

# QUARTERLY STATEMENT

As of March 31, 2011  
of the Condition and Affairs of the

## Ambac Assurance Corporation

NAIC Group Code 1248, 1248 NAIC Company Code 18708 Employer's ID Number 39-1135174  
(Current Period) (Prior Period)  
 Organized under the Laws of Wisconsin State of Domicile or Port of Entry Wisconsin Country of Domicile United States of America  
 Incorporated/Organized February 25, 1970 Commenced Business March 16, 1970  
 Statutory Home Office c/o Dewitt Ross & Stevens S.C., 2 East Mifflin Street, Suite 600 Madison, WI 53703  
(Street and Number) (City or Town, State and Zip Code)  
 Main Administrative Office One State Street Plaza New York, NY 10004 212-668-0340  
(Street and Number) (City or Town, State and Zip Code) (Area Code) (Telephone Number)  
 Mail Address One State Street Plaza New York, NY 10004  
(Street and Number or P. O. Box) (City or Town, State and Zip Code)  
 Primary Location of Books and Records One State Street Plaza New York, NY 10004 212-668-0340  
(Street and Number) (City or Town, State and Zip Code) (Area Code) (Telephone Number)  
 Internet Website Address http://www.ambac.com  
 Statutory Statement Contact Kevin John Doyle 212-668-0340  
(Name) (Area Code) (Telephone Number) (Extension)  
KDoyle@ambac.com 212-208-3558  
(E-Mail Address) (Fax Number)  
 Policyowner Relations Contact Kevin John Doyle One State Street Plaza  
(Name) (Street and Number)  
New York, NY 10004 212-668-0340  
(City or Town, State and Zip Code) (Area Code) (Telephone Number) (Extension)

### OFFICERS

Name	Title	Name	Title
1. David William Wallis	President & Chief Executive Officer	2. Kevin John Doyle	Senior Vice President & General Counsel
3. David Trick	Senior Managing Director, Chief Financial Officer & Treasurer	4. Robert Bryan Eisman	Senior Managing Director & Chief Accounting Officer
5. Diana Newman Adams	Senior Managing Director	5. Stephen Michael Ksenak #	Managing Director & Secretary

### DIRECTORS OR TRUSTEES

Michael Anthony Callen	Henry Daniel George Wallace	Philip Nicholas Duff	Thomas Charles Theobald
Laura Simone Unger	Diane Beth Glossman	Gary Hilton Stern	David William Wallis
Thomas Peter Gybel			

State of New York  
County of New York

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC *Annual Statement Instructions and Accounting Practices and Procedures* manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy of the enclosed statement (except for formatting differences due to electronic filing). The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

(Signature)	(Signature)	(Signature)
David William Wallis	Stephen Michael Ksenak #	Robert Bryan Eisman
1. (Printed Name)	2. (Printed Name)	3. (Printed Name)
President (President & Chief Executive Officer)	Secretary (Managing Director)	Senior Managing Director & Chief Accounting Officer
(Title)	(Title)	(Title)

Subscribed and sworn to before me  
This 16th day of May, 2011

a. Is this an original filing? Yes [X] No [ ]  
 b. If no: 1. State the amendment number \_\_\_\_\_  
 2. Date filed \_\_\_\_\_  
 3. Number of pages attached \_\_\_\_\_

JAMILAH T. COLES  
Notary Public, State of New York  
No. 01CO6169406  
Qualified in Kings County  
Commission Expires June 25, 2015

**ASSETS**

	Current Statement Date			4 December 31 Prior Year Net Admitted Assets
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	
1. Bonds.....	4,599,935,998		4,599,935,998	4,479,203,394
2. Stocks:				
2.1 Preferred stocks.....			0	
2.2 Common stocks.....	186,615,057	8,781,963	177,833,094	176,149,336
3. Mortgage loans on real estate:				
3.1 First liens.....			0	
3.2 Other than first liens.....			0	
4. Real estate:				
4.1 Properties occupied by the company (less \$.....0 encumbrances).....			0	
4.2 Properties held for the production of income (less \$.....0 encumbrances).....			0	
4.3 Properties held for sale (less \$.....0 encumbrances).....			0	
5. Cash (\$.....3,155,008), cash equivalents (\$.....0) and short-term investments (\$.....595,022,801).....	598,177,809		598,177,809	512,619,523
6. Contract loans (including \$.....0 premium notes).....			0	
7. Derivatives.....			0	
8. Other invested assets.....	15,844,565	7,470,068	8,374,497	8,143,728
9. Receivables for securities.....	88,032,213	70,487,158	17,545,055	15,968,902
10. Securities lending reinvested collateral assets.....			0	
11. Aggregate write-ins for invested assets.....	665,499,000	0	665,499,000	750,899,000
12. Subtotals, cash and invested assets (Lines 1 to 11).....	6,154,104,642	86,739,189	6,067,365,453	5,942,983,883
13. Title plants less \$.....0 charged off (for Title insurers only).....			0	
14. Investment income due and accrued.....	37,454,615		37,454,615	40,839,098
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection.....	1,052,158	124,225	927,933	218,306
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$.....0 earned but unbilled premiums).....	12,628,266	11,368	12,616,898	13,288,358
15.3 Accrued retrospective premiums.....			0	
16. Reinsurance:				
16.1 Amounts recoverable from reinsurers.....	7,367,160		7,367,160	6,845,304
16.2 Funds held by or deposited with reinsured companies.....			0	
16.3 Other amounts receivable under reinsurance contracts.....			0	23,642
17. Amounts receivable relating to uninsured plans.....			0	
18.1 Current federal and foreign income tax recoverable and interest thereon.....			0	
18.2 Net deferred tax asset.....			0	
19. Guaranty funds receivable or on deposit.....			0	
20. Electronic data processing equipment and software.....	1,307,407	1,307,407	0	
21. Furniture and equipment, including health care delivery assets (\$.....0).....	9,635,864	9,635,864	0	
22. Net adjustment in assets and liabilities due to foreign exchange rates.....			0	
23. Receivables from parent, subsidiaries and affiliates.....	1,911,770	353,974	1,557,796	1,025,013
24. Health care (\$.....0) and other amounts receivable.....			0	
25. Aggregate write-ins for other than invested assets.....	3,711,462	3,616,824	94,638	94,623
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 through 25).....	6,229,173,344	101,788,851	6,127,384,493	6,005,318,227
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....	1,953,210,004	18,855,653	1,934,354,351	1,934,716,408
28. Total (Lines 26 and 27).....	8,182,383,348	120,644,504	8,061,738,844	7,940,034,635

**DETAILS OF WRITE-INS**

1101. Inter-company loans with affiliates.....	408,363,000		408,363,000	511,299,000
1102. Secured Inter-company loans with affiliates.....	257,136,000		257,136,000	239,600,000
1103.....			0	
1198. Summary of remaining write-ins for Line 11 from overflow page.....	0	0	0	0
1199. Totals (Lines 1101 thru 1103 plus 1198) (Line 11 above).....	665,499,000	0	665,499,000	750,899,000
2501. Prepaid assets.....	3,613,542	3,613,542	0	
2502. Other assets.....	97,920	3,282	94,638	94,623
2503.....			0	
2598. Summary of remaining write-ins for Line 25 from overflow page.....	0	0	0	0
2599. Totals (Lines 2501 thru 2503 plus 2598) (Line 25 above).....	3,711,462	3,616,824	94,638	94,623

**LIABILITIES, SURPLUS AND OTHER FUNDS**

	1 Current Statement Date	2 December 31 Prior Year
1. Losses (current accident year \$.....46,303,215).....	2,609,657,855	2,345,139,759
2. Reinsurance payable on paid losses and loss adjustment expenses.....		
3. Loss adjustment expenses.....	129,370,339	133,295,269
4. Commissions payable, contingent commissions and other similar charges.....		
5. Other expenses (excluding taxes, licenses and fees).....	35,027,737	38,627,794
6. Taxes, licenses and fees (excluding federal and foreign income taxes).....	4,092,566	4,242,986
7.1 Current federal and foreign income taxes (including \$.....0 on realized capital gains (losses)).....	18,369,917	18,319,917
7.2 Net deferred tax liability.....		
8. Borrowed money \$.....1,913,244,518 and interest thereon \$.....20,919,784.....	1,934,164,302	1,934,537,313
9. Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$.....120,886,301 and including warranty reserves of \$.....0).....	1,887,979,711	1,929,321,995
10. Advance premium.....	1,043,272	1,320,827
11. Dividends declared and unpaid:		
11.1 Stockholders.....		
11.2 Policyholders.....		
12. Ceded reinsurance premiums payable (net of ceding commissions).....	2,347,073	4,511,736
13. Funds held by company under reinsurance treaties.....		
14. Amounts withheld or retained by company for account of others.....	131,509	1,661,113
15. Remittances and items not allocated.....		
16. Provision for reinsurance.....	1,080,000	1,080,000
17. Net adjustments in assets and liabilities due to foreign exchange rates.....		
18. Drafts outstanding.....		
19. Payable to parent, subsidiaries and affiliates.....	745,536	932,008
20. Derivatives.....		
21. Payable for securities.....	76,361,264	
22. Payable for securities lending.....		
23. Liability for amounts held under uninsured plans.....		
24. Capital notes \$.....0 and interest thereon \$.....0.....		
25. Aggregate write-ins for liabilities.....	560,231,506	500,123,737
26. Total liabilities excluding protected cell liabilities (Lines 1 through 25).....	7,260,602,587	6,913,114,454
27. Protected cell liabilities.....		
28. Total liabilities (Lines 26 and 27).....	7,260,602,587	6,913,114,454
29. Aggregate write-ins for special surplus funds.....	0	0
30. Common capital stock.....	82,000,000	82,000,000
31. Preferred capital stock.....	26,411,000	26,411,000
32. Aggregate write-ins for other than special surplus funds.....	0	0
33. Surplus notes.....	2,000,000,000	2,000,000,000
34. Gross paid in and contributed surplus.....	3,549,615,061	3,549,510,339
35. Unassigned funds (surplus).....	(4,856,889,804)	(4,631,001,158)
36. Less treasury stock, at cost:		
36.1 .....0.000 shares common (value included in Line 30 \$.....0).....		
36.2 .....0.000 shares preferred (value included in Line 31 \$.....0).....		
37. Surplus as regards policyholders (Lines 29 to 35, less 36).....	801,136,257	1,026,920,181
38. Totals.....	8,061,738,844	7,940,034,635

**DETAILS OF WRITE-INS**

2501. Mandatory contingency reserve for adverse losses.....	519,229,658	495,326,774
2502. Deferred gain on purchase of securities from subsidiary.....	1,452,949	1,452,949
2503. Unapplied premium liability.....	724,793	280,764
2598. Summary of remaining write-ins for Line 25 from overflow page.....	38,824,106	3,063,250
2599. Totals (Lines 2501 thru 2503 plus 2598) (Line 25 above).....	560,231,506	500,123,737
2901. ....		
2902. ....		
2903. ....		
2998. Summary of remaining write-ins for Line 29 from overflow page.....	0	0
2999. Totals (Lines 2901 thru 2903 plus 2998) (Line 29 above).....	0	0
3201. ....		
3202. ....		
3203. ....		
3298. Summary of remaining write-ins for Line 32 from overflow page.....	0	0
3299. Totals (Lines 3201 thru 3203 plus 3298) (Line 32 above).....	0	0

**STATEMENT OF INCOME**

	1 Current Year to Date	2 Prior Year to Date	3 Prior Year Ended December 31
<b>UNDERWRITING INCOME</b>			
1. Premiums earned:			
1.1 Direct..... (written \$....43,578,680).....	86,789,580	115,390,889	531,002,431
1.2 Assumed..... (written \$....77,155).....	142,462	24,828,948	176,786,256
1.3 Ceded..... (written \$....3,283,438).....	5,217,361	9,913,443	42,295,284
1.4 Net..... (written \$....40,372,397).....	81,714,681	130,306,394	665,493,403
DEDUCTIONS:			
2. Losses incurred (current accident year \$....46,303,215):			
2.1 Direct.....	239,019,656	586,659,721	1,396,106,804
2.2 Assumed.....			
2.3 Ceded.....	1,992,333	14,415,380	16,554,638
2.4 Net.....	237,027,323	572,244,341	1,379,552,166
3. Loss adjustment expenses incurred.....	11,757,188	6,580,362	270,825,965
4. Other underwriting expenses incurred.....	25,130,487	39,820,612	125,830,568
5. Aggregate write-ins for underwriting deductions.....	0	0	0
6. Total underwriting deductions (Lines 2 through 5).....	273,914,998	618,645,315	1,776,208,699
7. Net income of protected cells.....			
8. Net underwriting gain (loss) (Line 1 minus Line 6 + Line 7).....	(192,200,317)	(488,338,921)	(1,110,715,296)
<b>INVESTMENT INCOME</b>			
9. Net investment income earned.....	59,269,603	113,402,471	252,752,552
10. Net realized capital gains (losses) less capital gains tax of \$.....0.....	(4,339,170)	(498,094,528)	(738,090,142)
11. Net investment gain (loss) (Lines 9 + 10).....	54,930,433	(384,692,057)	(485,337,590)
<b>OTHER INCOME</b>			
12. Net gain or (loss) from agents' or premium balances charged off (amount recovered \$.....0 amount charged off \$.....0).....	0		
13. Finance and service charges not included in premiums.....			
14. Aggregate write-ins for miscellaneous income.....	(45,986,028)	51,196,092	124,349,832
15. Total other income (Lines 12 through 14).....	(45,986,028)	51,196,092	124,349,832
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15).....	(183,255,912)	(821,834,886)	(1,471,703,054)
17. Dividends to policyholders.....			
18. Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Line 16 minus Line 17).....	(183,255,912)	(821,834,886)	(1,471,703,054)
19. Federal and foreign income taxes incurred.....	50,000	50,000	200,000
20. Net income (Line 18 minus Line 19) (to Line 22).....	(183,305,912)	(821,884,886)	(1,471,903,054)
<b>CAPITAL AND SURPLUS ACCOUNT</b>			
21. Surplus as regards policyholders, December 31 prior year.....	1,026,920,181	801,868,685	801,868,685
22. Net income (from Line 20).....	(183,305,912)	(821,884,886)	(1,471,903,054)
23. Net transfers (to) from Protected Cell accounts.....			
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$.....0.....	(53,023,096)	208,774,294	(88,807,417)
25. Change in net unrealized foreign exchange capital gain (loss).....			(10,501,689)
26. Change in net deferred income tax.....			
27. Change in nonadmitted assets.....	37,068,692	(15,018,543)	(138,304,642)
28. Change in provision for reinsurance.....			3,284,000
29. Change in surplus notes.....			2,000,000,000
30. Surplus (contributed to) withdrawn from protected cells.....			
31. Cumulative effect of changes in accounting principles.....			
32. Capital changes:			
32.1 Paid in.....			
32.2 Transferred from surplus (Stock Dividend).....			
32.3 Transferred to surplus.....			
33. Surplus adjustments:			
33.1 Paid in.....	104,722	798,004	23,422,029
33.2 Transferred to capital (Stock Dividend).....			
33.3 Transferred from capital.....			
34. Net remittances from or (to) Home Office.....			
35. Dividends to stockholders.....		(817,203)	(817,203)
36. Change in treasury stock.....			
37. Aggregate write-ins for gains and losses in surplus.....	(26,628,330)	(13,570,527)	(91,320,528)
38. Change in surplus as regards policyholders (Lines 22 through 37).....	(225,783,924)	(641,718,861)	225,051,496
39. Surplus as regards policyholders, as of statement date (Lines 21 plus 38).....	801,136,257	160,149,824	1,026,920,181

