February 18, 2011 by the United States District Court for the Western District of Wisconsin in the proceeding captioned *United States of America v. Wisconsin State Circuit Court for Dane County*, Case No. 11-cv-099.

7. Following the satisfaction of all conditions set forth in paragraphs 1 and 2, upon stipulation, the United States, the Rehabilitator, OCI, AAC and the Segregated Account, shall

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dismiss with prejudice the two cases that are currently pending before the U.S. Court of Appeals for the Seventh Circuit and captioned as *Theodore Nickel v. United States of America*, Case No. 11-1158 and *United States of America v. Wisconsin State Circuit Court for Dane County, et. al.*, Case No. 11-1419.

8. Following the satisfaction of all conditions set forth in paragraphs 1 and 2, the IRS Claims filed in AFGI's Chapter 11 Bankruptcy Case, presently pending before the United States Bankruptcy Court for the Southern District of New York, shall be deemed allowed in the amount of \$120,000,000.00 which will be fully satisfied upon receipt by the United States Department of the Treasury of the payments described in paragraph 2 and the payment, if any, described in paragraphs 3 and 4 above, and the IRS Claims will be deemed disallowed in any greater amount. The \$120,000,000.00 offer is for settlement purposes only and the Segregated Account and AAC shall have no liability for any unpaid portion of this claim following satisfaction of the conditions in paragraphs 1 and 2, *supra*. Furthermore, no cancellation of debt income shall arise with respect to the Group should no payments be made pursuant to paragraphs 3 and 4 above, or should such payments fail to bring the aggregate of payments, including those described in paragraph 2 above, to an amount equal or exceeding \$120,000,000.

9. Following the satisfaction of all conditions set forth in paragraphs 1 and 2, by stipulation, the United States and AFGI shall dismiss with prejudice the Adversary Proceeding, presently pending before the United States Bankruptcy Court for the Southern District of New York (Case No. 10-4210) and the motion to withdraw the reference, presently pending before the United States District Court for the Southern District of New York.

Messrs. Bharara and DiCicco
February 24, 2012
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10. This Offer shall be conditioned upon the satisfaction of each of the following conditions:
 - a. The Seventh Circuit Court shall hold off rescheduling oral argument and not issue any dispositive order, judgment or other ruling on the merits with respect to appeal No. 11-1158 or Appeal No. 11-1419.
 - b. Between the time the Offer is submitted to the United States and such time as the parties either (1) satisfy all the conditions for the settlement to be effective set forth in paragraphs 1 and 2 above or (2) determine that said conditions will not be satisfied, the United States will not submit any claim in the Rehabilitation Court or Bankruptcy Case or take any other collection action (whether by assessment, levy, or by asserting the existence of a lien, or otherwise) with respect to any federal income tax liability presently being asserted by the United States as to AFGI, AAC or any other member of the Group for the 2010 tax year or any prior tax year, and will not seek to remove the rehabilitation proceeding from the Rehabilitation Court or object to any motion of the Rehabilitator (except as to any motion that is inconsistent with the settlement terms set forth herein). The United States, nevertheless, retains the right to submit a claim in the Rehabilitation Court or in the Bankruptcy Case if such is necessary to satisfy a claims deadline established by the Rehabilitation Court or the Bankruptcy Court.
11. The Segregated Account, OCI, AAC and the United States shall each be free to write the Wisconsin Supreme Court (and to respond to representations made in contacts by other

Messrs. Bharara and DiCicco
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parties) with respect to the United States' appeal to that court, No. 2011-AP-987, if the Supreme Court has not before then issued its final decision with respect to that appeal. In those written submissions, no party shall request a stay or dismissal of the proceedings before the Wisconsin Supreme Court.

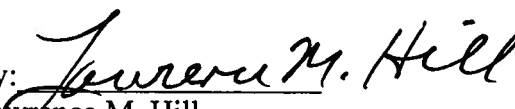
If, prior to the consummation of this proposed settlement, the Wisconsin Supreme Court issues a ruling that is favorable to the United States and that results in a remand to either the Wisconsin Court of Appeals or the Rehabilitation Court, the United States will promptly move to stay proceedings in the court to which proceedings have been remanded and will later dismiss with prejudice its case then pending before the Wisconsin Court of Appeals or the Rehabilitation Court, and any objection to the Rehabilitation Court's orders, upon satisfaction of the conditions set forth in paragraphs 1 and 2.

12. The Offer is valid unless and until withdrawn in writing by the Debtor, AAC, OCI, the Segregated Account or the Official Creditors Committee.

13. Except as to the terms contained herein in paragraph 1.e, no term contained within this Offer will have any force or effect if settlement is not consummated.

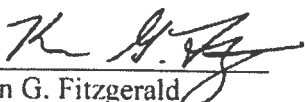
Respectfully submitted,

Dewey & LeBoeuf LLP

By: 
Lawrence M. Hill
Counsel for Debtor and AAC

Messrs. Bharara and DiCicco
February 24, 2012
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Foley & Lardner LLP

By: 
Kevin G. Fitzgerald
Counsel for the Segregated
Account, the Rehabilitator, and
OCI

Morrison & Foerster LLP

By: _____
Anthony Princi
Counsel for the Official Creditors
Committee

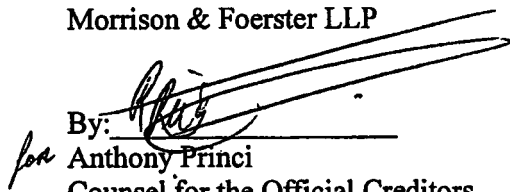
cc: Jeannette A. Vargas
Daniel P. Filor
Ellen London
Carina H. Schoenberger
Anthony T. Sheehan
Roger A. Peterson
Michael B. Van Sicklen
Edward Froelich
Robert Kovacev
Sashka Koleva

Messrs. Bharara and DiCicco
February 24, 2012
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By: _____
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By:  _____
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Committee

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Carina H. Schoenberger
Anthony T. Sheehan
Roger A. Peterson
Michael B. Van Sicklen
Edward Froelich
Robert Kovacev
Sashka Koleva

Attachment A - Updated

Deal ID	Deal Name
CDS1999-04	CBO 1999-04 (AXA2)
CDS2000-01	CBO 2000-01 (RSA and RSA Additions)
CDS2000-02	ABS 2000-02 (Rabo-Stuyvesant)
CDS2000-03	ABS 2000-03 (APEX IDM)
CDS2000-04	CBO 2000-04 (BNP Olan 2)
CDS2000-07	BARCLAYS 85/15
CDS2000-08	CBO 2000-08 (Taurus 4)
CDS2000-09	CBO 2000-09 (CL Sirius)
CDS2000-10	CBO 2000-10 (Natexis IGLOO)
CDS2000-11	CBO 2000-11 (Eirles 2)
CDS2000-12	CBO 2000-02 (Taurus 2)
CDS2000-13	CBO 2000-03 (Triplets)
CDS2000-14	TRIPLETS B
CDS2000-15	EM 2000-01 (Barclays)
CDS2000-16	EM 2000-02 (Barclays)
CDS2000-17	CDS 2006-17 (HAUS)
CDS2000-18	HAUS 2
CDS2001-01	ABS 2001-01 (Equinox)
CDS2001-02	ABS 2001-02 (Rabo-Stuyvesant 2)
CDS2001-04	ABS 2001-04 (TD Wayland 2)
CDS2001-06	ABS 2001-06 (APEX Trimaran)
CDS2001-07	ABS 2001-07 (TD Sankaty 3)
CDS2001-08	ABS 2001-08 (TD Sankaty 3)
CDS2001-09	ABS 2001-09 (TD Goldentree)
CDS2001-10	ABS 2001-10 (GSC)
CDS2001-12	CBO 2001-01 (BNP EuroLiberte)
CDS2001-13	CBO 2001-02 (Mitsui)
CDS2001-14	CBO 2001-04 (Dresdner Ace)
CDS2002-02	ABS 2002-02 (TD Goldentree 2A)
CDS2002-03	ABS 2002-03 (TD Goldentree 2B)
CDS2002-04	ABS 2002-04 (Macquarie)
CDS2002-05	ABS 2002-05 (Zing 4)
CDS2002-06	ABS 2002-06 (Provident)
CDS2002-09	ABS 2002-09 (Goldentree Loan Opportunities)
CDS2002-10	ABS 2002-10 (SVAR)
CDS2002-11	ABS 2002-11 (Bryn Mawr)
CDS2002-12	CDS 2002-12 (Landmark)
CDS2002-13	ABS 2002-13 (Rabo-Stuyvesant 4)
CDS2002-14	CDS 2002-14 (MS CARDINAL)
CDS2002-15	CDS 2002-15 (RABO CARDINAL)
CDS2002-16	CDS 2002-16 (SOCGEN CARDINAL)
CDS2002-22	CBO 2002-02 (Petra 2)
CDS2002-23	CBO 2002-03 (Jasco)
CDS2002-24	CBO 2002-04 (Mitsui 2)
CDS2002-25	CBO 2002-05 (Atlantic)
CDS2002-26	CBO 2002-06 (Petra 3)

