April 28, 2010

BY FACSIMILE, OVERNIGHT MAIL, AND ELECTRONIC MAIL

ISDA Credit Derivatives Determinations Committee for the Americas
c/o Robert Pickel, Executive Vice Chairman
David Geen, General Counsel
Katherine Tew Darras, General Counsel, Americas

360 Madison Avenue, 16th Floor
New York, New York 10017

Facsimile No.: (212) 901-6001

Re: Ambac Assurance Corporation: Credit Event Determination No. 2010032501

In the Matter of the Rehabilitation of Segregated Account of Ambac Assurance Corporation, Case No. 10CV1576 (“Segregated Account Rehabilitation Proceedings”)

Ladies and Gentlemen:

We understand that on March 26, 2010 the ISDA Credit Derivatives Determinations Committee for the Americas (the “Determinations Committee”) concluded that a “Bankruptcy” Credit Event had occurred with respect to Ambac Assurance Corporation (“Ambac”). Reportedly, the Determinations Committee decided that commencement by the Office of the Commissioner of Insurance of the State of Wisconsin of rehabilitation proceedings for a Segregated Account of Ambac created under Wis. Stats. § 611.24(2) constituted a Bankruptcy Credit Event under paragraph (d) of Section 4.2 of the 2003 ISDA Credit Derivative Definitions (the “2003 ISDA Definitions”).¹ We write to advise you that we disagree with the basis on which the Determinations Committee reached its conclusion.

Section 4.2(d) of the 2003 ISDA Definitions provides that a “Bankruptcy” occurs where:

[A] Reference Entity . . . (d) institutes or has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors’ rights, or a

¹ See Allen & Overy ALERT of Recent Developments dated March 30, 2010: “Rehabilitation Proceedings with respect to the Segregated Account of Ambac Assurance Corporation: A Bankruptcy or Not?”
petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition (i) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation or (ii) is not dismissed, discharged, stayed or restrained in each case within thirty calendar days of the institution or presentation thereof.

2003 ISDA Definitions, § 4.2 (d) (emphasis added).

The Segregated Account Rehabilitation Proceedings did not trigger a Bankruptcy Credit Event under Section 4.2(d) of the 2003 ISDA Definitions with respect to Ambac because such proceedings were instituted against a segregated account established under Wis. Stat. § 611.24(2) (the “Segregated Account”), not against Ambac itself, and, thus, no proceeding has been instituted by or against the Reference Entity. Under Wisconsin law, the Segregated Account is deemed a separate insurer for rehabilitation purposes. Thus, paragraph 2 of the Order for Rehabilitation issued on March 24, 2010 specifically provides that “This proceeding pertains solely to the Segregated Account and to the policies, contracts, rights, assets, equity ownership interests, and liabilities allocated to it in accordance with Wis. Stat. § 611.23, and does not pertain to the policies, contracts, assets, equity ownership interests, and liabilities remaining in Ambac’s General Account.” Because the definition of “Bankruptcy” contained in Section 4.2(d) of the 2003 ISDA Definitions expressly requires that any proceeding be instituted by or against the Reference Entity itself, the proceedings commenced solely against the Segregated Account did not constitute the specified Bankruptcy Credit Event with respect to Ambac.

It is unfortunate that the Determinations Committee took this action without first giving Ambac an opportunity to provide it with information, and the Committee should consider providing such opportunity to other reference entities in the future. We believe the stated basis for the Determination Committee’s

2 Wis. Stat. § 611.24(3)(e),
decision in this instance to be in error and evidence of a misunderstanding of the facts and the law. The result has been confusion and misinformation in the marketplace, and the consequent demands on Ambac, its resources and its constituents to correct that confusion and misinformation could have been avoided.

Very truly yours,

AMBAC ASSURANCE CORPORATION

By: [Signature]
Name: Kevin J. Doyle
Title: Senior Vice President and General Counsel