**DETAILS OF WRITE-INS**

0501. ....			
0502. ....			
0503. ....			
0598. Summary of remaining write-ins for Line 5 from overflow page.....	0	0	0
0599. Totals (Lines 0501 thru 0503 plus 0598) (Line 5 above).....	0	0	0
1401. Other miscellaneous income.....	2,937,085	2,123,489	14,185,910
1402. Estimated provision for uncollectible intercompany loan with affiliate.....	(29,400,000)	47,100,000	71,100,000
1403. Change in liabilities allocated to Ambac Assurance Corporation Segregated Account.....	26,947,850	2,046,785,435	3,783,993,909
1498. Summary of remaining write-ins for Line 14 from overflow page.....	(46,470,963)	(2,044,812,832)	(3,744,929,987)
1499. Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above).....	(45,986,028)	51,196,092	124,349,832
3701. Mandatory contingency reserve for adverse losses, net of tax.....	(23,902,884)	(13,796,057)	(159,270,677)
3702. Change in Surplus of Ambac Assurance Corporation Segregated Account.....	4,095,553	225,530	67,950,149
3703. Cumulative effect of prior period error in correction of the liability for losses.....	(6,820,999)		
3798. Summary of remaining write-ins for Line 37 from overflow page.....	0	0	0
3799. Totals (Lines 3701 thru 3703 plus 3798) (Line 37 above).....	(26,628,330)	(13,570,527)	(91,320,528)

**CASH FLOW**

	1 Current Year to Date	2 Prior Year To Date	3 Prior Year Ended December 31
<b>CASH FROM OPERATIONS</b>			
1. Premiums collected net of reinsurance.....	37,863,418	75,484,256	250,067,866
2. Net investment income.....	50,718,589	77,159,395	153,383,582
3. Miscellaneous income.....	2,937,085	2,123,489	14,185,910
4. Total (Lines 1 through 3).....	91,519,092	154,767,140	417,637,358
5. Benefit and loss related payments.....	(20,171,560)	224,895,379	143,139,387
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			
7. Commissions, expenses paid and aggregate write-ins for deductions.....	45,946,853	55,926,458	2,761,529,389
8. Dividends paid to policyholders.....			
9. Federal and foreign income taxes paid (recovered) net of \$.....0 tax on capital gains (losses).....		(443,940,722)	(443,940,722)
10. Total (Lines 5 through 9).....	25,775,293	(163,118,885)	2,460,728,054
11. Net cash from operations (Line 4 minus Line 10).....	65,743,799	317,886,025	(2,043,090,696)
<b>CASH FROM INVESTMENTS</b>			
12. Proceeds from investments sold, matured or repaid:			
12.1 Bonds.....	145,398,617	1,312,340,246	2,804,131,231
12.2 Stocks.....			
12.3 Mortgage loans.....			
12.4 Real estate.....			
12.5 Other invested assets.....			284,768
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments.....	57,572	(66,396)	190,293
12.7 Miscellaneous proceeds.....	132,361,264	488,303,269	68,852,000
12.8 Total investment proceeds (Lines 12.1 to 12.7).....	277,817,453	1,800,577,119	2,873,458,292
13. Cost of investments acquired (long-term only):			
13.1 Bonds.....	241,979,056	519,588,738	935,978,304
13.2 Stocks.....			
13.3 Mortgage loans.....			
13.4 Real estate.....			
13.5 Other invested assets.....			
13.6 Miscellaneous applications.....	16,730,514	38,493,107	2,521,822
13.7 Total investments acquired (Lines 13.1 to 13.6).....	258,709,570	558,081,845	938,500,126
14. Net increase (decrease) in contract loans and premium notes.....			
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14).....	19,107,883	1,242,495,274	1,934,958,166
<b>CASH FROM FINANCING AND MISCELLANEOUS SOURCES</b>			
16. Cash provided (applied):			
16.1 Surplus notes, capital notes.....			
16.2 Capital and paid in surplus, less treasury stock.....		798,004	
16.3 Borrowed funds.....			
16.4 Net deposits on deposit-type contracts and other insurance liabilities.....			
16.5 Dividends to stockholders.....		817,203	817,203
16.6 Other cash provided (applied).....	706,604	42,202,892	(3,786,827)
17. Net cash from financing and miscellaneous sources (Lines 16.1 through 16.4 minus Line 16.5 plus Line 16.6).....	706,604	42,183,693	(4,604,030)
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS</b>			
18. Net change in cash, cash equivalents and short-term investments (Line 11 plus Line 15 plus Line 17).....	85,558,286	1,602,564,992	(112,736,559)
19. Cash, cash equivalents and short-term investments:			
19.1 Beginning of year.....	512,619,523	625,356,082	625,356,082
19.2 End of period (Line 18 plus Line 19.1).....	598,177,809	2,227,921,074	512,619,523

Note: Supplemental disclosures of cash flow information for non-cash transactions:

20.0001			
---------	--	--	--

**NOTES TO FINANCIAL STATEMENTS****Note 1 - Summary of Significant Accounting Policies**

## a. Accounting Practices

The accompanying financial statements of Ambac Assurance Corporation (the "Company" or "Ambac Assurance") have been prepared on the basis of accounting practices prescribed or permitted by the State of Wisconsin Office of the Commissioner of Insurance ("Wisconsin Insurance Commissioner" or "OCI").

The Wisconsin Insurance Commissioner recognizes only statutory accounting practices prescribed or permitted by the State of Wisconsin for determining and reporting the financial condition and results of operations of an insurance company for determining its solvency under Wisconsin Insurance Law. The National Association of Insurance Commissioners ("NAIC") Accounting Practices and Procedures manual ("NAIC SAP") has been adopted as a component of prescribed practices by the State of Wisconsin.

The Wisconsin Insurance Commissioner has prescribed an accounting practice that differs from NAIC SAP. Paragraph 7 of Statement of Statutory Accounting Principles No. 60 "Financial Guaranty Insurance" ("SSAP 60") allows for a deduction from loss reserves for the time value of money by application of a discount rate equal to the average rate of return on the admitted assets of the financial guaranty insurer as of the date of the computation of the reserve. The discount rate shall be adjusted at the end of each calendar year. Additionally, in accordance with paragraph 7 of Statutory Accounting Principles No. 5 "Liabilities, Contingencies and Impairments of Assets", Ambac Assurance records probable losses on its subsidiaries credit derivative contracts, using a discount rate equal to the average rate of return on its admitted assets. The Company's average rates of return on its admitted assets at December 31, 2010 was 7.06%. The Wisconsin Insurance Commissioner has directed the Company to utilize a prescribed discount rate of 5.10% for the purpose of discounting both its loss reserves and its estimated impairment losses on subsidiary guarantees. Statutory surplus at March 31, 2011 and December 31, 2010 was lower by \$78,206,923 and \$35,233,482, respectively, than if the Company had reported such amounts in accordance with NAIC SAP. Net income for the three months ended March 31, 2011 was lower by \$42,973,441 and was greater for the year ended December 31, 2010 by \$1,480,457,717, than if the Company had reported such amounts in accordance with NAIC SAP.

The Wisconsin Insurance Commissioner has prescribed an additional accounting practice that differs from NAIC SAP. Paragraph 4 of Statement of Statutory Accounting Principles No. 41 "Surplus Notes" ("SSAP 41") states that proceeds received by the issuer of surplus notes must be in the form of cash or other admitted assets having readily determinable values and liquidity satisfactory to the commissioner of the state of domicile. Under statutory accounting principles as generally applied, the issuance of surplus notes would be valued at zero upon issuance pursuant to paragraph 4, SSAP 41. The Wisconsin Insurance Commissioner has directed the Company to record surplus notes issued in settlement of liabilities at full par value upon issuance as in these instances the surplus notes do not represent a contribution of capital, but rather a distribution of value from the common and preferred shareholders of the Company. The surplus notes issued has a claim against surplus senior to the preferred and common shareholders. Statutory surplus is not impacted as a result of the prescribed practice as it is a reclassification from unassigned funds to surplus notes. Net income for the three months ended March 31, 2011 and for the year ended December 31, 2010 were lower by \$0 and \$2,000,000,000, respectively, than if the Company had recorded the issuance of surplus notes in accordance with NAIC SAP.

The Wisconsin Insurance Commissioner has extended the preceding prescribed practice related to surplus notes to the evaluation of other-than-temporary impairments for Ambac Assurance guaranteed securities held in the investment portfolio. Paragraph 35 of Statement of Statutory Accounting Principles No. 43R "Loan-backed and Structured Securities" states that when an other-than-temporary impairment has occurred, the amount of the other-than-temporary impairment recognized as a realized loss shall equal the difference between the investment's amortized cost basis and the present value of cash flows expected to be collected, discounted at the loan-backed or structured security's effective interest rate. Under NAIC SAP, the present value of cash flows expected to be collected should include the fair value of surplus notes received from Ambac Assurance, as required under the Segregated Account Rehabilitation Plan (as defined below). The Wisconsin Insurance Commissioner has prescribed an accounting practice that differs from NAIC and has directed the Company to utilize par value rather than fair value of these surplus notes in this computation. Statutory surplus at March 31, 2011 and December 31, 2010 is greater by \$78,914,371 and \$76,709,311 and net income for the three months ended March 31, 2011 and for the year ended December 31, 2010 are greater by \$12,299,917 and \$137,092,347, respectively, than if the present value of the cash flows expected to be collected included the surplus notes at fair value in accordance with NAIC SAP.

Wisconsin accounting practices for changes to contingency reserves differ from NAIC SAP. Under NAIC SAP, contributions to and releases from the contingency reserve are recorded via a direct charge or credit to surplus. Under section 3.08(7)(b) of the Wisconsin Administrative Code, contributions to and releases from the contingency reserve are to be recorded through underwriting income. The Company received permission of the Wisconsin Insurance Commissioner to record contributions to and releases from the contingency reserve and the related tax and loss bond impact, in accordance with NAIC SAP. Statutory surplus is the same using each of these accounting practices. Net income for the three months ended March 31, 2011 and for the year ended December 31, 2010 is greater by \$23,902,884 and \$159,270,677, respectively, than if the Company had reported the contributions to the contingency reserve in accordance with the Wisconsin Administrative Code.

A reconciliation of the Company's net income and statutory surplus between practices prescribed and permitted by the Wisconsin Insurance Commissioner and NAIC SAP is shown below:

	March 31, 2011	December 31, 2010
Net Loss, Per Quarterly Statement	\$ (183,305,912)	\$ (1,471,903,054)
Effect of Wisconsin Permitted Practice	(23,902,884)	(159,270,677)
Net Loss, Wisconsin Basis	(207,208,796)	(1,631,173,731)
Effect of Wisconsin Prescribed Practices	30,673,524	382,449,936
Effect of Wisconsin Permitted Practice	23,902,884	159,270,677
Net Loss, NAIC SAP	<u>\$ (152,632,388)</u>	<u>\$ (1,089,453,118)</u>
Statutory Surplus, Wisconsin Basis	\$ 801,136,257	\$ 1,026,920,181
Effect of Wisconsin Prescribed Practices	(707,448)	(41,475,829)
Effect of Wisconsin Permitted Practice	-	-
Statutory Surplus, NAIC SAP	<u>\$ 800,428,809</u>	<u>\$ 985,444,352</u>

---



---

## NOTES TO FINANCIAL STATEMENTS

---

**Note 2 - Accounting Changes and Corrections of Errors**

During the quarter ended March 31, 2011, management discovered an error relating to calculation of the Company's loss reserves. The error resulted in the overstatement of Net Income for the year ended December 31, 2010 and Policyholder's Surplus as of December 31, 2010 by \$6,820,999. The error was corrected in the Quarterly Statement for the period ended March 31, 2011, and was reported as a reduction to surplus of \$6,820,999.

**Note 3 - Business Combinations and Goodwill**

No significant change from 2010 Notes to Financial Statements.

**Note 4 - Discontinued Operations**

No significant change from 2010 Notes to Financial Statements.

**Note 5 - Investments**

## d. Loan-Backed Securities

- i. The Company consistently uses the retrospective method to revalue loan-backed securities using current prepayment assumptions. Prepayment assumptions for single class and multi-class loan-backed securities were obtained from publicly available resources. During 2011, there were no changes in the methodology utilized by the Company to revalue loan-backed securities.
- ii. During 2011, the Company recognized other-than-temporary impairment losses ("OTTI losses") on certain loan-backed securities where the present value of cash flows expected to be collected were less than the amortized cost basis of the securities. For the loan-backed securities still held at March 31, 2011, the total amortized cost immediately prior to the recognition of OTTI losses, the OTTI losses recognized during the three months ended March 31, 2011, and the fair value of these securities at the time OTTI losses were recognized are as follows:

	Amortized Cost Basis – Immediately Prior to Recognition of OTTI Losses	OTTI Losses Recognized during three months ended March 31, 2011	Fair Value at the time OTTI Losses were recognized <sup>(1)</sup>
Aggregate of all loan-backed securities for which OTTI losses were recognized during 2011 that were classified as "Intent to Sell"	\$ -	\$ -	\$ -
Aggregate of all loan-backed securities for which OTTI losses were recognized during 2011 that were classified as "Intent & Ability to Hold to Maturity"	-	-	-
Aggregate of all loan-backed securities for which OTTI losses were recognized during 2011 due to the present value of cash flows expected to be collected were less than the amortized cost basis of the security	\$54,320,291	\$4,666,773	\$49,653,518

(1) Fair value of these loan-backed securities at March 31, 2011, based primarily on SVO prices, was \$44,089,746.

**NOTES TO FINANCIAL STATEMENTS**

- iii. During 2011, the Company recognized OTTI losses on certain loan-backed securities where the present value of cash flows expected to be collected were less than the amortized cost basis of the securities. For the loan-backed securities still held at March 31, 2011, the total amortized cost immediately prior to the recognition of OTTI losses, the OTTI losses recognized during the three months ended March 31, 2011, and the fair value of these securities at the time OTTI losses were recognized are as follows:

CUSIP	Amortized cost before current period OTTI	Projected Cashflows	Recognized other-than-temporary impairment	Amortized cost after other-than-temporary impairment	Fair Value at 3/31/2011
12666TAB2	\$9,076,917	\$8,554,382	\$552,535	\$8,554,382	\$8,351,695
12666TAC0	8,031,334	7,310,889	720,445	7,310,889	6,946,881
12666TAD8	3,323,142	3,210,808	112,334	3,210,808	3,282,302
126685CS3	1,095,082	951,037	144,045	951,037	970,845
12668RAC2	4,162,544	2,850,033	1,312,511	2,850,033	396,592
43709RAA2	1,410,633	1,094,939	315,694	1,094,939	1,051,959
464125AC7	10,532,449	10,417,066	115,383	10,417,066	10,332,180
46412RAB1	7,197,136	7,059,437	137,699	7,059,437	6,907,658
52524PAG7	3,949,100	3,677,119	271,981	3,677,119	2,632,859
68402VAG7	3,084,341	3,033,174	51,167	3,033,174	1,504,250
785778PF2	485,235	338,436	146,799	338,436	343,967
785778PG0	1,972,378	1,156,198	816,180	1,156,198	1,368,558
<b>TOTAL</b>	<b>\$54,320,291</b>	<b>\$49,653,518</b>	<b>\$4,666,773</b>	<b>\$49,653,518</b>	<b>\$44,089,746</b>

- iv. The following table shows all impaired securities (Fair Value is less than cost or Amortized cost) for which an other-than-temporary impairment has not been recognized in earnings by length of time that the individual securities have been in a continuous unrealized loss position at March 31, 2011:

	Unrealized Loss	Fair Value
Less than 12 months	\$41,992,929	\$111,839,187
Greater than 12 months	\$42,742,528	\$81,776,562

- v. Management has determined that the unrealized losses reflected in the table above are temporary in nature as of March 31, 2011 based upon (i) no unexpected principal and interest payment defaults on these securities; (ii) analysis of the creditworthiness of the issuer and financial guarantor, as applicable, and analysis of projected defaults on the underlying collateral; (iii) management has no intent to sell these investments in debt securities; and (iv) it is not more likely than not that Ambac Assurance will be required to sell these debt securities before the anticipated recovery of its amortized cost basis. The assessment under (iv) is based on a comparison of future available liquidity from the fixed income investment portfolio against the projected net cash outflow from operating activities and debt service. For purposes of this assessment, available liquidity from the fixed income investment portfolio is comprised of the fair value of securities for which management has asserted its intent to sell plus the scheduled maturities and interest payments from the remaining securities in the portfolio. To the extent that securities that management intends to sell are in an unrealized loss position, they would have already been considered other-than-temporarily impaired with the amortized cost written down to fair value. As of March 31, 2011, management has not asserted an intent to sell any securities from its portfolio. Because the above-described assessment indicates that future available liquidity exceeds projected net cash outflow, it is not more likely than not that we would be required to sell securities before the recovery of their amortized cost basis.