- CDS2002-31 CDS 2002-31 (Provide Residence 2)
- CDS2003-04 CDS 2003-04 (EMERALD A)
- CDS2003-07 ABS 2003-07 (Carlyle Loan Opportunities)
- CDS2003-08 CDS 2003-08 (EMERALD B)
- CDS2003-09 ABS 2003-09 (Promus)
- CDS2003-10 CDS 2003-10 (RENDITE)
- CDS2003-14 CBO 2003-01 (UFJ Ruby)
- CDS2003-16 CDS 2003-16 (PROVIDE ORANGE)
- CDS2004-01 Synthetic ABS 2004-1 (Pooled Property Catastrophe)
- CDS2004-02 CDS 2004-02 (MOUNTAIN CAPITAL)
- CDS2004-03 ABS 2004-03 (SISF)
- CDS2004-11 CDS 2004-11 (HSBC GULF STREAM 2)
- CDS2004-13 CDS 2004-13 (HSBC VERITAS)
- CDS2004-16 ABS 2004-16 (Harbourmaster)
- CDS2004-17 CDS 2004-17 (CHEYNE)
- CDS2004-20 ABS 2004-20 (Stone Tower)
- CDS2004-22 ABS 2004-22 (RAMP)
- CDS2005-01 ABS 2005-01 (Stanton)
- CDS2005-06 ABS 2005-06 (Swiss Re Landmark V)
- CDS2005-07 CDS 2005-07 (GALAXY IV CLASS A-1)
- CDS2005-08 CDS 2005-08 (GALAXY IV CLASS A-2)
- CDS2005-10 ABS 2005-10 (Class V Funding)
- CDS2005-11 ABS 2005-11 (BSAM Calyon)
- CDS2005-12 ABS 2005-12 (BSAM SocGen)
- CDS2005-13 ABS 2005-13 (BSAM Barclays)
- CDS2005-15 ABS 2005-15 (Palmer Square)
- CDS2005-16 CDS 2005-16 (RAMP II)
- CDS2005-18 ABS 2005-18 (Belle Haven)
- CDS2005-19 CDS 2005-19 (CREDIT GENESIS I)
- CDS2005-20 CDS 2005-20 (CREDIT GENESIS II)
- CDS2005-21 ABS 2005-21 (SISF II)
- CDS2005-27 ABS 2005-27 (Alesco VIII CIBC)
- CDS2005-28 CDS 2005-26 (ALESCO VIII CIBC 2)
- CDS2005-29 ABS 2005-29 (Alesco VIII HSBC)
- CDS2005-30 ABS 2005-30 (Duke Funding Calyon)
- CDS2005-31 ABS 2005-31 (Duke Funding Dresdner A-1B1)
- CDS2005-32 DUKE FUNDING DRESDNER A-1B2
- CDS2005-33 CDS 2005-33 (BERNARD LOAN INVESTORS)
- CDS2005-34 ABS 2005-34 (Pascal)
- CDS2005-40 CDS 2005-40 (GALAXY V IXIS A-1)
- CDS2005-41 CDS 2005-41 (GALAXY V IXIS A-2)
- CDS2005-44 ABS 2005-44 (Stone Tower II)
- CDS2005-50 CDS 2005-50 (EUROCREDIT OPPORTUNITIES)
- CDS2005-51 CDS 2005-51 (EUROCREDIT REVOLVER)
- CDS2005-53 ABS 2005-53 (Hereford)
- CDS2005-54 ABS 2005-54 (Tremonia)
- CDS2005-55 CDS 2005-55 (ALESCO IX)
- CDS2005-56 CDS 2005-56 (Master Funding)
- CDS2005-58 MBS 2005-02 (Armor)
- CDS2006-02 DUKE FUNDING IV

- CDS2006-04 (SANKATY III HSBC)
- CDS2006-05 (SANKATY III RBS A-1A)
- CDS2006-06 (SANKATY III RBS A-1B)
- ABS 2006-08 (Tricadia)
- ABS 2006-14 (Abbey Millerton)
- ABS 2006-15 (RBS Millerton)
- ABS 2006-16 (SocGen Millerton)
- ABS 2006-17 (Barclays Millerton)
- ABS 2006-18 (Longshore)
- ABS 2006-21 (Lancer)
- CDS 2006-26 (SWIFT TRUST IX)
- ABS 2006-28 (WG Horizons)
- CDS 2006-29 (EUROCREDIT ICG TAP)
- ABS 2006-30 (Belle Haven II Rabobank)
- ABS 2006-31 (Belle Haven II Barclays)
- ABS 2006-32 (Belle Haven II Abbey)
- ABS 2006-33 (Belle Haven II BBVA)
- ABS 2006-34 (Rockwall)
- DIVERSEY HARBOR A-1M
- DIVERSEY HARBOR A-1Q
- ABS 2006-37 (Tricadia II)
- ABS 2006-38 (Belle Haven II UBS)
- CDS 2006-39 (Belle Haven II LEHMAN)
- ABS 2006-40 (SISF III Super Senior)
- CDS 2006-41 (EUROCREDIT ICG RBC)
- ABS 2006-42 (SISF III AAA)
- ABS 2006-43 (SISF III Aa3)
- ABS 2006-44 (SISF III A3)
- CDS 2006-48 (EUROCREDIT OPPORTUNITIES)
- ABS 2006-50 (Ballantyne Re)
- DUKE FUNDING V
- Cairn II
- ABS 2006-53 (Ridgeway A-1M)
- ABS 2006-54 (Ridgeway A-1Q)ABS 2006-54 (Ridgeway A-1Q)
- ABS 2006-59 (ESP Funding I IXIS)
- ABS 2006-60 (ESP Funding I A-1R)
- ABS 2006-61 (ESP Funding I A-1T1)
- CDS 2006-62 (EUROCREDIT OPPS TAP A-3)
- CDS 2006-63 (EUROCREDIT OPPS VF-3 REVOLVER)
- ABS 2006-64 (McKinley A-1 Abbey)
- MCKINLEY A-1 CIBC
- CDS 2006-70 (Korea FM A-1A)
- ABS 2006-79 (McKinley A-1 BNPP)
- MCKINLEY A-1 IXIS
- ABS 2006-81 (Clydesdale A-1 ML)
- ABS 2006-83 (Osprey)
- ABS 2006-85 (Venture A-1A ML)
- ABS 2006-86 (Venture A-1A HSBC)
- ABS 2006-87 (Bacchus)
- ABS 2007-02 (Citation A-1 UBS)
- CITATION A-1 CIBC

CDS2007-04	CDS 2007-04 (VAKIF 2006-C)
CDS2007-05	ABS 2007-05 (Ballantyne Re 2)
CDS2007-07	ABS 2007-07 (Citation A-1 BNPP)
CDS2007-10	888 Tactical Fund, Ltd.
CDS2007-11	Class V Funding III, Ltd.
CDS2007-12	Kleros Preferred Funding VI, Ltd.
CDS2007-13	ABS 2007-13 (Penta A-1)
CDS2007-14	ABS 2007-14 (Rockwall II HBOS)
CDS2007-17	ABS 2007-17 (Rockwall II SocGen)
CDS2007-20	CDS 2007-20 (Sankaty High Yield Partners III)
CDS2007-23	ABS 2007-23 (Avenue VI HBOS)
CDS2007-27	Fiorente Funding
CDS2007-29	ABS 2007-29 (Fore CLO A-1A HBOS)
CDS2007-29	ABS 2007-30 (Fore CLO A-1B HBOS)
CDS2007-31	ABS 2007-31 (Ocean Trails II ML)
CDS2007-33	ABS 2007-33 (Ridgeway II A-1A)
CDS2007-33	ABS 2007-43 (Ridgeway II A-1B)
CDS2007-33	ABS 2007-44 (Ridgeway II A-1C)
CDS2007-34	ABS 2007-34 (Adam Square)
CDS2007-35	AA CDO Squared Bespoke
CDS2007-39	CDS 2007-39 (SISF IV AAA)
CDS2007-40	CDS 2007-40 (SISF IV AA2)
CDS2007-47	ABS 2007-55 (Citicorp Mortgage Trust 2007-1)
CDS2007-48	ABS 2007-56 (Citicorp Mortgage Trust 2007-2)
CDS2007-50	ABS 2007-58 (Wood Street)
CDSUK2001-03	DEPFA AG MEDHOME
CDSUK2001-11	ABS UK 2001-01 (JPM BWBI Bistro)
CDSUK2001-15	CDS UK 2001-15 (DEPFA Provide Home SR)
CDSUK2001-16	CDS UK 2001-16 (DEPFA Provide Home JR)
CDSUK2001-18	CDSUK2001-18 (DEPFA PFAND MEDHOME)
CDSUK2002-21	CBO UK 2002-01 (BGB Rhea)
CDSUK2002-28	CDS UK 2002-28 (Provide Residence SR)
CDSUK2002-29	CDS UK 2002-29 (Provide Residence JR)
CDSUK2002-30	CDSUK2002-30 (AAREAL PROVIDE HOME)
CDSUK2003-15	SMBC 03
CDSUK2006-62	CDS UK 2006-62 (ATLAS III)
CDSUK2006-63	CBO UK 2006-01 (SMBC 06)

Attachment B

<u>Policy Number</u>	<u>CDS Policy Name</u>
CDS2002-07	Carlisle High Yield Partners IV, Ltd
CDS2002-08	Carlisle High Yield Partners IV, Ltd
CDS2002-17	Intercontinental CDO S.A.
CDS2002-18	Mayfair Euro CDO I BV
CDS2002-19	Castle Hill I - INGOTS, Ltd.
CDS2002-20	Castle Hill I - INGOTS, Ltd.
CDS2003-02	Gulf Stream - Compass CLO Ltd.
CDS2003-03	Longhorn CDO III, Ltd.
CDS2003-05	Forest Creek CLO Ltd. Class IA Notes
CDS2003-06	Pacifica CDO, Ltd. Class A1 Notes
CDS2003-11	GSC Partners CDO Fund, Limited
CDS2003-12	Avery Point CLO, Limited
CDS2003-13	Landmark III CDO Limited
CDS2004-04	Canyon Capital CLO 2004-1Limited
CDS2004-05	Canyon Capital CLO 2004-1Limited
CDS2004-06	Canyon Capital CLO 2004-1Limited
CDS2004-07	Canyon Capital CLO 2004-1Limited
CDS2004-08	Whitehorse Ltd. 2004-1A
CDS2004-09	Gulf Stream - Compass CLO Ltd.
CDS2004-10	Gulf Stream - Compass CLO Ltd.
CDS2004-12	Veritas CLO Ltd. 2004-1A
CDS2004-14	Stanfield Modena CLO, Ltd. 2004-1A
CDS2004-15	Stanfield Modena CLO, Ltd. 2004-1A
CDS2004-18	Essential Public Infrastructure Capital Plc
CDS2004-19	TIB Diversified Payment Rights Finance Company
CDS2004-21	Avenue CLO Fund Ltd.
CDS2005-02	Field Point I, Limited
CDS2005-03	Field Point II, Limited
CDS2005-04	Helios Series I Multi Asset CBO, Ltd. Class A
CDS2005-05	Landmark V CDO Ltd.
CDS2005-09	Hamlet Leveraged Loan Fund BV Class A
CDS2005-14	Black Diamond International Funding
CDS2005-17	National Collegiate Student Loan Trust
CDS2005-22	GEM VIII LTD
CDS2005-23	GEM VIII LTD
CDS2005-24	ACA CLO Limited
CDS2005-25	Avenue CLO Fund Ltd.
CDS2005-26	Avenue CLO Fund Ltd.
CDS2005-35	NYLIM FLATIRON CLO LTD
CDS2005-36	NYLIM FLATIRON CLO LTD
CDS2005-37	NYLIM FLATIRON CLO LTD
CDS2005-38	Galaxy V CLO, Ltd
CDS2005-39	Galaxy V CLO, Ltd
CDS2005-42	Gulf Stream - Compass CLO Ltd.
CDS2005-43	National Collegiate Student Loan Trust
CDS2005-45	York Enhanced Strategies Fund, LLC
CDS2005-46	CLYDESDALE CLO 2001-1 LTD
CDS2005-47	CLYDESDALE CLO 2001-1 LTD
CDS2005-48	Gleneagles CLO, Ltd
CDS2005-49	OWS CLO I Ltd
CDS2005-52	Turkiye Garanti Bankasi A.S.
CDS2006-01	York Enhanced Strategies Fund, LLC
CDS2006-03	Kennecott Funding LTD
CDS2006-07	Whitehorse III Ltd
CDS2006-09	Japan Finance Corporation for Municipal Enterprises
CDS2006-10	Aurora Military Housing LLC
CDS2006-11	Aurora Military Housing LLC

CDS2006-12	Aurora Military Housing LLC
CDS2006-13	Aurora Military Housing LLC
CDS2006-19	Vector Limited
CDS2006-20	Vector Limited
CDS2006-22	Transurban Finance Company Pty Ltd
CDS2006-23	Race Point III CLO Ltd
CDS2006-24	Jay Street Market Value CDO I Ltd
CDS2006-25	Leopard CLO IV
CDS2006-27	Avenue CLO III, LTD
CDS2006-45	Fairway Loan Funding Company
CDS2006-46	Fairway Loan Funding Company
CDS2006-47	ACA CLO 2006-1 LTD
CDS2006-49	FIP Funding Srl
CDS2006-55	Laurelin B.V.
CDS2006-56	Laurelin B.V.
CDS2006-57	Oak Hill Credit Opportunities Funding
CDS2006-58	Oak Hill Credit Opportunities Funding
CDS2006-66	Cadogan Square CLO III B.V.
CDS2006-67	Mayport CLO, Ltd
CDS2006-68	Mayport CLO Ltd
CDS2006-69	Yapi Kredit DPR Finance Company
CDS2006-71	Korea First Mortgage No. 6 Ltd
CDS2006-72	Korea First Mortgage No. 6 Ltd
CDS2006-73	Harbourmaster 7 CLO B.V.
CDS2006-74	Harbourmaster 7 CLO B.V.
CDS2006-75	Ocean Trails CLO I
CDS2006-76	Cairn CLO I B.V.
CDS2006-77	Cairn CLO I B.V.
CDS2006-78	Cairn CLO I B.V.
CDS2006-82	Clydesdale CLO 2006, Ltd
CDS2006-84	Venture VII CDO Ltd.
CDS2007-01	Whitehorse IV, Ltd.
CDS2007-06	German Residential Funding plc
CDS2007-08	Oak Hill Securities Fund II
CDS2007-09	Golden Knight II CLO, Ltd.
CDS2007-15	Reliance Rail Pty Limited
CDS2007-16	Reliance Rail Pty Limited
CDS2007-18	Harvest CLO V P.L.C.
CDS2007-19	Harvest CLO V P.L.C.
CDS2007-21	Avenue CLO VI, Ltd
CDS2007-22	ABCLO 2007-1, Ltd
CDS2007-24	Theatre (Hospitals) plc
CDS2007-25	Theatre (Hospitals) plc
CDS2007-26	OHSF II Financing, Ltd
CDS2007-28	Dublin Oak Ltd
CDS2007-30	Fore CLO Ltd 2007-1
CDS2007-32	Ocean Trails CLO II
CDS2007-37	ACA Euro CLO 2007-1 PLC
CDS2007-38	ACA Euro CLO 2007-1 PLC
CDS2007-41	Kinney Hill Credit Opportunities Fund, Ltd
CDS2007-42	Kinney Hill Credit Opportunities Fund, Ltd
CDS2007-43	Waterfront CLO 2007-1, Ltd
CDS2007-44	Euro-Galaxy II CLO B.V.
CDS2007-45	Laurelin II B.V.
CDS2007-46	Cairn CLO II B.V.
CDS2007-49	Energy Partnership (Gas) Pty Ltd
CDS2007-51	Ares XI CLO
CDS2007-52	Avoca Credit
CDS2007-53	Laurelin II B.V.
CDS2007-54	Cairn CLO II B.V.
CDS2007-55	Laurelin II B.V.
CDS2007-56	Calrn CLO II B.V.

CDS2007-57	Avoca Credit
CDS2007-58	Powercor Australia LLC
	Nexus Australia Management Pty - \$A486m MBIA-wrapped medium term
CDS2007-59	notes due 8/31/2015
CDS2007-60	National Collegiate Student Loan Trust
CDS2007-61	Sanef
CDS2007-62	Sanef

APPENDIX A

SUBMITTED PURSUANT TO FRE 408 AND
WISCONSIN STATUTE SECTION 904.08
FOR SETTLEMENT PURPOSES

**THE
BANK OF
NEW
YORK Mellon**

ESCROW AGREEMENT

between

THE SEGREGATED ACCOUNT
OF AMBAC ASSURANCE CORPORATION,
UNITED STATES OF AMERICA

and

THE BANK OF NEW YORK MELLON

Dated as of _____, 2012

ACCOUNT NUMBER (S) _____

SHORT TITLE OF ACCOUNT _____

THIS ESCROW AGREEMENT made this _____ day of 2012 (the "Escrow Agreement") by and between THE BANK OF NEW YORK MELLON ("Escrow Agent"), the Segregated Account of Ambac Assurance Corporation, a segregated account established in accordance with Wis. Stat. § 611.24(2) (the "Segregated Account"), and the United States of America ("USA").

Whereas, on November 8, 2010, Ambac Financial Group, Inc., a Delaware corporation ("AFG"), commenced a voluntary case under chapter 11 of the United States Bankruptcy Code, known case number 10-15973 (SCC) (the "Bankruptcy Case"), in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court").

Whereas, on November 9, 2010, AFG commenced an adversary proceeding in connection with the Bankruptcy Case against USA, entitled Ambac Financial Group, Inc. and The Official Committee of Unsecured Creditors v. United States of America and known as Adv. Pro. No. 10-4210 (SCC) (the "Adversary Proceeding"), seeking, in part, to obtain an injunction and a declaration that AFG applied the proper accounting method with respect to losses on certain credit default swap contracts (the "CDS Contracts").