As of March 31, 2011, for securities that have indications of possible other-than-temporary impairment but which management does not intend to sell and will not more likely than not be required to sell, management compared the present value of cash flows expected to be collected to the amortized cost basis of the securities to assess whether the amortized cost will be recovered. Receipts were discounted at the effective interest rate implicit in the security at the date of acquisition. For floating rate securities, future cash flows and the discount rate used were both adjusted to reflect changes in the index rate applicable to each security as of the evaluation date. For RMBS securities that are insured by Ambac Assurance, future receipts take into account the par value of surplus notes issued as discussed in the prescribed practice from the Wisconsin Insurance Commissioner described above.

**Note 6 - Joint Ventures, Partnerships and Limited Liability Companies**

No significant change from 2010 Notes to Financial Statements.

**Note 7 - Investment Income**

No significant change from 2010 Notes to Financial Statements.

**Note 8 - Derivative Instruments**

No significant change from 2010 Notes to Financial Statements.



**NOTES TO FINANCIAL STATEMENTS****Note 9 - Income Taxes**

- d. The Company's income tax incurred and change in deferred income tax differs from the amount obtained by applying the federal statutory rate of 35% to income before taxes as follows:

	<b>3/31/2011</b>
Current income tax incurred	\$ 50,000
Change in deferred income tax (without tax on unrealized gains & losses)	-
Total income tax reported	\$ 50,000
Loss before taxes	\$ (183,255,912)
	35%
Expected income tax benefit at 35% statutory rate	\$ (64,139,569)
Increase (decrease) in actual tax reported resulting from:	
a. Dividends received deduction	-
b. Nondeductible expenses for meals, penalties & lobbying	14,000
c. Tax-exempt income	(4,984,405)
d. Change in deferred taxes on nonadmitted assets	-
e. Change in valuation allowance	70,042,739
f. Other	(882,765)
Total income tax reported	\$ 50,000

- e. Operating loss carryforward

- (1) At March 31, 2011, the Company, on a non-consolidated basis, had \$6,274,055,606 of unused operating loss carryforwards available to offset against future taxable income, which will begin expiring in 2029 and fully expire in 2031.
- (2) At March 31, 2011 there are no amounts available for recoupment in the event of future net losses.

vi. The Company has no deposits admitted under Section 6603 of the Internal Revenue Code.

- f. Consolidated federal income tax return

- (3) The Company will be included in Ambac Financial Group, Inc.'s ("Ambac") consolidated federal income tax return, which includes the following taxable entities: Ambac, Ambac Assurance, Ambac (Bermuda) Limited, Ambac Capital Corporation, Ambac Investments Inc., Ambac Capital Funding, Inc., Ambac Asset Funding Corporation, Ambac All Corporation, Connie Lee Holdings, Inc. and Everspan.
- The method of allocation between the Companies is subject to a written Tax Sharing Agreement approved by both the Wisconsin Insurance Department and the Ambac Assurance's Board of Directors. Amounts assessed/reimbursed are based upon separate return calculations made as if the Company had filed its own federal income tax return for each taxable period. Pursuant to an agreement with Ambac, Ambac Assurance will be paid for losses to the extent they could be utilized by the Ambac Assurance on a standalone basis under the rules of the Internal Revenue Code.

**Note 10 - Information Concerning Parent, Subsidiaries, Affiliates and Other Related Parties****2011 Overview – Ambac and Ambac Assurance:****Chapter 11 Reorganization**

On November 8, 2010 (the "Petition Date"), Ambac ("Debtor") filed a voluntary petition for relief under Chapter 11 ("Bankruptcy Filing") of the Bankruptcy Code in the Bankruptcy Court. Ambac is the parent of Ambac Assurance. Ambac will continue to operate in the ordinary course of business as "debtor-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court.

As required by the Bankruptcy Code, the United States Trustee appointed the "Official Committee of Unsecured Creditors ("Creditors' Committee"). The Creditors' Committee and its legal representatives have a right to be heard on all matters that come before the Bankruptcy Court with respect to Ambac. There can be no assurance that the Creditors' Committee will support Ambac's positions on matters to be presented to the Bankruptcy Court, including any plan of reorganization. Disagreements between Ambac and the Creditors' Committee could prolong the court proceedings, negatively impact Ambac's ability to operate, and delay Ambac's emergence from bankruptcy.

Ambac will seek to propose a reorganization plan (the "Reorganization Plan") as a debtor-in-possession, contingent upon the outcome of negotiations among Ambac, the Creditors' Committee, Ambac Assurance, and OCI; such reorganization plan may or may not be supported by the Creditors' Committee. There is significant uncertainty as to how holders of Ambac's securities will be treated under the Reorganization Plan. It is likely, however, that Ambac's debt holders and creditors will receive all of the equity in the reorganized company.

In order to successfully emerge from bankruptcy, Ambac will need to propose and obtain confirmation by the Bankruptcy Court of a plan of reorganization that satisfies the requirements of the Bankruptcy Code. A plan of reorganization would, among other things, resolve Ambac's obligations arising prior to the Petition Date, set forth the revised capital structure of a newly reorganized Ambac and provide for corporate governance subsequent to emergence from bankruptcy. As described above, a plan of reorganization may also resolve the issues with respect to the allocation of value and expenses as between Ambac and Ambac Assurance which are the subject of negotiations among Ambac, Ambac Assurance, the Creditors' Committee and OCI.

**Segregated Account**

Pursuant to the Plan of Operation for the Segregated Account, Ambac Assurance has allocated to the Segregated Account (1) certain policies insuring or relating to credit default swaps; (2) residential mortgage-backed securities ("RMBS") policies; (3) certain Student Loan Policies; and (4) other

**NOTES TO FINANCIAL STATEMENTS**

policies insuring obligations with substantial projected impairments or relating to transactions which have contractual triggers based upon Ambac Assurance's financial condition or the commencement of rehabilitation, which triggers are potentially damaging (collectively, the "Segregated Account Policies"). The policies described in (4) above include (a) certain types of securitizations, including commercial asset-backed transactions, consumer asset-backed transactions and other types of structured transactions; (b) the policies relating to Las Vegas Monorail Company; (c) policies relating to debt securities purchased by, and the debt securities issued by, Juneau Investments, LLC and Aleutian Investments, LLC, which are both finance companies owned by Ambac Assurance; (d) policies relating to leveraged lease transactions; and (e) policies relating to interest rate, basis, and/or currency swap or other swap transactions. Claims on Segregated Account Policies remain subject to a payment moratorium until the Segregated Account Rehabilitation Plan (as defined below) becomes effective. Insurance claims presented during the moratorium of \$1,768,706 for policies allocated to the Segregated Account have not yet been paid. Net par exposure as of March 31, 2011 for policies allocated to the Segregated Account is \$42,004,626,083. Ambac Assurance also allocated the following to the Segregated Account: (i) all remediation claims, defenses, offsets, and/or credits (except with respect to recoveries arising from remediation efforts or reimbursement or collection rights), if any, in respect of the Segregated Account Policies, (ii) Ambac Assurance's disputed contingent liability under the recently settled long-term lease with One State Street, LLC ("OSS"), and its contingent liability (as guarantor), if any, under the recently terminated Ambac Assurance UK Limited ("Ambac UK") lease with British Land, (iii) Ambac Assurance's limited liability interests in Ambac Credit Products, LLC ("ACP"), Ambac Conduit Funding LLC, Aleutian Investments, LLC ("Aleutian") and Juneau Investments, LLC ("Juneau") and (iv) all of Ambac Assurance's liabilities as reinsurer under reinsurance agreements (except for reinsurance assumed from Everspan). Effective November 7, 2010, the Plan of Operation for the Segregated Account was amended for the purpose of allocating to the Segregated Account (i) any and all liabilities (including contingent liabilities) it has or may have, now or in the future, to Ambac, or any successor to Ambac, in regard to, or respecting, tax refunds and/or the July 18, 1991 Tax Sharing Agreement, as amended (other than any liability to Ambac pertaining to any possible misallocation of up to \$38,486,000 of tax refunds received by Ambac Assurance in September 2009 and February 2010), (ii) any and all liabilities (including contingent liabilities) it has or may have, now or in the future, to the IRS and/or the United States Department of the Treasury (the "U.S. Treasury") in regard to, or in respect of, taxes imposed under the Internal Revenue Code of 1986, as amended (the "Federal Taxes"), for taxable periods ending on or prior to December 31, 2009 and, (iii) to the extent not described in clause (ii), any and all liabilities (including contingent liabilities) Ambac Assurance has or may have, now or in the future, to the IRS and/or the U.S. Treasury in regard to, or respect of, any Federal Tax refunds that were received prior to November 7, 2010 by Ambac Assurance, Ambac or their affiliates (each of clauses (i), (ii) and (iii), the "Allocated Disputed Contingent Liabilities"). In addition, on November 8, 2010, the rehabilitation court issued an order for temporary supplemental injunctive relief (the "State Court Injunction") enjoining Ambac, any successor-in-interest, any state court receiver of Ambac, all persons purporting to be creditors of Ambac, the IRS and all other federal and state governmental entities from commencing or prosecuting any actions, claims, lawsuits or other formal legal proceedings relating to the Allocated Disputed Contingent Liabilities.

On October 8, 2010, the rehabilitator filed a plan of rehabilitation for the Segregated Account (the "Segregated Account Rehabilitation Plan") in the Dane County Circuit Court in Wisconsin (the "Rehabilitation Court"). The Rehabilitation Court confirmed the Segregated Account Rehabilitation Plan on January 24, 2011. The effective date of the Segregated Account Rehabilitation Plan will be determined by the rehabilitator. Under the confirmed Segregated Account Rehabilitation Plan, holders of permitted policy claims will receive 25% of their permitted claims in cash and 75% in Segregated Account Surplus Notes, and delivery of such cash and Segregated Account Surplus Notes will constitute satisfaction under the Segregated Account Rehabilitation Plan in full of the Segregated Account's obligations in respect of each claim. The policyholders will not have the option to reject the surplus notes as consideration for settling claim liabilities. The Segregated Account Rehabilitation Plan also makes permanent the injunctions issued by the Rehabilitation Court on March 24, 2010.

Policy obligations not transferred to the Segregated Account remain in the General Account, and such policies in the General Account are not subject to and, therefore, will not be directly impacted by the Segregated Account rehabilitation plan. Ambac Assurances is not, itself, in rehabilitation proceedings.

The issuance of surplus notes by both Ambac Assurance and the Segregated Account as contemplated by the rehabilitation plan could subject Ambac Assurance to the risk of deconsolidation from Ambac for tax purposes or having to recognize significant cancellation of indebtedness income ("CODI"). Deconsolidation or the recognition of substantial CODI would likely have a material adverse effect on the financial condition of Ambac Assurance and the Segregated Account. As such, the rehabilitator is considering substantial amendments to the rehabilitation plan and/or the initiation of rehabilitation proceedings with respect to Ambac Assurance. Such amendments to the rehabilitation plan (and, presumably, any rehabilitation plan with respect to Ambac Assurance) could include the elimination of the issuance of surplus notes by the Segregated Account and/or the imposition of transfer restrictions on any surplus notes issued by the Segregated Account. Any such amendments to the rehabilitation plan could adversely affect the interests of Ambac security holders and holders of securities insured by Ambac Assurance as such amendments could reduce the likelihood of consummation of an agreement between Ambac and Ambac Assurance with respect to the ongoing term sheet negotiations. The parties' failure to consummate such a transaction increases the likelihood that Ambac's bankruptcy case will convert to a Chapter 7 liquidation proceeding, with attendant adverse consequences to Ambac security holders and holders of securities insured by Ambac Assurance (including, without limitation, the loss of NOLs).

In March 2011, the Segregated Account issued Segregated Account Surplus Notes with a par value of \$3,000,000 in connection with the commutation of an insurance policy allocated to the Segregated Account. Interest on the Segregated Account Surplus Notes is payable annually in June at the rate of 5.1% on the unpaid principal balance outstanding. All payments of principal and interest on the Segregated Account Surplus Notes are subject to the prior approval of the OCI. If the OCI does not approve the payment of interest on the Segregated Account Surplus Notes, such interest will accrue and compound annually until paid. The Segregated Account Surplus Notes were issued pursuant to a fiscal agency agreement entered into with The Bank of New York Mellon, as fiscal agent.

On March 1, 2011, Ambac, Ambac Assurance, the Segregated Account and One State Street LLC ("OSS") entered into a settlement agreement (the "Settlement Agreement") to terminate Ambac's existing headquarters office lease with OSS (the "Existing Lease") and agree to settle all claims among the parties relating to the Existing Lease. On March 1, 2011, Ambac Assurance also entered into a new lease (the "New AAC Lease") with OSS for an initial term commencing on the Effective Date (as defined below) through December 31, 2015. The New AAC Lease provides for the rental of a reduced amount of space at Ambac's current location, One State Street Plaza. The Settlement Agreement also provides that OSS will have an allowed general unsecured claim in Ambac's bankruptcy case for the amount that Ambac would owe OSS under the U.S. Bankruptcy Code upon rejection of the existing lease, which amount will be determined on the Effective Date but will not exceed \$14.1 million (the "AFG Payment"). The AFG Payment will be made by Ambac in the same form as payment is made to Ambac's other creditors. The Settlement Agreement further provides that the Segregated Account will issue junior surplus notes to OSS. Junior surplus are subordinate to Segregate Account Surplus Notes. The amount of the junior surplus notes will be determined on the Effective Date and will equal: (i) the net present value, using a 7% discount rate ("NPV"), of certain amounts owed under the Existing Lease; minus (ii) the NPV of amounts owed under the New AAC Lease; minus (iii) 83.33% of the value of any distribution received by OSS from the Ambac's bankruptcy estate; minus (iv) the NPV of amounts paid for any extension of term of the New AAC Lease. The Effective Date will occur on the date on which certain conditions have been satisfied, so long as such events occur prior to June 30, 2011, including, without limitation, approval of the Settlement Agreement by (i) the rehabilitator for the Segregated Account, (ii) the Wisconsin rehabilitation court, (iii) the bankruptcy court in the Ambac's bankruptcy, (iv) OCI and (v) OSS's mortgage holder. As of March 31, 2011, the Segregated Account has a liability and incurred an expense of \$36,664,952 for the office lease termination.

**Note 11- Debt**

No significant change from 2010 Notes to Financial Statements.

---



---

## NOTES TO FINANCIAL STATEMENTS

---

### **Note 12- Retirement Plans, Deferred Compensation, Postemployment Benefits and Compensated Absences and Other Postretirement Benefit Plans**

No significant change from 2010 Notes to Financial Statements.

### **Note 13 - Capital and Surplus, Dividend Restrictions and Quasi-Reorganizations**

No significant change from 2010 Notes to Financial Statements.

### **Note 14 - Contingencies**

Ambac Assurance has periodically received various regulatory inquiries and requests for information with respect to investigations and inquiries that such regulators are conducting. Ambac Assurance has complied with all such inquiries and requests for information.

Various third parties have filed motions or objections in the Rehabilitation Court and/or moved to intervene in the rehabilitation proceedings of the Segregated Account. On January 24, 2011, the Rehabilitation Court issued its Decision and Final Order Confirming the Rehabilitator's Plan of Rehabilitation, with Findings of Fact and Conclusions of Law (the "Confirmation Order"). Notices of appeal from the Confirmation Order were filed by various parties, including policyholders. Such appeals are pending.