Whereas, on May 5, 2011, USA filed its proofs of claim in the Bankruptcy Case against AFG, thereby asserting a priority claim against AFG in the amount of \$807,242,021.91 (the "IRS Claims"). The IRS Claims seek the return of the tentative tax refunds received by the AFG tax group (the "Group") resulting from the claimed recognition of losses in 2007 and 2008 with respect to the CDS Contracts. AFG filed its objection to the IRS Claims on June 5, 2011.

Whereas, USA has also sought to assert legal rights against AFG's subsidiary, Ambac Assurance Corporation ("AAC"), under Treas. Reg §§ 1.1502-6(a) and 1.1502-78(b)(2), with respect to any deficiency or underpayment of federal taxes against the Group.

Whereas, the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI") approved the creation of the Segregated Account, which OCI then placed into rehabilitation in the Wisconsin Circuit Court of Dane County (the "Rehabilitation Court") on March 24, 2010 in the matter entitled In the Matter of Rehabilitation Segregated Account of Ambac Assurance

Corporation and known as Case Number 10-CV-1576 (the "Rehabilitation Case") and in which the Wisconsin Commissioner of Insurance was appointed as the rehabilitator of the Segregated Account (the "Rehabilitator").

Whereas, by order dated November 7, 2010, the Rehabilitation Court approved the allocation of AAC's federal tax liability for all prior tax years, including any liability it may have with respect to the IRS Claims, to the Segregated Account, and issued an injunction enjoining *inter alia* USA from taking certain action against the property and assets of AAC and the Segregated Account.¹

Whereas, on December 8, 2010, USA removed the Rehabilitation Case to the United States District Court for the Western District of Wisconsin (the "District Court"). The Rehabilitator thereafter moved to remand the Rehabilitation Case back to the Rehabilitation Court, and on January 14, 2011, that motion was granted by the District Court. USA thereupon appealed that decision to the United States Court of Appeals for the Seventh Circuit (the "Seventh Circuit"). On February 9, 2011, USA filed a complaint and a motion for a preliminary injunction in the District Court seeking, *inter alia*, to enjoin enforcement of the injunction issued by the Rehabilitation Court and the Confirmation Order against USA in a case entitled United States of America v. Wisconsin State Circuit Court for Dane County and known as Case No. 11-cv-099. The District Court dismissed that suit for lack of subject matter jurisdiction on February 18, 2011, and USA filed a notice of appeal on February 22, 2011. The appeals at the Seventh Circuit are pending as Appeal Nos. 11-1158 and 11-1419 (collectively, the "Federal Appeals").

Whereas, AFG, AAC, the Segregated Account and USA, among others, have negotiated in regard to the terms of an offer letter that would, upon acceptance by USA and the satisfaction of the other conditions set forth therein, resolve, among other things, their disputes relative to the Adversary Proceeding, the CDS Contracts, the Federal Appeals and the IRS Claims (the "Offer Letter").

Whereas, the effectiveness of the Offer Letter is conditioned upon, among other things, the entry by the Segregated Account and USA into a mutually acceptable escrow agreement relative to the establishment and maintenance of an escrow account holding a balance of \$100 million in cash, cash equivalents and qualifying securities and other investments (the "Escrow Condition").

Whereas, the Segregated Account and USA wish to satisfy the Escrow Condition through the entry into this Escrow Agreement.

¹ It is acknowledged that the United States disputes that the allocation and injunction are effective as to it.

The Segregated Account, USA and Escrow Agent hereby agree that, in consideration of the mutual promises and covenants contained herein, Escrow Agent shall hold in escrow and shall distribute Escrow Property in accordance with and subject to the following Instructions and Terms and Conditions:

I. INSTRUCTIONS:

1. Escrow Property

Within ten calendar days of the last to occur of the following two events:

(a) the execution and delivery of this Escrow Agreement by the parties hereto; and

(b) the delivery of the fully executed final Offer Letter to the USA.

the Segregated Account shall draw upon the Secured Note approved by the Rehabilitation Court on March 24, 2010 and use such proceeds to fund a deposit with the Escrow Agent no less than \$100 million in aggregate fair market value of (i) cash, (ii) cash equivalents, (iii) municipal bonds, corporate bonds and/or asset-backed securities having a rating of at least A-, A-, A3 from either Standard & Poor's, Fitch Ratings or Moody's Corporation, respectively, and (iv) securities and investments issued by USA or backed by the full faith and credit of USA (each, a "Qualifying Investment" and collectively, the "Qualifying Investments"). This escrow agreement shall not be effective unless and until the Escrow Agent actually receives a sum of not less than \$100 million in aggregate fair market value of Qualifying Investments.

The foregoing property, plus all interest, dividends and other distributions and payments thereon (collectively the "Distributions") received by Escrow Agent, less funds distributed in accordance with this Escrow Agreement, are collectively referred to herein as "Escrow Property."

2. Investment of Escrow Property

The Escrow Agent shall invest, or reinvest, the Escrow Property in Qualifying Investments in accordance with the written investment directions from the Segregated Account or from AAC in its capacity as management services provider for the Segregated Account. The Segregated Account directly, or through AAC as management services provider, may issue subsequent written investment directions at any time, subject only to the requirement that the Escrow Property be invested in Qualifying Investments.

Escrow Agent shall have no liability for any loss arising from or related to any such investment other than in accordance with paragraph 5 of the Terms and Conditions.

3. Distribution of Escrow Property

Escrow Agent is directed to hold and distribute the Escrow Property in the following manner:

Promptly following receipt of a written instruction from the Segregated Account, which may be issued at any time, Escrow Agent shall distribute the portion of the Escrow Property in excess of \$100 million in value (the "Excess Escrow Property") to the Segregated Account in accordance with the wiring instructions provided by the Segregated Account. The Escrow Property less the Excess Escrow Property is hereafter referred to as the "Net Escrow Property."

The Net Escrow Property, subject to reinvestment in accordance with paragraph 2 above and replacement with other Qualifying Investments of equal or greater value, shall be maintained uninterrupted and undiminished from the date of its receipt forward until it is used for the purpose of making a voluntary settlement payment by the Segregated Account to USA in accordance with a joint written instruction from the Segregated Account and USA; provided, however, that the Segregated Account shall be entitled to fund the settlement payment to USA, otherwise replace the Net Escrow Property, with other funds equal to the value of the Net Escrow Property, in which case the Escrow Agent shall distribute the Net Escrow Property to the Segregated Account. Contemporaneous with the distribution of any Net Escrow Property under this paragraph, Escrow Agent shall distribute any as yet undistributed Excess Escrow Property to the Segregated Account in accordance with the wiring instructions provided by the Segregated Account or AAC as its management services provider.

Otherwise, the Net Escrow Property, subject to reinvestment in accordance with Paragraph 2 above and replacement with other Qualifying Investments of equal value, shall be maintained uninterrupted and undiminished until the date on which the Seventh Circuit issues a ruling with respect to the Federal Appeals (the "Federal Appeals Determination Date). Upon the Federal Appeals Determination Date, Escrow Agent shall distribute the Net Escrow Property, along with any as yet undistributed Excess Escrow Property, to the Segregated Account in accordance with the wiring instructions provided by the Segregated Account.

Except as provided above or as directed in a joint written instruction from the Segregated Account and USA, Escrow Agent shall not distribute any Escrow Property to USA.

4. No Improvement in USA's Rights

Neither the entry into this Escrow Agreement nor the consummation of the transactions contemplated hereunder is intended to improve or modify the USA's rights vis-à-vis AAC, the Segregated Account or the priority of USA's rights relative to policyholders and other creditors of the Segregated Account and AAC. The sole purpose of this Escrow Agreement is to assure that the Segregated Account has at least \$100 million of assets during the time periods indicated in this Agreement. Prior to the distribution of the Net Escrow Property, neither AAC nor the Segregated Account shall in any way encumber or obligate the Net Escrow Property.

Neither the fact of this Escrow Agreement nor physical evidence of this Escrow Agreement shall be admissible as evidence in any dispute between the USA and either the Segregated Account and/or AAC pertaining to collection activity by the USA or in connection with any litigation pertaining to the priority of the USA's rights as a claimant relative to policyholders and other creditors of the Segregated Account and AAC. As between the USA and the Segregated Account and AAC, this Escrow Agreement is part of a settlement negotiation subject to Federal Rule of Evidence 408 and its Wisconsin counterpart, Wis. Stat. § 904.08. The USA, however, reserves the right to introduce evidence of this Escrow Agreement should AAC, the Segregated Account, or any related party move to dismiss any pending litigation as moot on the grounds that no assets will be available to pay any claims by the USA.

The USA shall not have any more or less right to attach, seize, lien or levy any of the funds in the Escrow Account than as to the assets remaining in the Segregated Account. The USA shall take no action of any kind against any of the Escrow Property inconsistent with the stipulation between AFG and the USA so ordered by the Bankruptcy Court on the record of the proceedings in the Bankruptcy Case on November 9, 2010. The distribution of Escrow Property by the Escrow Agent to the Segregated Account upon the Federal Appeals Determination Date shall be automatic, shall not require any signature consent, or instructions from the USA and the USA shall not attempt to restrict that transfer to the Segregated Account through any collection or court action, or otherwise in any respect.