Ambac Assurance's CDS portfolio experienced significant losses. The majority of these CDS contracts are on a "pay as you go" basis, and we believe that they are properly characterized as notional principal contracts for U.S. federal income tax purposes. Generally, losses on notional principal contracts are ordinary losses. However, the federal income tax treatment of credit default swaps is an unsettled area of the tax law. As such, it is possible that the Internal Revenue Service may decide that the "pay as you go" CDS contracts should be characterized as capital assets or that certain payments made with respect to the CDS contracts should be characterized as capital losses. Recently, the Internal Revenue Service opened an examination into certain issues related to Ambac Assurance's tax accounting methods with respect to such CDS contracts and Ambac Assurance's related characterization of such losses as ordinary losses. Although, as discussed above, Ambac Assurance believes these contracts are properly characterized as notional principal contracts, if the Internal Revenue Service today were to successfully assert, as a result of its examination, that these contracts should be characterized as capital assets or as generating capital losses, Ambac Assurance would be subject to both a substantial reduction in its net operating loss carryforwards and would suffer a material assessment for federal income taxes up to an estimated amount of \$1,079,000,000. On November 9, 2010, Ambac and the IRS agreed to a stipulation on the record that provides that the IRS would give notice at least 5 business days prior to taking any action against Ambac's nondebtor subsidiaries in the consolidated tax group that would violate the State Court Injunction, whether or not in effect. The stipulation permits the status quo to be maintained from November 9, 2010 until a hearing on the preliminary injunction that Ambac plans to seek under Bankruptcy Code section 105(a) barring assessment and collection of the 2003 through 2008 tax refunds by the IRS against Ambac's nondebtor subsidiaries in the consolidated tax group. On the same date, Ambac filed and served a complaint against the IRS for a declaratory judgment relating to the tax refunds. On January 14, 2011, the IRS filed its Answer and opposition to Ambac's Motion for Temporary Restraining Order and Preliminary Injunction. As of this date, no hearing on such Motion has been scheduled. On January 13, 2011, the IRS filed a motion in the United States District Court for the Southern District of New York ("USDC SDNY") to withdraw the Adversary Proceeding from the Bankruptcy Court to the USDC SDNY. Ambac has opposed such motion. On February 1, 2011, Ambac filed a motion with the Bankruptcy Court for Pretrial Conference and for Authorization to Implement Alternative Dispute Resolution Procedures. The Bankruptcy Court on March 2, 2011 ordered the process of non-binding mediation to begin on or about May 1, 2011 and to conclude no later than on or about September 6, 2011. Mediation is currently scheduled to commence on July 6, 2011. The Bankruptcy Court also approved a scheduling order which, among other things, ordered fact discovery in the Adversary proceeding to be completed by August 5, 2011; dispositive motions to be filed by September 16, 2011, and trial to be scheduled, thereafter, pursuant to further order of the Court.

The IRS has also sought to assert legal rights against Ambac Assurance, as joint and several obligor in respect of any assessment for federal income taxes against the consolidated Ambac tax group. On December 8, 2010, the IRS removed the Wisconsin rehabilitation proceeding involving the Segregated Account to the United States District Court for the Western District of Wisconsin (the "District Court"). On December 17, 2010, the IRS filed a motion in the District Court to dissolve the supplemental injunction that had been entered by the Rehabilitation Court on November 8, 2010 to prevent certain actions by the IRS that could have an adverse effect on the financial position of the Segregated Account. The Commissioner moved to remand the proceeding back to the Rehabilitation Court, and on January 14, 2011, that motion was granted by the District Court, which found that it lacked subject matter jurisdiction. The IRS has appealed this decision to the United States Court of Appeals for the Seventh Circuit. On January 20, 2011, the Seventh Circuit ordered the IRS to show cause why its appeal should not be dismissed for lack of jurisdiction, which led to additional briefing. On February 9, 2011, the IRS 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 IRS. The District Court dismissed the suit for lack of subject matter jurisdiction on February 18, 2011, and the IRS filed a notice of appeal on February 22, 2011. The appeals at the Seventh Circuit are pending.

Ambac is involved from time to time in various routine legal proceedings, including proceedings related to litigation with present or former employees. Although Ambac's litigation with present or former employees is routine and incidental to the conduct of its business, such litigation can result in large monetary awards when a civil jury is allowed to determine compensatory and/or punitive damages for, among other things, termination of employment that is wrongful or in violation of implied contracts.

In the ordinary course of their businesses, certain of Ambac's subsidiaries assert claims in legal proceedings against third parties to recover losses already paid and/or mitigate future losses. The amounts recovered and/or losses avoided which may be result from these proceedings is uncertain, although recoveries and/or losses avoided in any one or more of these proceedings during any quarter or fiscal year could be material to Ambac's results of operations in that quarter or fiscal year.

In connection with Ambac's efforts to seek redress for breaches of representations and warranties and fraud related to the information provided by both the underwriters and the sponsors of various transactions and for failure to comply with the obligation by the sponsors to repurchase ineligible loans, Ambac Assurance has filed the following lawsuits:

- Ambac Assurance Corporation v. EMC Mortgage Corporation and J.P. Morgan Securities, Inc. (formerly known as Bear, Stearns & Co. Inc.) (Supreme Court of the State of New York, County of New York, filed February 17, 2011). This case is the continuation of a case that was originally filed on November 5, 2008 in the U.S. District Court for the Southern District of New York but that was dismissed from federal court after Ambac was granted leave to amend its complaint to add certain new claims (but not others) and a new party, which deprived the federal court of jurisdiction over the litigation. After the decision by the federal judge, dated February 8, 2011, Ambac Assurance re-filed the suit in New York state court on February 17, 2011. In its state-court action, Ambac Assurance asserts claims for breach of contract, indemnification and reimbursement against EMC, as well as claims of fraudulent conduct by EMC and J. P. Morgan Securities Inc. Subsequently, EMC filed a notice of appeal of certain aspects of the federal judge's decision, and EMC and J. P. Morgan Securities Inc. have moved for a stay of the state-court litigation pending its appeal of the decision of the federal judge, a motion which Ambac Assurance is contesting.

---



---

## NOTES TO FINANCIAL STATEMENTS

---

- Ambac Assurance Corporation and the Segregated Account of Ambac Assurance Corporation v. DLJ Mortgage Capital, Inc. and Credit Suisse Securities (USA) LLC (Supreme Court of the State of New York, County of New York, filed on January 12, 2010). Ambac Assurance alleged breach of contract, fraudulent inducement, breach of implied duty of good faith and fair dealing, indemnification, reimbursement and requested the repurchase of loans that breach representations and warranties as required under the contracts, as well as damages. On July 8, 2010, the defendants moved to dismiss the complaint. Ambac Assurance opposed the motion and the Court held oral argument on October 12, 2010. In a decision dated April 7, 2011, the Court granted the defendants' motion in part dismissing only Ambac Assurance's cause of action for fraudulent inducement and striking Ambac Assurance's claim for consequential damages and jury demand. The Court otherwise denied the defendants' motion.
- Ambac Assurance Corporation and The Segregated Account of Ambac Assurance Corporation v. Countrywide Securities Corp., Countrywide Financial Corp. (a.k.a. Bank of America Home Loans) and Bank of America Corp. (Supreme Court of the State of New York, County of New York, filed on September 28, 2010). Ambac has alleged breach of contract, fraudulent inducement, indemnification and reimbursement, breach of representations and warranties and has requested the repurchase of loans that breach representations and warranties as required under the contracts as well as damages and has asserted a successor liability claim against Bank of America.

It is not reasonably possible to predict whether additional suits will be filed or whether additional inquiries or requests for information will be made, and it is also not possible to predict the outcome of litigation, inquiries or requests for information. It is possible that there could be unfavorable outcomes in these or other proceedings. Legal accruals for certain litigation matters discussed above which are probable and reasonably estimable, and management's estimated range of loss for such matters, are not material to the operating results or financial position of the Company. For the remaining litigation matters that do not meet the "probable and reasonably estimable" accrual threshold and where no loss estimates have been provided above, management is unable to make a meaningful estimate of the amount or range of loss that could result from unfavorable outcomes but, under some circumstances, adverse results in any such proceedings could be material to our business, operations, financial position, profitability or cash flows. The Company believes that it has substantial defenses to the claims filed against it in these lawsuits and, to the extent that these actions proceed, the Company intends to defend itself vigorously; however, the Company is not able to predict the outcomes of these actions.

### **Note 15 - Leases**

In connection with the establishment of the Segregated Account, Ambac Assurance allocated its disputed contingent liability, if any, under the long-term lease with One State Street, LLC, and its contingent liability (as guarantor), if any, under the Ambac UK lease with British Land.

The Ambac UK lease was terminated in 2010 without any payment by Ambac Assurance.

On March 1, 2011, Ambac, Ambac Assurance, the Segregated Account and One State Street LLC ("OSS") entered into a settlement agreement (the "Settlement Agreement") to terminate Ambac's existing headquarters office lease with OSS (the "Existing Lease") and agree to settle all claims among the parties relating to the Existing Lease. On March 1, 2011, Ambac Assurance also entered into a new lease (the "New AAC Lease") with OSS for an initial term commencing on the Effective Date (as defined below) through December 31, 2015. The New AAC Lease provides for the rental of a reduced amount of space at Ambac's current location, One State Street Plaza. The Settlement Agreement also provides that OSS will have an allowed general unsecured claim in Ambac's bankruptcy case for the amount that Ambac would owe OSS under the U.S. Bankruptcy Code upon rejection of the existing lease, which amount will be determined on the Effective Date but will not exceed \$14.1 million (the "AFG Payment"). The AFG Payment will be made by Ambac in the same form as payment is made to Ambac's other creditors. The Settlement Agreement further provides that the Segregated Account will issue junior surplus notes to OSS. Junior surplus are subordinate to Segregate Account Surplus Notes. The amount of the junior surplus notes will be determined on the Effective Date and will equal: (i) the net present value, using a 7% discount rate ("NPV"), of certain amounts owed under the Existing Lease; minus (ii) the NPV of amounts owed under the New AAC Lease; minus (iii) 83.33% of the value of any distribution received by OSS from the Ambac's bankruptcy estate; minus (iv) the NPV of amounts paid for any extension of term of the New AAC Lease. The Effective Date will occur on the date on which certain conditions have been satisfied, so long as such events occur prior to June 30, 2011, including, without limitation, approval of the Settlement Agreement by (i) the rehabilitator for the Segregated Account, (ii) the Wisconsin rehabilitation court, (iii) the bankruptcy court in the Ambac's bankruptcy, (iv) OCI and (v) OSS's mortgage holder. As of March 31, 2011, the Segregated Account has a liability and incurred an expense of \$36,664,952 for the office lease termination.

### **Note 16 - Information About Financial Instruments With Off-Balance Sheet Risk and Financial Instruments With Concentrations of Credit Risk**

No significant change from 2010 Notes to Financial Statements.

### **Note 17 - Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities**

- c. The Company did not engage in any wash sale transactions during 2011.

### **Note 18 - Gain or Loss to the Reporting Entity from Uninsured Plans and the Uninsured Portion of Partially Insured Plans**

No significant change from 2010 Notes to Financial Statements.

### **Note 19 - Direct Premium Written/Produced by Managing General Agents/Third Party Administrators**

No significant change from 2010 Notes to Financial Statements.

### **Note 20 - Fair Value Measurements**

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

#### ***Bonds and Other Unaffiliated Invested Assets***

The estimated fair values represent fair values as determined by the NAIC SVO. In the event the SVO has not determined the fair value of a security, fair value amounts are determined by using independent market sources, when available, and appropriate valuation methodologies when market quotes are not available. In cases where specific market quotes are unavailable, interpreting market data and estimating market values require considerable judgment by management. Accordingly, the estimates presented are not necessarily indicative of the amount Ambac could realize in the market.

**NOTES TO FINANCIAL STATEMENTS****Short-Term Investments, Cash and Cash Equivalents and Intercompany Loans with Affiliates**

The fair values of short-term investments, cash and cash equivalents are approximately their amortized cost. Intercompany loans with affiliates are reflected net of impairments.

**Investment Income Due and Accrued**

The fair value of investment income due and accrued approximates carrying value.

**Assets/ Liabilities for Liabilities Allocated to/from the Segregated Account**

The fair value estimates of assets/ liabilities for liabilities allocated to/from the Segregated Account approximates their related carrying values.

**Borrowed Money and Interest Thereon**

The fair value estimates of borrowed money and interest thereon approximates carrying value.

**Liability for Net Financial Guarantees Written**

This fair value estimate of financial guarantees is disclosed below on a net basis, and includes direct and assumed contracts written, which represents a net liability to the Company, net of ceded reinsurance contracts, which represents a net asset to the Company. The fair value estimate of direct and assumed contracts written is based on the sum of the present values of: (i) unearned premium reserves, and (ii) loss and loss expense reserves for defaulted policies, including claims presented and not paid as a result of the claim moratorium imposed by OCI on March 24, 2010, and (iii.) expected losses for non-defaulted policies. The fair value estimate of ceded reinsurance contracts is based on the sum of the present values of (i) deferred ceded premiums net of ceding commissions, and (ii) reinsurance recoverables on paid and unpaid losses.

Under our current financial guarantee model, the key variables are par amounts outstanding (including future periods for the calculation of future installment premiums), expected term, discount rate, and expected net loss and loss expense payments. Net par outstanding is monitored by Ambac's Surveillance Group. The estimated fair value of ceded reinsurance contracts factors in any adjustments related to the counterparty credit risk we have with reinsurers.

There are a number of factors that limit our ability to accurately estimate the fair value of our financial guarantees. The first limitation is the lack of observable pricing data points as a result of Ambac no longer writing new financial guarantee business. Additionally, fair value concepts, as they relate to valuing liabilities, requires a company to consider the cost to completely transfer its obligation to another party of comparable credit worthiness. However, our primary insurance obligation is irrevocable and thus there is not an established active market for transferring such obligations. Variables which are not incorporated in our current fair value estimate of financial guarantees include: i.) a credit valuation adjustment for the Company's creditworthiness, ii.) the credit spreads of the underlying insured obligations, iii.) the underlying ratings of those insured obligations, and iv.) assumptions about current financial guarantee premium levels relative to the underlying insured obligations' credit spreads

The carrying amount and estimated fair value of these financial instruments are presented below:

	<b>March 31, 2011</b>	
	<b>Carrying amount</b>	<b>Estimated fair value</b>
Financial assets:		
Bonds	\$ 4,599,935,998	\$ 4,803,327,479
Short-term investments	595,022,801	595,022,801
Cash and cash equivalents	3,155,008	3,155,008
Other unaffiliated invested assets	8,374,497	10,178,849
Intercompany loans with affiliates	665,499,000	665,499,000
Investment income due and accrued	37,454,615	37,454,615
Liabilities allocated to Segregated Account	5,666,962,655	5,666,962,655
Financial liabilities:		
Borrowed money and interest thereon	\$ 1,934,164,302	\$ 1,934,164,302
Liabilities allocated from Segregated Account	3,824,622,459	3,824,622,459
Liability for net financial guarantees written	5,127,672,645	10,047,479,666

- a. The following table sets forth Ambac Assurance's financial assets that were measured at fair value as of March 31, 2011 by level within the fair value hierarchy.

<b>2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets:</b>				
Bonds				
U.S. Special Revenue & Assessment Obligations Issuer Obligations	\$ -	\$1,257,900	\$ -	\$1,257,900
Industrial and Miscellaneous				
Defined Multi-Class Residential Mortgage-Backed Securities	-	3,127,120	-	3,127,120
Other Multi-Class Residential Mortgage-Backed Securities	-	129,662,127	-	129,662,127
Other Multi-Class Commercial Mortgage-Backed/ Asset-Backed Securities	-	7,622,177	-	7,622,177
<b>Total financial assets measured at fair value</b>	<b>\$ -</b>	<b>\$141,669,324</b>	<b>\$ -</b>	<b>\$141,669,324</b>

For securities measured at fair value there were no transfers between Level 1 and Level 2 as of March 31, 2011.