5. Addresses

Notices, instructions and other communications shall be sent to Escrow Agent, Corporate Trust Administration, 101 Barclay Street-Floor 8W, New York, New York 10286, Attn: Matthew Louis, Insurance Trust and Escrow Group, Fax Number 212-815-5877 and to the Segregated Account and USA as follows:

The Segregated Account of Ambac Assurance Corporation
Care of its Counsel:
Kevin Fitzgerald
Foley & Lardner LLP
777 East Wisconsin Avenue
Milwaukee, WI 53202
Email: kfitzgerald@foley.com

and

Roger Peterson
Special Deputy Commissioner of the Segregated Account
of Ambac Assurance Corporation
c/o Ambac Assurance Corporation
One State Street Plaza
New York, NY 10004
Email: RogerA.Peterson@Wisconsin.Gov

and

Ambac Assurance Corporation, as Management Services Provider to
The Segregated Account of Ambac Assurance Corporation
Attention: Brent Lammers
One State Street Plaza
New York, NY 10004
Email: blammers@ambac.com

Tax Division, Appellate Section
United States Department of Justice
P.O. Box 502
Washington, D.C. 20044
Attention: Gilbert S. Rothenberg

Notices may be served electronically.

6. **Compensation**

- (a) The Segregated Account shall pay Escrow Agent an annual fee of \$5,000, payable upon execution of this Escrow Agreement and thereafter on each anniversary date of this Escrow Agreement for so long it remains in effect. The annual fee shall not be pro-rated for any portion of a year.
- (b) The Segregated Account shall pay all activity charges per the fee schedule attached hereto as Exhibit A.
- (c) The Segregated Account shall be responsible for and shall reimburse Escrow Agent for all reasonable expenses, disbursements and advances incurred or made by Escrow Agent in connection with this Escrow Agreement ("Escrow Agent Expenses") following the

receipt of a detailed invoice setting forth such Escrow Agent Expenses.

II. TERMS AND CONDITIONS:

1. The duties, responsibilities and obligations of Escrow Agent shall be limited to those expressly set forth herein and no duties, responsibilities or obligations shall be inferred or implied. With respect to the subject matter of this Escrow Agreement, Escrow Agent shall not be subject to, nor required to comply with, any other agreement between any of the parties, even though reference thereto may be made herein, or to comply with any direction or instruction (other than those contained herein or delivered in accordance with this Escrow Agreement) from an Authorized Person at the Segregated Account and USA. Escrow Agent shall not be required to, and shall not, expend or risk any of its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder.
2. This Escrow Agreement is for the exclusive benefit of the parties hereto and their respective successors hereunder, and shall not be deemed to give, either express or implied, any legal or equitable right, remedy, or claim to any other entity or person whatsoever.
3. If at any time Escrow Agent is served with any judicial or administrative order, judgment, decree, writ or other form of judicial or administrative process which in any way affects Escrow Property (including but not limited to orders of attachment or garnishment or other forms of levies or injunctions or stays relating to the transfer of Escrow Property) (an "Escrow Property Order"), Escrow Agent is authorized to comply therewith in any manner as it or its legal counsel of its own choosing deems appropriate; and if Escrow Agent complies with any such judicial or administrative order, judgment, decree, writ or other form of judicial or administrative process, Escrow Agent shall not be liable to any of the parties hereto or to any other person or entity even though such order, judgment, decree, writ or process may be subsequently modified or vacated or otherwise determined to have been without legal force or effect; provided, however, that Escrow Agent provides prompt notice of the Escrow Property Order to each of the other parties hereto; and provided further that each such other party is given a sufficient period of time in which to elect to contest the Escrow Property Order at its own expense.
4. On or prior to the execution of this Escrow Agreement, the Segregated Account and USA each agree to furnish to Escrow Agent a Letter of Designation, specifying the persons at

the respective party authorized to provide written instructions to Escrow Agent (the "Authorized Persons"). Each of the Segregated Account and USA shall provide a new Letter of Designation in connection with any change to the identities of such respective Authorized Persons.

5. (a) Escrow Agent shall not be liable for any action taken or omitted or for any loss or injury resulting from its actions or its performance or lack of performance of its duties hereunder in the absence of gross negligence or willful misconduct on its part. In no event shall Escrow Agent be liable (i) for acting in accordance with or relying upon any instruction, notice, demand, certificate or document from any Authorized Person at the Segregated Account or USA, (ii) for any consequential, punitive or special damages or (iii) for an amount in excess of the value of the Escrow Property, valued as of the date of loss or injury.

(b) Following sufficient notice to the Segregated Account and USA and the prior written consent of each party, Escrow Agent may consult with legal counsel at the expense of the Segregated Account as to any matter relating to this Escrow Agreement (provided that they shall only be responsible for reasonable and documented legal fees and expenses for such counsel), and Escrow Agent shall not incur any liability in acting in good faith in accordance with any advice from such counsel.

(c) Escrow Agent shall not incur any liability for not performing any act or fulfilling any duty, obligation or responsibility hereunder by reason of any occurrence beyond the control of Escrow Agent (including but not limited to any act or provision of any present or future law or regulation or governmental authority, any act of God or war, or the unavailability of the Federal Reserve Bank wire or telex or other wire or communication facility).

6. Unless otherwise specifically set forth herein, Escrow Agent shall proceed as soon as practicable to collect any checks or other collection items at any time deposited hereunder. All such collections shall be subject to Escrow Agent's usual collection practices or terms regarding items received by Escrow Agent for deposit or collection. Escrow Agent shall not be required, or have any duty, to notify anyone of any payment or maturity under the terms of any instrument deposited hereunder, nor to take any legal action to enforce payment of any check, note or security deposited hereunder or to exercise any right or privilege which may be afforded to the holder of any such security.

7. Escrow Agent shall provide, to the attention of the Authorized Persons, monthly statements identifying

transactions, transfers or holdings of Escrow Property, and the fair market value thereof, and each such statement shall be deemed to be correct and final upon receipt thereof by the Depositors unless Escrow Agent is notified in writing to the contrary within thirty (30) business days of the date of such statement. If any such monthly statement shall show that the fair market value of the Escrow Property is less than \$100 million, the Segregated Account shall, within 10 days of the date of such statement, deposit Qualifying Investments with the Escrow Agent in such amounts as shall be necessary to restore the fair market value of the Escrow Property to \$100 million. If any such statement shall show that the fair market value of the Escrow Property is greater than \$100 million, the Segregated Account shall be entitled, upon written request of solely the Segregated Account, to the immediate distribution of the Excess Escrow Property.

8. Escrow Agent shall not be responsible in any respect for the form, execution, validity, value or genuineness of documents or securities deposited hereunder, or for any description therein, or for the identity, authority or rights of persons executing or delivering or purporting to execute or deliver any such document, security or endorsement.
9. Notices, instructions or other communications, other than the monthly statements described in paragraph 7 above, shall be in writing, shall be executed by an Authorized Person of the Segregated Account and USA and shall be delivered to the address set forth in the "Addresses" provision herein (or to such other address as may be substituted therefor by written notification to Escrow Agent, the Segregated Account or USA). Notices to Escrow Agent shall be deemed to be given when actually received by Escrow Agent's Insurance Trust and Escrow Unit of the Corporate Trust Division. Escrow Agent is authorized to comply with and rely upon any notices, instructions or other communications reasonably believed by it to have been sent or given by an Authorized Person at the Segregated Account or USA. Whenever under the terms hereof the time for giving a notice or performing an act falls upon a Saturday, Sunday, or banking holiday, such time shall be extended to the next day on which Escrow Agent is open for business.
10. The Segregated Account shall be liable for and shall reimburse and indemnify Escrow Agent and hold Escrow Agent harmless from and against any and all claims, losses, liabilities, costs, damages or expenses (including reasonable attorneys' fees and expenses) (collectively, "Losses") arising from or in connection with or related to this Escrow Agreement or being Escrow Agent hereunder

(including but not limited to Losses incurred by Escrow Agent in connection with its successful defense, in whole or in part, of any claim of gross negligence or willful misconduct on its part), provided, however, that nothing contained herein shall require Escrow Agent to be indemnified for Losses caused by its negligence or misconduct.

11. (a) The Segregated Account and USA, acting jointly, may remove Escrow Agent at any time by giving to Escrow Agent thirty (30) calendar days' prior written notice. Escrow Agent may resign at any time by giving 30 calendar days' prior written notice thereof.

(b) Within ten (10) calendar days after giving the foregoing notice of removal to Escrow Agent or receiving the foregoing notice of resignation from Escrow Agent, the Segregated Account and USA shall jointly agree on and appoint a successor Escrow Agent. If a successor Escrow Agent has not accepted such appointment by the end of such 10-day period, Escrow Agent may apply to a court of competent jurisdiction for the appointment of a successor Escrow Agent or for other appropriate relief. The costs and expenses (including reasonable attorneys' fees and expenses) incurred by Escrow Agent in connection with such proceeding shall be paid by the Segregated Account.

(c) Upon receipt of the identity of the successor Escrow Agent, Escrow Agent shall either deliver the Escrow Property then held hereunder to the successor Escrow Agent, less Escrow Agent's fees, costs and expenses or other obligations owed to Escrow Agent, or hold such Escrow Property (or any portion thereof), pending distribution, until all such fees, costs and expenses or other obligations are paid.

(d) Upon delivery of the Escrow Property to successor Escrow Agent, Escrow Agent shall have no further duties, responsibilities or obligations hereunder.

12. (a) In the event of any ambiguity or uncertainty hereunder or in any notice, instruction or other communication received by Escrow Agent hereunder, Escrow Agent may, in its sole discretion, refrain from taking any action other than retain possession of the Escrow Property; provided that Escrow Agent notifies the Segregated Account and USA in writing that such an ambiguity or uncertainty exist; and provided further that the Segregated Account and USA, acting jointly, may provide written instructions to Escrow Agent signed by an Authorized Person at each party which eliminate such ambiguity or uncertainty.

(b) In the event of any dispute between or conflicting claims by or among the Segregated Account and USA with respect to any Escrow Property, Escrow Agent shall be entitled, in its sole discretion, to refuse to comply with any and all claims, demands or instructions with respect to distribution of such Escrow Property so long as such dispute or conflict shall continue, and Escrow Agent shall not be or become liable in any way to the Segregated Account or USA with respect to any such claims, demands or instructions. Escrow Agent shall be entitled to refuse to act until, in its sole discretion, either (i) such conflicting or adverse claims or demands shall have been determined by a final order, judgment or decree of a court of competent jurisdiction, which order, judgment or decree is not subject to appeal, or settled by agreement between the conflicting parties as evidenced in a writing satisfactory to Escrow Agent or (ii) Escrow Agent shall have received security or an indemnity reasonably satisfactory to it sufficient to hold it harmless from and against any and all Losses which it may incur by reason of so acting. Escrow Agent may, in addition, elect, in its sole discretion, to commence an interpleader action or seek other judicial relief or orders as it may deem, in its sole discretion, necessary. The costs and expenses (including reasonable attorneys' fees and expenses) incurred in connection with such proceeding shall be paid by the Segregated Account.

13. Solely as to any legal action initiated by Escrow Agent in regard to this Escrow Agreement: this Escrow Agreement shall be interpreted, construed, enforced and administered in accordance with the internal substantive laws (and not the choice of law rules) of the State of New York, and the Segregated Account and USA hereby submit to the personal jurisdiction of and each agrees that all proceedings relating hereto shall be brought in a federal court located within the City and State of New York; the Segregated Account and USA hereby waive the right to trial by jury and to assert counterclaims against Escrow Agent in any such proceedings; and the Segregated Account and USA waive personal service of process and consent to service of process by certified or registered mail, return receipt requested, directed to it at the address last specified for notices hereunder, and such service shall be deemed completed ten (10) calendar days after the same is so mailed.
14. Except as otherwise permitted herein, this Escrow Agreement may be modified only by a written amendment signed by all the parties hereto, and no waiver of any provision hereof shall be effective unless expressed in a writing signed by the party to be charged.

15. The rights and remedies conferred upon the parties hereto shall be cumulative, and the exercise or waiver of any such right or remedy shall not preclude or inhibit the exercise of any additional rights or remedies. The waiver of any right or remedy hereunder shall not preclude the subsequent exercise of such right or remedy.
16. Each of the parties hereto hereby represents and warrants (a) that this Escrow Agreement has been duly authorized, executed and delivered on its behalf and constitutes its legal, valid and binding obligation and (b) that the execution, delivery and performance of this Escrow Agreement by such party does not and will not violate any applicable law or regulation.
17. The invalidity, illegality or unenforceability of any provision of this Escrow Agreement shall in no way affect the validity, legality or enforceability of any other provision; and if any provision is held to be enforceable as a matter of law, the other provisions shall not be affected thereby and shall remain in full force and effect.
18. This Escrow Agreement shall constitute the entire agreement of the parties with respect to the subject matter and supersedes all prior oral or written agreements in regard thereto.
19. This Escrow Agreement shall terminate upon the distribution of all Escrow Property. The provisions of these Terms and Conditions shall survive termination of this Escrow Agreement and/or the resignation or removal of Escrow Agent.
20. Other than with respect to required filings with the Bankruptcy Court or other filings required to be made by AAC, the Segregated Account, AFG, or the United States in compliance with applicable law, no printed or other material in any language, including prospectuses, notices, reports, and promotional material which mentions "The Bank of New York Mellon" by name in connection with this Escrow Agreement or the rights, powers, or duties of the Escrow Agent under this Escrow Agreement shall be issued by any other parties hereto, or on such party's behalf, without the prior written consent of Escrow Agent.
21. The headings contained in this Escrow Agreement are for convenience of reference only and shall have no effect on the interpretation or operation hereof.
22. This Escrow Agreement may be executed by each of the parties hereto in any number of counterparts, each of which counterpart, when so executed and delivered, shall be

deemed to be an original and all such counterparts shall together constitute one and the same agreement.

23. Escrow Agent does not have any interest in the Escrowed Property deposited hereunder but is serving as escrow holder only and having only possession thereof. The Segregated Account shall pay or reimburse the Escrow Agent upon request for any transfer taxes or other taxes relating to the Escrowed Property incurred in connection herewith and shall indemnify and hold harmless the Escrow Agent any amounts that it is obligated to pay in the way of such taxes. Any payments of income from this Escrow Account shall be subject to withholding regulations then in force with respect to United States taxes. The Segregated Account will provide the Escrow Agent with appropriate W-9 forms for tax identification, number certifications, or W-8 forms for non-resident alien certifications. It is understood that the Escrow Agent shall be responsible for income reporting only with respect to income earned on investment of funds which are a part of the Escrow Property and is not responsible for any other reporting.
24. The Segregated Account agrees to indemnify and hold harmless the Escrow Agent against any and all claims, losses, damages, liabilities, judgments, costs and expenses (including reasonable attorney's fees) (collectively, "Losses") incurred or sustained by the Escrow Agent as a result of or in connection with the Escrow Agent's reliance upon and compliance with instructions or directions given by facsimile or electronic transmission, provided, however, that such losses have not arisen from the negligence or misconduct of the Escrow Agent, it being understood that the failure of the Escrow Agent to verify or confirm that the person giving the instructions or directions and who is identified on the Letter of Designation, is in fact, an Authorized Person, does not constitute negligence or misconduct.
25. Any of the obligations in this Escrow Agreement of the Segregated Account to pay fees, costs or expenses of the Escrow Agent shall constitute first priority administrative expenses of the Segregated Account under Wis. Stat. § 645.68.

[The balance of this page has been left blank intentionally and the signature page follows immediately below.]

IN WITNESS WHEREOF, each of the parties has caused this Escrow Agreement to be executed by a duly authorized officer as of the day and year first written above.

THE SEGREGATED ACCOUNT OF AMBAC ASSURANCE CORPORATION

By: _____
Name:
Title:

UNITED STATES OF AMERICA

By: _____
Name:
Title:

THE BANK OF NEW YORK MELLON, as Escrow Agent

By: _____
Name:
Title:

EXHIBIT A

EXHIBIT 3

(Exhibit G – Ruling Request Agreement)

RULING REQUEST AGREEMENT

This RULING REQUEST AGREEMENT (this “Agreement”), effective as of February 24, 2012, by and among Ambac Financial Group, Inc. (“AFGI”), the Official Committee of Unsecured Creditors of AFGI (the “Creditors Committee”), Ambac Assurance Corporation (“Ambac”), the Segregated Account of Ambac Assurance Corporation (the “Segregated Account”), and the court-appointed rehabilitator of the Segregated Account (the “Rehabilitator”) (each individually, a “Party” and collectively, the “Parties”).

WHEREAS, each of the Parties is a party to that certain Mediation Agreement dated as of September 21, 2011 (the “Mediation Agreement”);

WHEREAS, the Mediation Agreement provides, among other things, that AFGI will provide Ambac and the Rehabilitator with express authorization to engage with the Internal Revenue Service (the “IRS”) directly on matters arising under the plan of rehabilitation with respect to the Segregated Account and any amendment or subsequent iteration thereof (the “Plan of Rehabilitation”) (including any efforts to obtain a private letter ruling, pre-filing agreement or other form of guidance or clarification);

WHEREAS, a request to the IRS for private letter rulings in relation to matters arising under the Plan of Rehabilitation (a “Rehabilitation Ruling Request”) is desired by the Rehabilitator to be submitted, on behalf of AFGI and the other members of the “affiliated group” (as defined in Section 1504(a) of the Internal Revenue Code of 1986, as amended (the “Code”)) of which AFGI is the common parent (the “Group”); and

WHEREAS, AFGI and the Creditors Committee may submit to the IRS a request, on behalf of AFGI and the other members of the Group, to issue a private letter ruling that, pursuant to Section 382(l)(5)(A) of the Code, the “ownership change” (as defined in Section 382(g) of the Code) that will be experienced by AFGI and each other member of the Group as a result of AFGI’s emergence from Chapter 11 bankruptcy will not be subject to Section 382(a) of the Code (the “Section 382(l)(5) Ruling Request” and together with the Rehabilitation Ruling Request, the “Requested Rulings”).