- b. There are no financial instruments categorized within Level 3 of the fair value hierarchy as of March 31, 2011.

**NOTES TO FINANCIAL STATEMENTS**

- c. Transfers between Levels are recognized at the beginning of each accounting period.
- d. The fair values of fixed income securities held by Ambac Assurance that are carried at fair value are based primarily on market prices received from the securities valuation office or alternative pricing sources with reasonable levels of price transparency. Such quotes generally consider a variety of factors, including recent trades of the same and similar securities. These quotes represent the only input to the reported fair value of Level 2 fixed income securities.
- e. There are no derivative assets and liabilities as of March 31, 2011.
- f. There are no classes of financial instruments where it isn't practicable to estimate the fair value as of March 31, 2011.

**Note 21 - Other Items**

No significant change from 2010 Notes to Financial Statements.

**Note 22 - Events Subsequent**

Pursuant to SSAP 9, Subsequent Events, the date through which Type I or Type II subsequent events have been evaluated was May 16, 2011 for the three months ended March 31, 2011, the same date on which the Company's statements are issued.

**Note 23 - Reinsurance**

Ambac Assurance provides aggregate excess of loss reinsurance ("Reinsurance Agreement") to the Segregated Account whereby once the Secured Note provided to the Segregated Account is exhausted, the Segregated Account has the ability to demand payment from time to time under the Reinsurance Agreement to pay claims and other liabilities. Ambac Assurance is not obligated to make payments on the Secured Note or under the Reinsurance Agreement if its surplus as regards to policyholders is (or would be) less than \$100,000,000, or such higher amount as the OCI permits pursuant to a prescribed practice (the "Minimum Surplus Amount"). As long as the surplus as regards to policy holders is not less than the Minimum Surplus Amount, payments by Ambac Assurance to the Segregated Account under the Reinsurance Agreement are not capped.

Pursuant to SSAP 62R, the allocation of insurance policies to the Segregated Account as well as the aggregate excess of loss reinsurance agreement has been recorded as retroactive reinsurance since these contracts were executed in connection with a court-ordered rehabilitation of the Ambac Assurance Segregated Account. Accordingly, the net balances due under these obligations are reported in as a net write-in contra-liability.

The liabilities allocated to the Segregated Account include loss, loss expense reserves and contingency reserves recorded in accordance with Ambac Assurances accounting policies and practices.

Below is a table reflecting ever-to-date retroactive reinsurance activity:

	<b>Liabilities allocated to the Segregated Account</b>	<b>Liabilities Assumed from the Segregated Account</b>	<b>Net Liabilities allocated to the Segregated Account</b>
Initial allocation and assumption of Assets/(Liabilities)	\$3,639,973,059	\$(1,639,973,059)	\$2,000,000,000
Prior Year Changes	1,986,430,991	(2,104,956,928)	(118,525,937)
Current Year Changes	40,558,605	(79,692,472)	(39,133,867)
Assets/(Liabilities) at March 31, 2011	<u>\$5,666,962,655</u>	<u>\$(3,824,622,459)</u>	<u>\$1,842,340,196</u>

	<b>Liabilities allocated to the Segregated Account</b>	<b>Liabilities Assumed from the Segregated Account</b>	<b>Impact to Surplus</b>
Assets/(Liabilities) at March 31, 2011	\$5,666,962,655	\$(3,824,622,459)	\$ 1,842,340,196
Consideration Provided to the Segregated Account	(2,000,000,000)	-	(2,000,000,000)
Prior Year Loss and LAE Payments	157,589,859	-	157,589,859
Current Year Loss and LAE Payments	19,610,754	-	19,610,754
Surplus Impact at March 31, 2011	<u>\$3,844,163,268</u>	<u>\$(3,824,622,459)</u>	<u>\$ 19,540,809</u>

Ambac Assurance incurred ever-to-date operating expenses of \$14,656,062 related to the Segregated Account as such amounts have not yet been approved as a settlement under the terms of the Secured Note by the Rehabilitator. As a result of the coverage provided to the Segregated Account by the Reinsurance Agreement between Ambac Assurance and the Segregated Account, the non approval does not have an impact on the net loss for the three months ended March 31, 2011 or to Surplus as of March 31, 2011.

**Note 24 - Retrospectively Rated Contracts & Contracts Subject to Redetermination**

No significant change from 2010 Notes to Financial Statements.

**Note 25 - Change in Incurred Losses and Loss Adjustment Expenses**

Loss incurred of \$237,027,323 in 2011 is primarily due to adverse development of \$347,011,675 on first lien residential mortgage backed credits partially offset by improvements in second lien residential mortgage backed credits that defaulted prior to 2011. Additionally, there was adverse development of \$55,630,676 relating to transportation credits (included in Public Finance in the below table) that defaulted in prior to 2011. Losses incurred on credits that defaulted in 2011 total \$46,303,215.

March 31, 2011 loss reserves include \$1,768,706,303 of claims that have been presented and not paid by Ambac Assurance. Although Ambac Assurance has not paid any Segregated Account claims presented, its reinsurers have continued to pay Ambac Assurance for their portion of the presented claims. Accordingly the reinsurance amounts on unpaid claims are not included in loss reserves.

**NOTES TO FINANCIAL STATEMENTS**

Case basis loss reserves, net of representations and warranties breaches of \$2,239,366,445 and \$2,203,037,944 at March 31, 2011 and December 31, 2010 were as follows:

	<b>March 31, 2011</b>	<b>December 31, 2010</b>	<b>Change</b>
Mortgage-Backed & Home Equity - First Lien	\$ 1,601,060,007	\$ 1,200,173,564	\$400,886,443
Mortgage-Backed & Home Equity - Second Lien	622,227,983	837,874,893	(215,646,910)
Mortgage-Backed & Home Equity – Other	176,432,432	168,238,482	8,193,950
Total Mortgage-Backed & Home Equity	2,399,720,422	2,206,286,939	193,433,483
Public Finance	219,894,435	169,762,871	50,131,564
Other	(9,957,002)	(30,910,051)	20,953,049
Total Loss Reserves	\$2,609,657,855	\$2,345,139,759	\$264,518,096
Total Losses Paid (Recovered) for the three months ended March 31, 2011			(20,669,774)
Cumulative effect of prior period error in correction of the liability for estimated losses			(6,820,999)
Total Losses Incurred for the three months ended March 31, 2011			\$237,027,323

In an effort to better understand the unprecedented levels of mortgage delinquencies, Ambac Assurance engaged consultants with significant mortgage lending experience to review the underwriting documentation for mortgage loans underlying certain insured RMBS transactions. These transactions which have exhibited exceptionally poor performance were chosen for further examination of the underwriting documentation supporting the underlying loans. Factors Ambac Assurance believes to be indicative of this poor performance include (i) increased levels of early payment defaults, (ii) the significant number of loan liquidations or charge-offs and resulting high level of losses, and (iii) the rapid elimination of credit protections inherent in the transactions' structures. With respect to item (ii), "loan liquidations" refers to loans for which the servicer has liquidated the related collateral and the securitization has realized losses on the loan; "charge-offs" refers to loans which have been written off as uncollectible by the servicer, thereby generating no recoveries to the securitization, and may also refer to the unrecovered balance of liquidated loans. In either case, the servicer has taken such actions as it has deemed viable to recover against the collateral, and the securitization has incurred losses to the extent such actions did not fully repay the borrower's obligations. Generally, the sponsor of the transaction provides representations and warranties with respect to the securitized loans including the loan characteristics, the absence of fraud or other misconduct in the origination process, including those attesting to the compliance of home loans with the prevailing underwriting policies. Per the transaction documents, the sponsor of the transaction is contractually obligated to repurchase, cure or substitute any loan that breaches the representations and warranties. Substitution is generally limited to two years from the closing of the transaction and the cure remedy is permitted only to the extent cure is possible.

Subsequent to the forensic exercise of examining loan files to ascertain whether the loans conformed to the representations and warranties, we submit nonconforming loans to the sponsor for repurchase. For all of the transactions reviewed by Ambac Assurance, the substitution remedy is no longer available (i.e., more than two years have lapsed since the closing of the transaction). To effect a repurchase, depending on the transaction, the sponsor is contractually required to repurchase the loan (a) for loans which have not been liquidated or charged off, either at (i) the current unpaid principal balance of the loan, (ii) the current unpaid principal balance plus accrued unpaid interest, or (iii) the current unpaid principal balance plus accrued interest plus unreimbursed servicer advances/expenses and/or trustee expenses resulting from the breach of representations and warranties that trigger the repurchase, and (b) for a loan that has already been liquidated or charged-off, the amount of the realized loss. Notwithstanding the material breaches of representations and warranties, up until the establishment of the Segregated Account and associated Segregated Account Rehabilitation Proceeding, Ambac Assurance had continued to pay claims submitted under the financial guarantee insurance policies related to these securitizations and will, once again, pay claims after a Rehabilitation Plan is effective. In cases where loans are repurchased by a sponsor, the effect is typically to offset current period losses and then to increase the over-collateralization of the securitization, depending on the extent of loan repurchases and the structure of the securitization. Specifically, the repurchase price is paid by the sponsor to the securitization trust which holds the loan. The cash becomes an asset of the trust, replacing the loan that was repurchased by the sponsor. On a monthly basis the cash received related to loan repurchases by the sponsor is aggregated with cash collections from the underlying mortgages and applied in accordance with the trust indenture payment waterfall. This payment waterfall typically includes principal and interest payments to the note holders, various expenses of the trust and reimbursements to Ambac Assurance, as financial guarantor, for claim payments made in previous months. With respect to transactions for which Ambac Assurance has recorded estimated subrogation recoveries (as further described below), Ambac Assurance insures all or a portion of the senior tranches in the capital structure of the issuer, thus any sponsor cash received from loan repurchases would entirely benefit Ambac Assurance or Ambac Assurance insured note holders. Notwithstanding the reimbursement of previous monthly claim payments, to the extent there continues to be insufficient cash in the waterfall in the current month to make scheduled principal and interest payments to the note holders, Ambac Assurance is required to make additional claim payments to cover this shortfall.

While the obligation by sponsors to repurchase loans with material breaches is clear, generally the sponsors have not yet honored those obligations. Ambac Assurance's approach to resolving these disputes has included negotiating with individual sponsors at the transaction level and in some cases at the individual loan level and has resulted in the repurchase of some loans. Ambac Assurance has utilized the results of the above described loan file examinations to make demands for loan repurchases from sponsors or their successors and, in certain instances, as a part of the basis for litigation filings. Ambac Assurance has initiated and will continue to initiate lawsuits seeking compliance with the repurchase obligations in the securitization documents. Ambac Assurance estimates that it will take approximately three years from the initiation of litigation with the sponsor to ultimate resolution. Based on this estimate as a basis for projecting the future subrogation cash flows, Ambac Assurance assumes, on average, approximately three and a half years to collect recoveries, discounted at a rate of 5.1%. Estimated recoveries will continue to be revised and supplemented as the scrutiny of the mortgage loan pools progresses.

We have performed the above-mentioned, detailed examinations on a variety of second-lien and first-lien transactions that have experienced exceptionally poor performance. However, the loan file examinations and related estimated recoveries we have reviewed and recorded to date have been limited to only those transactions whose sponsors (or their successors) are subsidiaries of large financial institutions, all of which carry an investment grade rating from at least one nationally recognized rating agency. A total of seven sponsors represent the 28 transactions which have been reviewed as of March 31, 2011. While our contractual recourse is generally to the sponsor/subsidiary, rather than to the financial institutional parent, each of these financial institutions has significant financial resources and an ongoing interest in mortgage finance, and we therefore believe that the financial institution/parent would not seek to disclaim financial responsibility for these obligations if the sponsor/subsidiary is unable to honor its contractual obligations or pay a judgment that we may obtain in litigation. Additionally, in the case of successor institutions, we are not aware of any provisions that explicitly preclude or limit the successors' obligations to honor the obligations of the original sponsor. To date, we have witnessed certain successor financial institutions make significant payments to certain claimants to settle breaches of representation and warranties perpetrated by sponsors that have been acquired by such financial institutions. As a result, we did not make any significant adjustments to our estimated subrogation recoveries with respect to the credit risk of these sponsors (or their successors). We believe that focusing our loan remediation efforts on large financial institutions first will provide the greatest economic benefit to Ambac Assurance. Ambac Assurance retains the right to review all RMBS transactions for representations and warranties breaches. Since a significant number of other second-lien and first-lien transactions are also experiencing poor performance, management is considering expanding the scope of this effort.

---

---

## NOTES TO FINANCIAL STATEMENTS

---

---

### **Note 26 - Intercompany Pooling Arrangements**

No significant change from 2010 Notes to Financial Statements.

### **Note 27 - Structured Settlements**

No significant change from 2010 Notes to Financial Statements.

### **Note 28 - Health Care Receivables**

No significant change from 2010 Notes to Financial Statements.

### **Note 29 - Participating Accident and Health Policies**

No significant change from 2010 Notes to Financial Statements.

### **Note 30 - Premium Deficiency Reserves**

No significant change from 2010 Notes to Financial Statements.

### **Note 31 - High Deductibles**

No significant change from 2010 Notes to Financial Statements.

### **Note 32 - Discounting of Liabilities for Unpaid Losses or Unpaid Loss Adjustment Expenses**

No significant change from 2010 Notes to Financial Statements.

### **Note 33 - Asbestos/Environmental Reserves**

No significant change from 2010 Notes to Financial Statements.

### **Note 34 - Subscriber Savings Accounts**

No significant change from 2010 Notes to Financial Statements.

### **Note 35 - Multiple Peril Crop Insurance**

No significant change from 2010 Notes to Financial Statements.

### **Note 36 - Financial Guaranty Insurance**

Ambac Assurance's loss reserves are based on management's on-going review of the non-derivative financial guarantee credit portfolio. Active surveillance of the insured portfolio enables Ambac Assurance's surveillance group to track credit migration of insured obligations from period to period and update internal classifications and credit ratings for each transaction. Non-adversely classified credits are assigned a Class I or Survey List ("SL") rating while adversely classified credits are assigned a rating of Class IA through Class V. The criteria for an exposure to be assigned an adversely classified credit rating includes the deterioration of an issuer's financial condition, underperformance of the underlying collateral (for collateral dependent transactions such as mortgage-backed securitizations), poor performance by the servicer of the underlying collateral and other adverse economic events or trends. The servicer of the underlying collateral of an insured securitization transaction is a consideration in assessing credit quality because the servicer's performance can directly impact the performance of the related issue. For example, a servicer of a mortgage-backed securitization that does not remain current in its collection loss mitigation efforts could cause an increase in the delinquency and potential default of the underlying obligation. Similarly, loss severities increase when a servicer does not effectively handle loss mitigation activities such as (i) the advancing of delinquent principal and interest and of default related expenses which are deemed to be recoverable by the servicer, (ii) pursuit of loan charge-offs which maximize cash flows from the mortgage loan pool, and (iii) foreclosure and real estate owned disposition strategies and timelines.

Additional remediation activities applied to adversely classified credits can include various actions by Ambac Assurance. The most common actions include obtaining detailed appraisal information on collateral, more frequent meetings with the issuer's or servicer's management to review operations, financial condition and financial forecasts and more frequent analysis of the issuer's financial statements. Senior management meets at least quarterly with the surveillance group to review the status of their work to determine the adequacy of Ambac Assurance's loss reserves and make any necessary adjustments.

All credits are assigned risk classifications by the Surveillance Group using the following guidelines:

#### **CLASS I – “Fully Performing – Meets Ambac Criteria with Remote Probability of Claim”**

Credits that demonstrate adequate security and structural protection with a strong capacity to pay interest, repay principal and perform as underwritten. Factors supporting debt service payment and performance are considered unlikely to change and any such change would not have a negative impact upon the fundamental credit quality.