NOW, THEREFORE, in consideration of the mutual covenants contained herein and in the Mediation Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

1. Power of Attorney. AFGI shall execute a Power of Attorney and Declaration of Representative on IRS Form 2848 (the “Rehabilitator Power of Attorney”) which authorizes the Rehabilitator (and such individuals from the firms of Foley & Lardner LLP and PricewaterhouseCoopers LLP as may be selected, from time to time, by the Rehabilitator) to represent the Group before the IRS on all matters relating to the Rehabilitation Ruling Request. Except as provided in Section 4.a below, AFGI shall not revoke or modify the Rehabilitator Power of Attorney without the prior written consent of the Rehabilitator. The Rehabilitator Power of Attorney shall provide that copies of any notices or other communications from the IRS in connection with the Rehabilitation Ruling Request shall be sent to an individual

designated by the Rehabilitator, in addition to being sent to such other individuals as are designated by AFGI.

2. Rehabilitation Ruling Request.

a. The Rehabilitator shall prepare, and have sole authority and control over, any Rehabilitation Ruling Request and of any written materials, other than the Rehabilitator Power of Attorney, submitted to the IRS relating to the Rehabilitation Ruling Request. No written material shall be submitted by the Rehabilitator to the IRS in connection with the Rehabilitation Ruling Request unless a draft of such written materials is furnished to AFGI no less than five (5) business days prior to submitting such written material to the IRS. Any comments on such draft that are made by AFGI within the five (5) business day period after such draft is furnished to them shall be considered in good faith by the Rehabilitator; provided, however, that the Rehabilitator may accept or reject such comments in its sole discretion.

b. The Rehabilitator may, in its sole discretion, request a pre-submission conference with the IRS on matters relating to the Rehabilitation Ruling Request. The Rehabilitator shall limit the scope of the pre-submission conference to matters relating to the Rehabilitation Ruling Request, and shall not discuss any matters relating to the Section 382(l)(5) Ruling Request. Except as described in the first sentence of this Section 2.b, no Party shall request a pre-submission conference with the IRS on any matter relating to the Rehabilitation Ruling Request.

c. The Rehabilitator may, in its sole discretion, request that no representatives of AFGI participate in any conferences, meetings or other oral communications (whether held in-person or telephonically) with the IRS on matters relating solely to the Rehabilitation Ruling Request (including, without limitation, any pre-submission conference). AFGI shall comply with any such request.

3. Section 382(l)(5) Ruling Request. No written material shall be submitted by AFGI or the Creditors Committee to the IRS in connection with the Section 382(l)(5) Ruling Request unless a draft of such written materials is furnished to the Rehabilitator no less than five (5) business days prior to submitting such written material to the IRS. Any comments on such draft that are made by the Rehabilitator within the five (5) business day period after such draft is furnished to it shall be considered in good faith by AFGI and the Creditors Committee; provided, however, that AFGI and the Creditors Committee may accept or reject such comments in their sole discretion.

a. AFGI and the representatives of the Creditors Committee may, in their sole discretion, request a pre-submission conference with the IRS on matters relating to the Section 382(l)(5) Ruling Request. AFGI shall limit the scope of the pre-submission conference to matters relating to the 382(l)(5) Ruling Request, and shall not discuss any matters relating to the Rehabilitation Ruling Request. Except as described in the first sentence of this Section 3.a, no Party shall request a pre-submission conference with the IRS on any matter relating to the Section 382(l)(5) Ruling Request.

4. Consolidated Request. In the event that the IRS consolidates the Rehabilitation Ruling Request and the Section 382(l)(5) Ruling Request into a single proceeding, the following provisions shall apply:

a. AFGI shall amend any previously-granted Rehabilitator Power of Attorney to authorize the Rehabilitator (and such individuals from the firms of Foley & Lardner LLP and PricewaterhouseCoopers LLP as may be selected, from time to time, by the Rehabilitator) to represent the Group before the IRS on all matters relating to the combination of the Rehabilitation Ruling Request and the Section 382(l)(5) Ruling Request (the "Consolidated Request"). Notwithstanding the foregoing, the participation of the Rehabilitator and its representatives in respect of any portion of the Consolidated Request relating to the Section 382(l)(5) Ruling Request shall be subject to subsections 4.d and 4.e below. AFGI may also authorize other individuals selected by AFGI to represent the Group before the IRS on all matters relating to the Consolidated Request.

b. The Rehabilitator shall prepare, and have sole authority and control over, any portion of the Consolidated Request (and of any written materials submitted to the IRS, other than the Rehabilitator Power of Attorney) relating to the Rehabilitation Ruling Request. No written material shall be submitted by the Rehabilitator to the IRS in connection with the Consolidated Request unless a draft of such written materials is furnished to AFGI and the Creditors Committee no less than five (5) business days prior to submitting such written material to the IRS. Any comments on such draft that are made by AFGI or the Creditors Committee within the five (5) business day period after such draft is furnished to them shall be considered in good faith by the Rehabilitator; provided, however, that the Rehabilitator may accept or reject such comments in its sole discretion.

c. Representatives of AFGI and representatives of the Creditors Committee shall, in any conferences, meetings or other oral communications (whether held in-person or telephonically) with the IRS relating to the Consolidated Request, defer to representatives of the Rehabilitator in responding to any question or issue that relates to the Rehabilitation Ruling Request. If no representative of the Rehabilitator is present to address such question or issue related to the Rehabilitation Ruling Request, the representatives of AFGI and the representatives of the Creditors Committee shall refer the IRS to an appropriate representative of the Rehabilitator. The Rehabilitator may, in its sole discretion, request that no representatives of either AFGI or the Creditors Committee participate in any conferences, meetings or other oral communications (whether held in-person or telephonically) with the IRS on matters relating solely to the Rehabilitation Ruling Request (including, without limitation, any pre-submission conference). AFGI and the Creditors Committee shall comply with any such request.

d. AFGI and the Creditors Committee shall prepare, and have sole authority and control over, any portion of the Consolidated Request related to the Section 382(l)(5) Ruling Request and any written materials submitted to the IRS relating to the Section 382(l)(5) Ruling Request. No written material shall be submitted by AFGI or the Creditors Committee to the IRS in connection with the Consolidated Request unless a draft of such written materials is furnished to the Rehabilitator no less than five (5)

business days prior to submitting such written material to the IRS. Any comments on such draft that are made by the Rehabilitator within the five (5) business day period after such draft is furnished to it shall be considered in good faith by AFGI and the Creditors Committee; provided, however, that AFGI and the Creditors Committee may accept or reject such comments in their sole discretion.

e. The Rehabilitator and any representatives of the Rehabilitator shall, in any conferences, meetings or other oral communications (whether held in-person or telephonically) with the IRS related to the Consolidated Request, defer to representatives of AFGI or the Creditors Committee in responding to any question or issue that relates to the Section 382(l)(5) Ruling Request. If no representative of AFGI or the Creditors Committee is present to address such question or issue related to the Section 382(l)(5) Ruling Request, the representatives of the Rehabilitator shall refer the IRS to appropriate representatives of AFGI and the Creditors Committee. AFGI and the Creditors Committee may, in their sole discretion, request that neither the Rehabilitator nor representatives of the Rehabilitator participate in any conferences, meetings or other oral communications (whether held in-person or telephonically) with the IRS on any matter that both (i) relates to the Section 382(l)(5) Ruling Request and (ii) does not relate to the Rehabilitation Ruling Request (including, without limitation, any pre-submission conference). The Rehabilitator and its representatives shall comply with any such request.

f. If the IRS seeks information relating to the Consolidated Request that relates to both the Rehabilitation Ruling Request and the Section 382(l)(5) Ruling Request, the Rehabilitator and representatives of AFGI and the Creditors Committee shall jointly prepare the response to the IRS's inquiry.

5. Cooperation. The Rehabilitator, AFGI and the Creditors Committee shall cooperate in good faith to (i) obtain the Requested Rulings in a timely manner, (ii) ensure that all the Parties are promptly notified regarding any written or orally communicated requests or questions received from the IRS in connection with the Requested Rulings, (iii) prepare (subject to the provisions of Sections 2, 3 and 4) any written materials requested by the IRS and respond to the IRS on a timely basis in connection with the Requested Rulings, and (iv) ensure that all the Parties promptly receive copies of any written materials furnished to the IRS in connection with the Requested Rulings.

6. Expenses. The entire amount of any filing fee charged by the IRS with respect to the Rehabilitation Ruling Request shall be borne by the Segregated Account. With respect to any expenses relating to the Requested Rulings (other than the filing fee charged by the IRS), the fees charged by Foley & Lardner LLP, PricewaterhouseCoopers LLP, and any other representatives of the Rehabilitator shall be borne by the Segregated Account. Any filing fee charged by the IRS with respect to the Section 382(l)(5) Ruling Request and any fees and expenses related to the Section 382(l)(5) Ruling Request shall be borne 85% by Ambac and 15% by AFGI in accordance with the Mediation Agreement.

7. Dispute Resolution. In the event that AFGI or the Creditors Committee believes the Rehabilitator to be, or in the event that the Rehabilitator believes AFGI or the Creditors

Committee to be, in material breach of, or otherwise not complying with this Agreement, such Party shall provide the alleged breaching or non-complying Party with a written notice (copied to their last known legal counsel) describing, in reasonable detail, the nature of the alleged breach or non-compliance. Following delivery of such written notice, the Parties shall attempt, in good faith, to resolve their dispute. The Party served with a notice of breach or non-compliance shall have 30 days to cure the alleged breach or non-compliance. In the event that there is no cure and the Parties are unable to resolve their dispute, any Party alleging such breach or non-compliance may, not less than 45 days following delivery of such written notice, seek a judgment from the Dane County Circuit Court (WI) (the "Rehabilitation Court") that the other Party has breached this Agreement. Solely for purposes of resolving such dispute, AFGI and/or the Creditors Committee, as applicable, shall consent to the jurisdiction of the Rehabilitation Court. In the event that the Rehabilitation Court enters a final, non-appealable order in favor of any Party alleging such breach or non-compliance, such Party may ask the court to grant such further relief as the court deems appropriate in light of the nature and severity of the breach or non-performance, including specific performance, termination of the Parties' obligations under this Agreement and/or monetary damages.

8. Miscellaneous.

a. Headings. Headings used herein are not a part of this Agreement and shall not affect the terms hereof.

b. Severability. If any one or more of the covenants, agreements, provisions or terms of this Agreement shall be for any reason whatsoever held invalid, then such covenants, agreements, provisions or terms shall be deemed severable from the remaining covenants, agreements, provisions and terms and shall in no way affect the validity or enforceability of the other provisions of this Agreement.

c. Waiver, Cumulative Remedies. None of the Parties hereto shall by any act, delay, omission or otherwise be deemed to have waived any of its rights or remedies hereunder and no waiver shall be valid unless in writing, signed by each of the Parties, as applicable, and then only to the extent therein set forth. A waiver by a Party of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which such Party would otherwise have on any future occasion. No failure to exercise, nor any delay in exercising on the part of a Party, any right, power or privilege hereunder, shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof of any other right, power, or privilege. The rights and remedies herein provided are cumulative and maybe exercised singly or concurrently, and are not exclusive of any rights or remedies provided by law.

d. Transfers and Assigns. Neither this Agreement nor any interest or obligation in or under this Agreement may be transferred or assigned by any Party without the prior written consent of each of the other Parties hereto.

e. Amendments. This Agreement may not be changed, altered or modified unless the same shall be in writing executed by the Parties.

f. Governing Law. This Agreement will be governed by and construed in accordance with the laws of the State of Wisconsin (without reference to choice of law doctrine).

g. Notices. Any notice or communication in respect of this Agreement shall be sufficiently given to a Party if in writing and delivered in person, sent by recorded delivery or registered post or the equivalent (with return receipt requested) or by overnight courier or given by facsimile transmission, at the address or facsimile number set out in Schedule A attached hereto, or to such other address or facsimile number as shall be notified in writing by one party to the other. A notice or communication shall be deemed to be given:

i. if delivered by hand or sent by overnight courier, on the day and at the time it is delivered or, if that day is not a business day, or if delivered after the close of business on a business day, at 9:00 a.m. (local time to the recipient) on the immediately following business day;

ii. if sent by facsimile transmission or email, on the day and at the time the transmission is received or, if that is not a business day, or if received after the close of business on a business day, at 9:00 a.m. (local time to the recipient) on the immediately following business day; or

iii. if sent by recorded delivery or registered post or the equivalent (return receipt requested), three business days after being sent.

h. Counterparts. This Agreement may be executed in more than one counterpart, each of which shall be deemed to be an original and all of which shall, together, constitute one and the same instrument.


i. Further Assurances and Corrective Instruments. To the extent permitted by law, the Parties hereto agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements hereto and such further instruments as another Party may reasonably request and as may be reasonably required in the opinion of such party to effectuate the intentions or facilitate the performance of this Agreement.

j. Parties to this Agreement. Nothing herein shall in any manner create any obligations or establish any rights against any Party to this Agreement in favor of any person not a Party to this Agreement.

k. Other Agreements. In the event of any conflict or inconsistency between this Agreement and the provisions of the Mediation Agreement, the provisions of this Agreement shall govern; provided, however, that in the event of any dispute between the Rehabilitator, on the one hand, and AFGI or Ambac, on the other hand, concerning an expected tax position of AFGI or Ambac, Section 3.01 of the Cooperation Agreement, as amended, by and among AFGI, Ambac, the Segregated Account and the Rehabilitator, shall govern.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized representatives as of the date first above written.

AMBAC FINANCIAL GROUP, INC.

By: 
Name: STEPHEN M. KSENAK
Title: SENIOR MANAGING DIRECTOR
AND GENERAL COUNSEL

OFFICIAL COMMITTEE OF
UNSECURED CREDITORS OF AMBAC
FINANCIAL GROUP, INC.

By: _____
Name:
Title:

AMBAC ASSURANCE CORPORATION

By: _____
Name:
Title:

THE SEGREGATED ACCOUNT OF
AMBAC ASSURANCE CORPORATION

By: _____
Name:
Title:

REHABILITATOR OF THE
SEGREGATED ACCOUNT OF AMBAC
ASSURANCE CORPORATION

By: _____
Name:
Title:

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized representatives as of the date first above written.

AMBAC FINANCIAL GROUP, INC.

By: _____
Name:
Title:

OFFICIAL COMMITTEE OF
UNSECURED CREDITORS OF AMBAC
FINANCIAL GROUP, INC

By:  _____
Name: *Remmelt Reijersman*
Title:

AMBAC ASSURANCE CORPORATION

By: _____
Name:
Title:

THE SEGREGATED ACCOUNT OF
AMBAC ASSURANCE CORPORATION

By: _____
Name:
Title:

REHABILITATOR OF THE
SEGREGATED ACCOUNT OF AMBAC
ASSURANCE CORPORATION

By: _____
Name:
Title:

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized representatives as of the date first above written.

AMBAC FINANCIAL GROUP, INC.

By: _____
Name:
Title:

OFFICIAL COMMITTEE OF
UNSECURED CREDITORS OF AMBAC
FINANCIAL GROUP, INC.

By: _____
Name:
Title:

AMBAC ASSURANCE CORPORATION

By: David Trick
Name: David Trick
Title: Chief Financial Officer

THE SEGREGATED ACCOUNT OF
AMBAC ASSURANCE CORPORATION

By: _____
Name:
Title:

REHABILITATOR OF THE
SEGREGATED ACCOUNT OF AMBAC
ASSURANCE CORPORATION

By: _____
Name:
Title:

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized representatives as of the date first above written.

AMBAC FINANCIAL GROUP, INC.

By: _____
Name:
Title:

OFFICIAL COMMITTEE OF
UNSECURED CREDITORS OF AMBAC
FINANCIAL GROUP, INC.

By: _____
Name:
Title:

AMBAC ASSURANCE CORPORATION

By: _____
Name:
Title:

THE SEGREGATED ACCOUNT OF
AMBAC ASSURANCE CORPORATION

By: Roger Peterson
Name: Roger Peterson
Title: Special Deputy Commissioner

REHABILITATOR OF THE
SEGREGATED ACCOUNT OF AMBAC
ASSURANCE CORPORATION

By: Roger Peterson
Name: Roger Peterson
Title: Special Deputy Commissioner

SCHEDULE A

NOTICE INFORMATION

If to Ambac Financial Group, Inc.

Ambac Financial Group, Inc.
One State Street Plaza
New York, New York 10004
Attention: Stephen Ksenak, Esq.
Telephone: (212) 668-0340
Facsimile: (212) 509-9190

with a copy to:

Peter Ivanick, Esq.
Dewey & LeBoeuf LLP
1301 Avenue of the Americas
New York, New York 10019
Telephone: (212) 259-8075
Facsimile: (212) 259-6333

If to the Official Committee of Unsecured Creditors of AFGI

with a copy to:

If to Ambac Assurance Corporation, to:

Ambac Assurance Corporation
One State Street Plaza
New York, New York 10004
Attention: General Counsel
Telephone: (212) 208-3283
Facsimile: (212) 208-3558

If to the Segregated Account of Ambac Assurance Corporation, or the Rehabilitator to:

Special Deputy Commissioner of the Segregated Account of Ambac Assurance
Corporation
One State Street Plaza
New York, New York 10004

with copies to:

Commissioner of Insurance
Wisconsin Office of the Commissioner of Insurance
125 South Webster Street
Madison, Wisconsin 53703

and

Foley & Lardner LLP
777 E. Wisconsin Ave
Milwaukee, Wisconsin 53202
Attn: Kevin G. Fitzgerald