#### **SURVEY LIST (SL) – “Investigation of Specific Condition or Weakness Underway”**



**NOTES TO FINANCIAL STATEMENTS**

Credits that require additional analysis to determine if adverse classification is warranted. These credits may lack information or demonstrate a weakness but further deterioration is not expected.

**CLASS IA – “Potential Problem with Risks to be Dimensioned”**

Credits that are fully current and monetary default or claims-payment are not anticipated. The payor’s or issuer’s financial condition may be deteriorating or the credits may lack adequate collateral. A structured financing may also evidence weakness in its fundamental credit quality as evidenced by its under-performance relative to its modeled projections at underwriting, issues related to the servicer’s ability to perform, or questions about the structural integrity of the transaction. While these credits may still retain an investment grade rating, they usually have experienced or are vulnerable to a ratings downgrade. Further investigation is required to dimension and correct any deficiencies. A complete legal review of documents may be required. An action plan should be developed with triggers for future classification changes upward or downward.

**CLASS II – “Substandard Requiring Intervention”**

Credits whose fundamental credit quality has deteriorated to the point that timely payment of debt service may be jeopardized by adversely developing trends of a financial, economic, structural, managerial or political nature. No claim payment is currently foreseen but the probability of loss or claim payment over the life of the transaction is now existent (10% or greater probability). Class II credits may be borderline or below investment grade (BBB- to B). Prompt and sustained action must be taken to execute a comprehensive loss mitigation plan and correct deficiencies.

**CLASS III – “Doubtful with Clear Potential for Loss”**

Credits whose fundamental credit quality has deteriorated to the point that timely payment of debt service has been or will be jeopardized by adverse trends of a financial, economic, structural, managerial or political nature which, in the absence of positive change or corrective action, are likely to result in a loss. The probability of monetary default or claims paying over the life of the transaction is 50% or greater. Full exercise of all available remedial actions is required to avert or minimize losses. Class III credits will generally be rated below investment grade (B to CCC).

**CLASS IV – “Imminent Default or Defaulted”**

Monetary default or claims payment has occurred or is expected imminently. Class IV credits are generally rated D.

**CLASS V – “Fully Reserved”**

The credit has defaulted and payments have occurred. The claim payments are scheduled and known, and reserves have been established to fully cover such claims.

Below is the losses and loss adjustment expense roll-forward, net of subrogation recoverable and reinsurance for the period ended March 31, 2011:

		<b>Three Months Ended March 31, 2011</b>
Losses and Loss Adjustment Expenses at December 31, 2010, net of subrogation recoverable and net of reinsurance		\$ 2,478,435,028
Change in losses and loss adjustment expenses reserves due to:		
Credits added	46,303,215	
Change in existing credits	239,052,950	
Change in subrogation recoveries	(36,571,646)	
Claim payments, net of subrogation received and reinsurance	4,987,648	
Cumulative effect of prior period error in correction of the liability for estimated losses	6,820,999	
Net change in losses and loss adjustment expenses reserves		260,593,166
Loss and Loss Adjustment Expenses at March 31, 2011 *		\$ 2,739,028,194

\* Includes \$1,768,706,303 of claims that have been presented and not paid as of March 31, 2011.

---



---

**NOTES TO FINANCIAL STATEMENTS**


---

	IA/II	III	IV	V	Total
<b>Number of Policies</b>	5	10	146	1	162
<b>Remaining weighted-average contract period (in years)</b>	10	13	9	10	9
<b>Gross insured contractual payments outstanding:</b>					
Principal	\$148,596,582	\$242,713,478	\$13,503,523,535	\$46,704	\$13,894,880,299
Interest	147,526,526	21,744,212	3,498,265,660	28,781	3,667,565,179
Total	\$296,123,108	\$264,457,690	\$17,001,789,195	\$75,485	\$ 17,562,445,478
<b>Gross claim liability</b>	\$ -	\$47,299,638	\$6,755,997,531	\$75,485	\$6,803,372,654
<b>Less:</b>					
Gross potential recoveries	-	(5,639,962)	(3,248,725,198)	-	(3,254,365,160)
Discount	-	(21,720,871)	(788,231,206)	(27,223)	(809,979,300)
<b>Claim liability reported in the balance sheet</b>	\$ -	\$19,938,805	2,719,041,127	\$48,262	\$ 2,739,028,194
<b>Gross unearned premium revenue</b>	\$ 2,803,395	\$ (21)	\$9,554,538	\$ -	\$12,357,912
<b>Reinsurance recoverables reported in the balance sheet</b>	\$ -	\$ -	\$7,367,160	\$ -	\$7,367,160

# GENERAL INTERROGATORIES

## PART 1 - COMMON INTERROGATORIES

### GENERAL

1.1 Did the reporting entity experience any material transactions requiring the filing of Disclosure of Material Transactions with the State of Domicile, as required by the Model Act? Yes  No

1.2 If yes, has the report been filed with the domiciliary state? Yes  No

2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes  No

2.2 If yes, date of change: .....

3. Have there been any substantial changes in the organizational chart since the prior quarter end? Yes  No   
If yes, complete the Schedule Y-Part 1 - Organizational chart.

4.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes  No

4.2 If yes, provide name of entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Company Code	3 State of Domicile

5. If the reporting entity is subject to a management agreement, including third-party administrator(s), managing general agent(s), attorney-in-fact, or similar agreement, have there been any significant changes regarding the terms of the agreement or principals involved? Yes  No  N/A   
If yes, attach an explanation.

\_\_\_\_\_

6.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/2010.....

6.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. 12/31/2006.....

6.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). 8/31/2007.....

6.4 By what department or departments?  
Wisconsin

6.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with Departments? Yes  No  N/A

6.6 Have all of the recommendations within the latest financial examination report been complied with? Yes  No  N/A

7.1 Has this reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? Yes  No

7.2 If yes, give full information:  
\_\_\_\_\_  
\_\_\_\_\_

8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? Yes  No

8.2 If response to 8.1 is yes, please identify the name of the bank holding company.  
\_\_\_\_\_  
\_\_\_\_\_

8.3 Is the company affiliated with one or more banks, thrifts or securities firms? Yes  No

8.4 If the response to 8.3 is yes, please provide below the names and location (city and state of the main office) of any affiliates regulated by a federal regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator].

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 OTS	6 FDIC	7 SEC

9.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards? Yes  No

- (a) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- (b) Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;
- (c) Compliance with applicable governmental laws, rules and regulations;
- (d) The prompt internal reporting of violations to an appropriate person or persons identified in the code; and
- (e) Accountability for adherence to the code.

9.11 If the response to 9.1 is No, please explain:  
\_\_\_\_\_  
\_\_\_\_\_

9.2 Has the code of ethics for senior managers been amended? Yes  No

9.21 If the response to 9.2 is Yes, provide information related to amendment(s).  
\_\_\_\_\_  
\_\_\_\_\_

9.3 Have any provisions of the code of ethics been waived for any of the specified officers? Yes  No

# GENERAL INTERROGATORIES

## PART 1 - COMMON INTERROGATORIES

### GENERAL

9.31 If the response to 9.3 is Yes, provide the nature of any waiver(s).

---



---

### FINANCIAL

10.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes  No

10.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: \$.....582,655

### INVESTMENT

11.1 Were any of the stocks, bonds, or other assets of the reporting entity loaned, placed under option agreement, or otherwise made available for use by another person? (Exclude securities under securities lending agreements.) Yes  No

11.2 If yes, give full and complete information relating thereto:  
The Company loaned securities with a carrying value of \$139,864,084 to Ambac Financial Services, LLC pursuant to a revolving credit facility approved by the Wisconsin Insurance Commissioner. There is no collateral for the loan.

12. Amount of real estate and mortgages held in other invested assets in Schedule BA: \$.....0

13. Amount of real estate and mortgages held in short-term investments: \$.....0

14.1 Does the reporting entity have any investments in parent, subsidiaries and affiliates? Yes  No

14.2 If yes, please complete the following:

	1	2
	Prior Year-End Book/Adjusted Carrying Value	Current Quarter Book/Adjusted Carrying Value
14.21 Bonds.....	\$ .....0	\$ .....0
14.22 Preferred Stock.....	\$ .....0	\$ .....0
14.23 Common Stock.....	\$ .....235,468,204	\$ .....186,615,057
14.24 Short-Term Investments.....	\$ .....0	\$ .....0
14.25 Mortgage Loans on Real Estate.....	\$ .....0	\$ .....0
14.26 All Other.....	\$ .....7,758,092	\$ .....7,470,068
14.27 Total Investment in Parent, Subsidiaries and Affiliates (Subtotal Lines 14.21 to 14.26).....	\$ .....243,226,296	\$ .....194,085,125
14.28 Total Investment in Parent included in Lines 14.21 to 14.26 above.....	\$ .....0	\$ .....0

15.1 Has the reporting entity entered into any hedging transactions reported on Schedule DB? Yes  No

15.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes  No   
 If no, attach a description with this statement.

---



---

16. Excluding items in Schedule E-Part 3-Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 3, III. Conducting Examinations, F-Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook? Yes  No

16.1 For all agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1	2
Name of Custodian(s)	Custodian Address
Citibank, N.A.	333 West 34th Street, 3rd Floor, Securities Vault, NY, NY 10001
Bank of New York Mellon	One Wall Street, 14th Floor, NY, NY 10286

16.2 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation.

1	2	3
Name(s)	Location(s)	Complete Explanation(s)

16.3 Have there been any changes, including name changes, in the custodian(s) identified in 16.1 during the current quarter? Yes  No

16.4 If yes, give full and complete information relating thereto:

1	2	3	4
Old Custodian	New Custodian	Date of Change	Reason

16.5 Identify all investment advisors, broker/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1	2	3
Central Registration Depository	Name(s)	Address
754	DeAM Investor Services, Inc	345 Park Avenue, Mailstop NYC03-0630, New York, NY 10154
113972	Standish	201 Washington Street, Suite 2900, Boston MA 021084-4408

17.1 Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office been followed? Yes  No

17.2 If no, list exceptions:  


---



---

# GENERAL INTERROGATORIES (continued)

## PART 2

### PROPERTY & CASUALTY INTERROGATORIES

1. If the reporting entity is a member of a pooling arrangement, did the agreement or the reporting entity's participation change? Yes [ ] No [ ] N/A [X]  
 If yes, attach an explanation.

---

2. Has the reporting entity reinsured any risk with any other reporting entity and agreed to release such entity from liability, in whole or in part, from any loss that may occur on the risk, or portion thereof, reinsured? Yes [ ] No [X]  
 If yes, attach an explanation.

---

3.1 Have any of the reporting entity's primary reinsurance contracts been canceled? Yes [ ] No [X]

3.2 If yes, give full and complete information thereto:

---

4.1 Are any of the liabilities for unpaid losses and loss adjustment expenses other than certain workers' compensation liabilities tabular reserves (see Annual Statement Instructions pertaining to disclosure of discounting for definition of "tabular reserves,") discounted at a rate of interest greater than zero? Yes [X] No [ ]

4.2 If yes, complete the following schedule:

1 Line of Business	2 Maximum Interest	3 Disc. Rate	Total Discount				Discount Taken During Period			
			4 Unpaid Losses	5 Unpaid LAE	6 IBNR	7 Total	8 Unpaid Losses	9 Unpaid LAE	10 IBNR	11 Total
	.....	.....5.100 %	..484,598,651	.....	.....	..484,598,651	.(165,705,646)	.....	.....	..(165,705,646)
<b>Total</b> .....	.....XXX...	.....XXX.....	..484,598,651	.....0	.....0	..484,598,651	.(165,705,646)	.....0	.....0	..(165,705,646)

5. Operating Percentages:

5.1 A&H loss percent 0.0 %  
 5.2 A&H cost containment percent 0.0 %  
 5.3 A&H expense percent excluding cost containment expenses 0.0 %

6.1 Do you act as a custodian for health savings accounts? Yes [ ] No [X]

6.2 If yes, please provide the amount of custodial funds held as of the reporting date. 0

6.3 Do you act as an administrator for health savings accounts? Yes [ ] No [X]

6.4 If yes, please provide the amount of funds administered as of the reporting date. 0

## SCHEDULE F - CEDED REINSURANCE

Showing All New Reinsurers - Current Year to Date

1 NAIC Company Code	2 Federal ID Number	3 Name of Reinsurer	4 Domiciliary Jurisdiction	5 Is Insurer Authorized? (YES or NO)
------------------------------	------------------------------	------------------------	-------------------------------	---

**NONE**

## SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN

Current Year to Date - Allocated by States and Territories

States, Etc.	1	Direct Premiums Written		Direct Losses Paid (Deducting Salvage)		Direct Losses Unpaid	
		Active Status	2 Current Year to Date	3 Prior Year to Date	4 Current Year to Date	5 Prior Year to Date	6 Current Year to Date
1. Alabama.....AL	L	149,847	59,809				
2. Alaska.....AK	L						
3. Arizona.....AZ	L	9,738	9,932				
4. Arkansas.....AR	L	31,414	27,290				
5. California.....CA	L	2,689,613	3,257,630	(1,183,755)	45,547,756	777,408,449	294,474,349
6. Colorado.....CO	L	609,367	716,708				
7. Connecticut.....CT	L	123,673	1,106,483				
8. Delaware.....DE	L	1,902,486	2,271,355		24,410,713		(2,483,215)
9. District of Columbia.....DC	L						
10. Florida.....FL	L	146,168	166,879			(19,682,185)	(6,792,239)
11. Georgia.....GA	L	102,520	401,303				
12. Hawaii.....HI	L	510,884	512,003				
13. Idaho.....ID	L	58	102				
14. Illinois.....IL	L	1,826,726	4,107,026	(2,937,119)	24,985,659	979,189	(8,834,501)
15. Indiana.....IN	L	16,239	57,736				
16. Iowa.....IA	L	14,171	20,081				
17. Kansas.....KS	L	128,212	128,506				
18. Kentucky.....KY	L	81,634	81,638				
19. Louisiana.....LA	L	142,809	210,571				
20. Maine.....ME	L		15,660				
21. Maryland.....MD	L	489,722	541,496	(293,181)	3,744,206	351,236,704	201,196,382
22. Massachusetts.....MA	L	2,564,715	3,000,360	(1,773,704)	3,453,239	112,443,686	68,218,937
23. Michigan.....MI	L		34,435				
24. Minnesota.....MN	L	3,731,829	3,488,118	(3,322,266)	11,146,438	307,135,510	292,262,834
25. Mississippi.....MS	L						
26. Missouri.....MO	L	1,503,646	1,552,138				
27. Montana.....MT	L	242,790	242,790				
28. Nebraska.....NE	L						
29. Nevada.....NV	L	41,138	32,830			225,561,180	453,363
30. New Hampshire.....NH	L	943	(3,831)				
31. New Jersey.....NJ	L	132,419	87,809	5,255,256		(6,731,875)	
32. New Mexico.....NM	L	89,628	188,456				
33. New York.....NY	L	22,265,985	35,170,792	(13,472,278)	109,846,956	887,143,340	235,134,548
34. North Carolina.....NC	L	411,764	439,786				
35. North Dakota.....ND	L						
36. Ohio.....OH	L	316,988	283,458				
37. Oklahoma.....OK	L						
38. Oregon.....OR	L	5,487	5,591				
39. Pennsylvania.....PA	L	234,680	235,643	(950,391)	(839,622)	(24,208,461)	(24,080,665)
40. Rhode Island.....RI	L						
41. South Carolina.....SC	L	233,777	176,866				
42. South Dakota.....SD	L						
43. Tennessee.....TN	L		12,316				
44. Texas.....TX	L	1,113,560	1,178,060				
45. Utah.....UT	L	4,866					
46. Vermont.....VT	L		124,495				
47. Virginia.....VA	L	137,090	137,166				
48. Washington.....WA	L	191,778	193,260				
49. West Virginia.....WV	L	75,000					
50. Wisconsin.....WI	L						
51. Wyoming.....WY	L						
52. American Samoa.....AS	N						
53. Guam.....GU	L						
54. Puerto Rico.....PR	L	5,225					
55. US Virgin Islands.....VI	L						
56. Northern Mariana Islands.....MP	N						
57. Canada.....CN	N						
58. Aggregate Other Alien.....OT	XXX	1,300,091	4,254,444	0	0	0	0
59. Totals.....	(a).....54	43,578,680	64,527,190	(18,677,438)	222,295,345	2,611,285,537	1,049,549,793

**DETAILS OF WRITE-INS**

5801. Cayman Islands.....	XXX	284,028	3,231,871				
5802. Australia.....	XXX	991,295	999,660				
5803. New Zealand.....	XXX	24,768	22,913				
5898. Summary of remaining write-ins for Line 58 from overflow page.....	XXX	0	0	0	0	0	0
5899. Totals (Lines 5801 thru 5803 + Line 5898) (Line 58 above).....	XXX	1,300,091	4,254,444	0	0	0	0

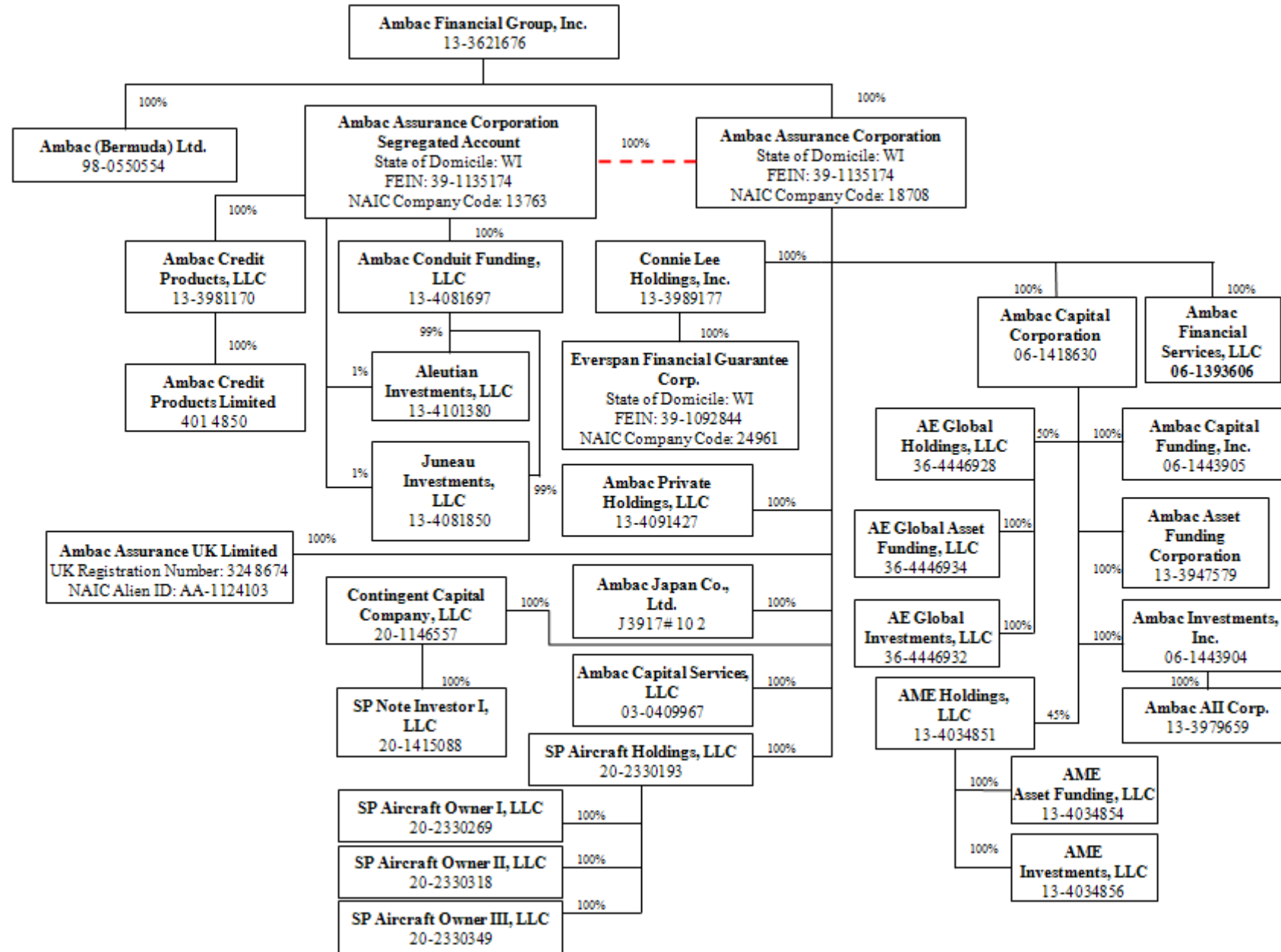
(L) - Licensed or Chartered - Licensed Insurance Carrier or Domiciled RRG; (R) - Registered - Non-domiciled RRGs; (Q) - Qualified - Qualified or Accredited Reinsurer;

(E) - Eligible - Reporting Entities eligible or approved to write Surplus Lines in the state; (N) - None of the above - Not allowed to write business in the state.

(a) Insert the number of L responses except for Canada and Other Alien.

**SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP**

PART 1 – ORGANIZATIONAL CHART



Q11



## PART 1 - LOSS EXPERIENCE

Lines of Business	Current Year to Date			4 Prior Year to Date Direct Loss Percentage
	1 Direct Premiums Earned	2 Direct Losses Incurred	3 Direct Loss Percentage	
1. Fire.....			0.0	
2. Allied lines.....			0.0	
3. Farmowners multiple peril.....			0.0	
4. Homeowners multiple peril.....			0.0	
5. Commercial multiple peril.....			0.0	
6. Mortgage guaranty.....			0.0	
8. Ocean marine.....			0.0	
9. Inland marine.....			0.0	
10. Financial guaranty.....	85,615,930	239,016,656	279.2	513.7
11.1. Medical professional liability - occurrence.....			0.0	
11.2. Medical professional liability - claims-made.....			0.0	
12. Earthquake.....			0.0	
13. Group accident and health.....			0.0	
14. Credit accident and health.....			0.0	
15. Other accident and health.....			0.0	
16. Workers' compensation.....			0.0	
17.1. Other liability-occurrence.....			0.0	
17.2. Other liability-claims made.....			0.0	
17.3. Excess workers' compensation.....			0.0	
18.1. Products liability-occurrence.....			0.0	
18.2. Products liability-claims made.....			0.0	
19.1, 19.2. Private passenger auto liability.....			0.0	
19.3, 19.4. Commercial auto liability.....			0.0	
21. Auto physical damage.....			0.0	
22. Aircraft (all perils).....			0.0	
23. Fidelity.....			0.0	
24. Surety.....	1,173,650		0.0	
26. Burglary and theft.....			0.0	
27. Boiler and machinery.....			0.0	
28. Credit.....			0.0	
29. International.....			0.0	
30. Warranty.....			0.0	
31. Reinsurance-nonproportional assumed property.....	XXX	XXX	XXX	XXX
32. Reinsurance-nonproportional assumed liability.....	XXX	XXX	XXX	XXX
33. Reinsurance-nonproportional assumed financial lines.....	XXX	XXX	XXX	XXX
34. Aggregate write-ins for other lines of business.....	0	0	0.0	
35. Totals.....	86,789,580	239,016,656	275.4	508.4

### DETAILS OF WRITE-INS

3401.....			0.0	
3402.....			0.0	
3403.....			0.0	
3498. Sum. of remaining write-ins for Line 34 from overflow page.....	0	0	0.0	XXX
3499. Totals (Lines 3401 thru 3403 plus 3498) (Line 34).....	0	0	0.0	

## PART 2 - DIRECT PREMIUMS WRITTEN

Lines of Business	1	2	3
	Current Quarter	Current Year to Date	Prior Year Year to Date
1. Fire.....			
2. Allied lines.....			
3. Farmowners multiple peril.....			
4. Homeowners multiple peril.....			
5. Commercial multiple peril.....			
6. Mortgage guaranty.....			
8. Ocean marine.....			
9. Inland marine.....			
10. Financial guaranty.....	43,558,900	43,558,900	64,507,410
11.1. Medical professional liability - occurrence.....			
11.2. Medical professional liability - claims made.....			
12. Earthquake.....			
13. Group accident and health.....			
14. Credit accident and health.....			
15. Other accident and health.....			
16. Workers' compensation.....			
17.1. Other liability-occurrence.....			
17.2. Other liability-claims made.....			
17.3. Excess workers' compensation.....			
18.1. Products liability-occurrence.....			
18.2. Products liability-claims made.....			
19.1, 19.2. Private passenger auto liability.....			
19.3, 19.4. Commercial auto liability.....			
21. Auto physical damage.....			
22. Aircraft (all perils).....			
23. Fidelity.....			
24. Surety.....	19,780	19,780	19,780
26. Burglary and theft.....			
27. Boiler and machinery.....			
28. Credit.....			
29. International.....			
30. Warranty.....			
31. Reinsurance-nonproportional assumed property.....	XXX	XXX	XXX
32. Reinsurance-nonproportional assumed liability.....	XXX	XXX	XXX
33. Reinsurance-nonproportional assumed financial lines.....	XXX	XXX	XXX
34. Aggregate write-ins for other lines of business.....	0	0	0
35. Totals.....	43,578,680	43,578,680	64,527,190

### DETAILS OF WRITE-INS

3401.....			
3402.....			
3403.....			
3498. Sum. of remaining write-ins for Line 34 from overflow page.....	0	0	0
3499. Totals (Lines 3401 thru 3403 plus 3498) (Line 34).....	0	0	0

**PART 3 (000 omitted)**

**LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES SCHEDULE**

	1	2	3	4	5	6	7	8	9	10	11	12	13
Years in Which Losses Occurred	Prior Year-End Known Case Loss and LAE Reserves	Prior Year-End IBNR Loss and LAE Reserves	Total Prior Year-End Loss and LAE Reserves (Cols. 1 + 2)	2011 Loss and LAE Payments on Claims Reported as of Prior Year-End	2011 Loss and LAE Payments on Claims Unreported as of Prior Year-End	Total 2011 Loss and LAE Payments (Cols. 4 + 5)	Q.S. Date Known Case Loss and LAE Reserves on Claims Reported and Open as of Prior Year-End	Q.S. Date Known Case Loss and LAE Reserves on Claims Reported or Reopened Subsequent to Prior Year-End	Q.S. Date IBNR Loss and LAE Reserves	Total Q.S. Loss and LAE Reserves (Cols. 7 + 8 + 9)	Prior Year-End Known Case Loss and LAE Reserves Developed (Savings)/Deficiency (Cols. 4 + 7 minus Col. 1)	Prior Year-End IBNR Loss and LAE Reserves Developed (Savings)/Deficiency (Cols. 5 + 8 + 9 minus Col. 2)	Prior Year-End Total Loss and LAE Reserve Developed (Savings)/Deficiency (Cols. 11 + 12)
1. 2008 + Prior.....	226,136		226,136	(14,637)		(14,637)	142,286			142,286	(98,487)	0	(98,487)
2. 2009.....	1,165,466		1,165,466	(7,844)		(7,844)	1,199,372			1,199,372	26,062	0	26,062
3. Subtotals 2009 + Prior.....	1,391,602	0	1,391,602	(22,481)	0	(22,481)	1,341,658	0	0	1,341,658	(72,425)	0	(72,425)
4. 2010.....	1,093,654		1,093,654	5,566		5,566	1,302,463			1,302,463	214,375	0	214,375
5. Subtotals 2010 + Prior.....	2,485,256	0	2,485,256	(16,915)	0	(16,915)	2,644,121	0	0	2,644,121	141,950	0	141,950
6. 2011.....	XXX	XXX	XXX	XXX	11,927	11,927	XXX	94,907		94,907	XXX	XXX	XXX
7. Totals.....	2,485,256	0	2,485,256	(16,915)	11,927	(4,988)	2,644,121	94,907	0	2,739,028	141,950	0	141,950
8. Prior Year-End's Surplus As Regards Policyholders	1,026,920										Col. 11, Line 7 As % of Col. 1, Line 7	Col. 12, Line 7 As % of Col. 2, Line 7	Col. 13, Line 7 As % of Col. 3, Line 7
											1. ....5.7 %	2. ....0.0 %	3. ....5.7 %
													Col. 13, Line 7 Line 8
													4. ....13.8 %

Q13

# SUPPLEMENTAL EXHIBITS AND SCHEDULES INTERROGATORIES

The following supplemental reports are required to be filed as part of your statement filing. However, in the event that your company does not transact the type of business for which the special report must be filed, your response of NO to the specific interrogatory will be accepted in lieu of filing a "NONE" report and a bar code will be printed below. If the supplement is required of your company but is not being filed for whatever reason, enter SEE EXPLANATION and provide an explanation following the interrogatory questions.

	<b>Response</b>
1. Will the Trusteed Surplus Statement be filed with the state of domicile and the NAIC with this statement?	NO
2. Will Supplement A to Schedule T (Medical Professional Liability Supplement) be filed with this statement?	NO
3. Will the Medicare Part D Coverage Supplement be filed with the state of domicile and the NAIC with this statement?	NO
4. Will the Director and Officer Supplement be filed with the state of domicile and the NAIC with this statement?	NO

**Explanation:**

- 1.
- 2.
- 3.
- 4.

**Bar Code:**



**Overflow Page for Write-Ins****Additional Write-ins for Liabilities:**

	1 Current Statement Date	2 December 31, Prior Year
2504. Liabilities allocated to Ambac Assurance Corporation Segregated Account.....	(5,666,962,655)	(5,626,404,050)
2505. Liabilities assumed from Ambac Assurance Corporation Segregated Account.....	3,824,622,459	3,744,929,987
2506. Liabilities of Ambac Assurance Corporation Segregated Account.....	1,881,164,302	1,884,537,313
2597. Summary of remaining write-ins for Line 25.....	38,824,106	3,063,250

**Additional Write-ins for Statement of Income:**

	1 Current Year to Date	2 Prior Year to Date	3 Prior Year Ended December 31
1404. Change in liabilities assumed from Ambac Assurance Corporation Segregated Account.....	(46,470,963)	(2,044,812,832)	(3,744,929,987)
1497. Summary of remaining write-ins for Line 14.....	(46,470,963)	(2,044,812,832)	(3,744,929,987)

**SCHEDULE A - VERIFICATION**

## Real Estate

	1 Year to Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year.....	0	
2. Cost of acquired:		
2.1 Actual cost at time of acquisition.....		
2.2 Additional investment made after acquisition.....		
3. Current year change in encumbrances.....		
4. Total gain (loss) on disposals.....		
5. Deduct amounts received on disposals.....		
6. Total foreign exchange change in book/adjusted carrying value.....		
7. Deduct current year's other than temporary impairment recognized.....		
8. Deduct current year's depreciation.....		
9. Book/adjusted carrying value at end of current period (Lines 1+2+3+4-5+6-7-8).....	0	0
10. Deduct total nonadmitted amounts.....		
11. Statement value at end of current period (Line 9 minus Line 10).....	0	0

**SCHEDULE B - VERIFICATION**

## Mortgage Loans

	1 Year to Date	2 Prior Year Ended December 31
1. Book value/recorded investment excluding accrued interest, December 31 of prior year.....	0	
2. Cost of acquired:		
2.1 Actual cost at time of acquisition.....		
2.2 Additional investment made after acquisition.....		
3. Capitalized deferred interest and other.....		
4. Accrual of discount.....		
5. Unrealized valuation increase (decrease).....		
6. Total gain (loss) on disposals.....		
7. Deduct amounts received on disposals.....		
8. Deduct amortization of premium and mortgage interest points and commitment fees.....		
9. Total foreign exchange change in book value/recorded investment excluding accrued interest.....		
10. Deduct current year's other than temporary impairment recognized.....		
11. Book value/recorded investment excluding accrued interest at end of current period (Lines 1+2+3+4+5+6-7-8+9-10).....	0	0
12. Total valuation allowance.....		
13. Subtotal (Line 11 plus Line 12).....	0	0
14. Deduct total nonadmitted amounts.....		
15. Statement value at end of current period (Line 13 minus Line 14).....	0	0

**SCHEDULE BA - VERIFICATION**

## Other Long-Term Invested Assets

	1 Year to Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year.....	15,901,820	11,052,550
2. Cost of acquired:		
2.1 Actual cost at time of acquisition.....		24,254,020
2.2 Additional investment made after acquisition.....		9,242
3. Capitalized deferred interest and other.....		
4. Accrual of discount.....		
5. Unrealized valuation increase (decrease).....	(288,024)	4,823,036
6. Total gain (loss) on disposals.....		(23,751,121)
7. Deduct amounts received on disposals.....		284,768
8. Deduct amortization of premium and depreciation.....		
9. Total foreign exchange change in book/adjusted carrying value.....	230,769	(201,139)
10. Deduct current year's other than temporary impairment recognized.....		
11. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5+6-7-8+9-10).....	15,844,565	15,901,820
12. Deduct total nonadmitted amounts.....	7,470,068	7,758,092
13. Statement value at end of current period (Line 11 minus Line 12).....	8,374,497	8,143,728

**SCHEDULE D - VERIFICATION**

## Bonds and Stocks

	1 Year to Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value of bonds and stocks, December 31 of prior year.....	4,714,671,598	6,536,957,415
2. Cost of bonds and stocks acquired.....	241,983,825	936,442,604
3. Accrual of discount.....	49,682,533	166,956,463
4. Unrealized valuation increase (decrease).....	(51,889,198)	(92,907,891)
5. Total gain (loss) on disposals.....	275,966	71,860,176
6. Deduct consideration for bonds and stocks disposed of.....	145,398,617	2,804,131,231
7. Deduct amortization of premium.....	17,025,569	49,552,933
8. Total foreign exchange change in book/adjusted carrying value.....	(1,082,710)	(10,646,282)
9. Deduct current year's other than temporary impairment recognized.....	4,666,773	40,306,724
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9).....	4,786,551,055	4,714,671,598
11. Deduct total nonadmitted amounts.....	8,781,963	59,318,868
12. Statement value at end of current period (Line 10 minus Line 11).....	4,777,769,092	4,655,352,730

## SCHEDULE D - PART 1B

Showing the Acquisitions, Dispositions and Non-Trading Activity  
During the Current Quarter for all Bonds and Preferred Stock by Rating Class

	1	2	3	4	5	6	7	8
	Book/Adjusted Carrying Value Beginning of Current Quarter	Acquisitions During Current Quarter	Dispositions During Current Quarter	Non-Trading Activity During Current Quarter	Book/Adjusted Carrying Value End of First Quarter	Book/Adjusted Carrying Value End of Second Quarter	Book/Adjusted Carrying Value End of Third Quarter	Book/Adjusted Carrying Value December 31 Prior Year
<b>BONDS</b>								
1. Class 1 (a).....	4,242,372,192	717,768,700	647,265,828	109,639,651	4,422,514,715			4,242,372,192
2. Class 2 (a).....	627,318,052	24,058,312	12,370,040	(110,647,680)	528,358,644			627,318,052
3. Class 3 (a).....	8,467,655		1,468,670	623,192	7,622,177			8,467,655
4. Class 4 (a).....			37,047	1,089,006	1,051,959			
5. Class 5 (a).....	15,073,303	58,327,103	2,522,417	(5,750,162)	65,127,827			15,073,303
6. Class 6 (a).....	96,233,205	54,663,008	9,540,864	28,928,128	170,283,477			96,233,205
7. Total Bonds.....	4,989,464,407	854,817,123	673,204,866	23,882,135	5,194,958,799	0	0	4,989,464,407
<b>PREFERRED STOCK</b>								
8. Class 1.....								
9. Class 2.....								
10. Class 3.....								
11. Class 4.....								
12. Class 5.....								
13. Class 6.....								
14. Total Preferred Stock.....	0	0	0	0	0	0	0	0
15. Total Bonds and Preferred Stock.....	4,989,464,407	854,817,123	673,204,866	23,882,135	5,194,958,799	0	0	4,989,464,407

QS102

(a) Book/Adjusted Carrying Value column for the end of the current reporting period includes the following amount of non-rated short-term and cash equivalent bonds by NAIC designation:  
NAIC 1 \$.....595,022,801; NAIC 2 \$.....0; NAIC 3 \$.....0; NAIC 4 \$.....0; NAIC 5 \$.....0; NAIC 6 \$.....0.

## SCHEDULE DA - PART 1

### Short-Term Investments

	1 Book/Adjusted Carrying Value	2 Par Value	3 Actual Cost	4 Interest Collected Year To Date	5 Paid for Accrued Interest Year To Date
9199999. Totals.....	595,022,801	XXX	595,010,777	156,657	

## SCHEDULE DA - VERIFICATION

### Short-Term Investments

	1 Year to Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year.....	510,261,013	619,100,527
2. Cost of short-term investments acquired.....	612,838,067	9,099,932,216
3. Accrual of discount.....		
4. Unrealized valuation increase (decrease).....		
5. Total gain (loss) on disposals.....	51,636	(155,439)
6. Deduct consideration received on disposals.....	528,133,851	9,208,961,941
7. Deduct amortization of premium.....		.82
8. Total foreign exchange change in book/adjusted carrying value.....	5,936	345,732
9. Deduct current year's other than temporary impairment recognized.....		
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9).....	595,022,801	510,261,013
11. Deduct total nonadmitted amounts.....		
12. Statement value at end of current period (Line 10 minus Line 11).....	595,022,801	510,261,013

**Sch. DB-Pt A-Verification  
NONE**

**Sch. DB-Pt B-Verification  
NONE**

**Sch. DB-Pt C-Sn 1  
NONE**

**Sch. DB-Pt C-Sn 2  
NONE**

**Sch. DB-Verification  
NONE**



## SCHEDULE E- VERIFICATION

### Cash Equivalents

	1 Year to Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year.....	0	
2. Cost of cash equivalents acquired.....		5,879,659,643
3. Accrual of discount.....		340,357
4. Unrealized valuation increase (decrease).....		
5. Total gain (loss) on disposals.....		
6. Deduct consideration received on disposals.....		5,880,000,000
7. Deduct amortization of premium.....		
8. Total foreign exchange change in book/ adjusted carrying value.....		
9. Deduct current year's other than temporary impairment recognized.....		
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9).....	0	0
11. Deduct total nonadmitted amounts.....		
12. Statement value at end of current period (Line 10 minus Line 11).....	0	0

**Sch. A-Pt 2**  
**NONE**

**Sch. A-Pt 3**  
**NONE**

**Sch. B-Pt 2**  
**NONE**

**Sch. B-Pt 3**  
**NONE**

### SCHEDULE BA - PART 2

Showing Other Long-Term Invested Assets ACQUIRED AND ADDITIONS MADE During the Current Quarter

1 CUSIP Identification	2 Name or Description	Location		5 Name of Vendor or General Partner	6 NAIC Desig- nation	7 Date Originally Acquired	8 Type and Strategy	9 Actual Cost at Time of Acquisition	10 Additional Investment Made After Acquisition	11 Amount of Encumbrances	12 Commitment for Additional Investment	13 Percentage of Ownership
		3 City	4 State									

# NONE

### SCHEDULE BA - PART 3

Showing Other Long-Term Invested Assets DISPOSED, Transferred or Repaid During the Current Quarter

QE03

1 CUSIP Identification	2 Name or Description	Location		5 Name of Purchaser or Nature of Disposal	6 Date Originally Acquired	7 Disposal Date	8 Book/Adjusted Carrying Value Less Encumbrances, Prior Year	Changes in Book/Adjusted Carrying Value						15 Book/Adjusted Carrying Value Less Encumbrances on Disposal	16 Consideration	17 Foreign Exchange Gain (Loss) on Disposal	18 Realized Gain (Loss) on Disposal	19 Total Gain (Loss) on Disposal	20 Investment Income
		3 City	4 State					9 Unrealized Valuation Increase (Decrease)	10 Current Year's (Depreciation) or (Amortization)/ Accretion	11 Current Year's Other Than Temporary Impairment Recognized	12 Capitalized Deferred Interest and Other	13 Total Change in B./A.C.V. (9+10-11+12)	14 Total Foreign Exchange Change in B./A.C.V.						
<b>Joint Venture or Partnership Interests That Have Underlying Characteristics of Other - Affiliated</b>																			
	SP Aircraft Holdings, LLC.....	New York.....	NY..	Direct.....	02/11/2005			80,028					80,028					0	
	Contingent Capital Company, LLC.....	New York.....	NY..	Direct.....	06/14/2010			(368,052)					(368,052)					0	
2099999.	Total - Joint Venture or Partnership Interests That Have Underlying Characteristics of Other - Affiliated.....							0	(288,024)	0	0	0	(288,024)	0	0	0	0	0	0
<b>Non-Collateral Loans - Unaffiliated</b>																			
	Exchequer Partnership Finance.....	London.....	UK..	Direct.....	09/30/2009								0	230,769				0	
2599999.	Total - Non-Collateral Loans - Unaffiliated.....							0	0	0	0	0	0	230,769	0	0	0	0	0
3999999.	Subtotal - Unaffiliated.....							0	0	0	0	0	0	230,769	0	0	0	0	0
4099999.	Subtotal - Affiliated.....							0	(288,024)	0	0	0	(288,024)	0	0	0	0	0	0
4199999.	Totals.....							0	(288,024)	0	0	0	(288,024)	230,769	0	0	0	0	0

### SCHEDULE D - PART 3

Show all Long-Term Bonds and Stock Acquired During the Current Quarter

1 CUSIP Identification	2 Description	3 Foreign	4 Date Acquired	5 Name of Vendor	6 Number of Shares of Stock	7 Actual Cost	8 Par Value	9 Paid for Accrued Interest and Dividends	10 NAIC Designation or Market Indicator (a)
<b>Bonds - U.S. Government</b>									
912828 PX 2	US Treasury Notes.....		03/23/2011	HSBC Bank USA Inc.....		22,519	22,000	90	1.....
0599999.	Total - Bonds - U.S. Government.....					22,519	22,000	90	XXX.....
<b>Bonds - U.S. Special Revenue and Special Assessment</b>									
09089T AY 7	Birmingham Taxable-Civ 6.000% 04/01/22.....		02/16/2011	Goldman Sachs.....		8,310,000	8,310,000		1FE.....
650014 TF 0	New York St Twy Auth Se 5.449% 04/01/25.....		03/04/2011	Goldman Sachs.....		5,993,460	6,000,000	143,490	1FE.....
708793 EG 5	Pennsylvania Hsg Fin Ag 0.240% 10/01/34.....		03/10/2011	Goldman Sachs.....		6,600,000	6,600,000	7,488	1FE.....
3199999.	Total - Bonds - U.S. Special Revenue & Special Assessments.....					20,903,460	20,910,000	150,978	XXX.....
<b>Bonds - Industrial and Miscellaneous</b>									
00817Y AH 1	Aetna Inc Medical HMO 3.950% 09/01/20.....		02/10/2011	Goldman Sachs.....		1,891,980	2,000,000	36,867	2FE.....
029912 BC 5	American Tower Corp 5.050% 09/01/20.....		02/04/2011	Suntrust banks.....		1,949,620	2,000,000	48,536	2FE.....
03076C AD 8	Ameriprise Financial In 7.300% 06/28/19.....		02/08/2011	Gleacher & Co.....		4,728,480	4,000,000	34,878	1FE.....
07401W AA 7	Bear Sterns Second Lien 0.440% 01/25/37.....		03/23/2011	Deutsche Bank.....		666,562	1,206,448	44	6Z*.....
075887 AW 9	Becton Dickinson Medica 3.250% 11/12/20.....		02/08/2011	Deutsche Bank.....		912,900	1,000,000	8,035	1FE.....
126673 KN 1	Countrywide Home Equity 0.535% 02/15/34.....		03/23/2011	BedRok Securities LLC.....		3,073,330	4,878,302	942	6FE.....
126684 AB 5	Countrywide Asset-Backe 5.519% 03/25/34.....		03/29/2011	Guggenheim Capital Markets.....		133,067	128,567	591	5Z*.....
126684 AC 3	Countrywide Asset-Backe 5.658% 03/25/34.....		03/29/2011	Banc of Manhattan CA.....		5,757,564	7,369,682		6Z*.....
126684 AF 6	Countrywide Asset-Backe 5.657% 03/25/34.....		03/29/2011	Various.....		136,531	190,586	889	1Z*.....
126685 AK 2	Countrywide Home Equity 0.495% 12/15/35.....		03/23/2011	Various.....		10,597,515	19,320,903	3,029	1Z*.....
126685 CS 3	Countrywide Home Equity 0.425% 05/15/36.....		03/29/2011	Barclay's Bank.....		170,485	370,620	74	1Z*.....
126685 DJ 2	Countrywide Home Equity 0.435% 05/15/36.....		03/31/2011	Various.....		7,559,796	12,756,446	3,192	1Z*.....
209111 EZ 2	Consolidated Edison Co 4.450% 06/15/20.....		02/08/2011	RBS Securities.....		4,066,520	4,000,000	27,689	1FE.....
23242Y BM 6	Countrywide Home Equity 0.495% 12/15/35.....		03/31/2011	Knights Libertas LLC.....		58,194,036	100,334,546	28,972	5FE.....
23243N AE 8	Countrywide Asset-Backe 5.661% 07/25/34.....		03/22/2011	Various.....		44,713,636	41,178,984	155,408	6FE.....
23243N AF 5	Countrywide Asset-Backe 5.804% 07/25/34.....		03/25/2011	Banc of Manhattan CA.....		451,916	636,501	2,976	6Z*.....
25459H AU 9	Directv Holdings Cable 5.875% 10/01/19.....		02/08/2011	JPM Chase.....		2,154,840	2,000,000	42,431	2FE.....
25459H BA 2	Directv Holdings Cable 5.000% 03/01/21.....		03/07/2011	Credit Suisse.....		995,590	1,000,000		2FE.....
25470D AA 7	Discovery Communication 5.625% 08/15/19.....		02/08/2011	RBC Capital Markets.....		1,083,740	1,000,000	27,500	2FE.....
283695 BP 8	El Paso Natural Gas 5.950% 04/15/17.....		02/14/2011	Various.....		1,377,916	1,290,000	25,126	2FE.....
36830H AB 8	GE Equipment Small Tick 0.880% 08/21/13.....		02/02/2011	Barclay's Bank.....		16,998,446	17,000,000		1FE.....
38141E A6 6	Goldman Sachs Group Inc 6.000% 06/15/20.....		02/10/2011	Goldman Sachs.....		5,312,500	5,000,000	50,000	1FE.....
39153V AV 6	Great America Leasing 1.050% 03/15/13.....		02/16/2011	Wells Fargo.....		13,499,586	13,500,000		1FE.....
478366 AX 5	Johnson Controls Inc Au 4.250% 03/01/21.....		02/01/2011	Bank of America.....		2,084,796	2,100,000		2FE.....
49326E ED 1	Keycorp Super-Regional 5.100% 03/24/21.....		03/21/2011	JPM Chase.....		1,353,740	1,355,000		2FE.....
56585A AB 8	Marathon Petroleum Corp 5.125% 03/01/21.....		02/08/2011	Bank of America.....		999,920	1,000,000	1,424	2FE.....
59156R AT 5	Metlife Inc Multi-line 7.717% 02/15/19.....		02/10/2011	JPM Chase.....		1,819,290	1,500,000		1FE.....
652482 BT 6	News America Inc Multim 6.900% 03/01/19.....		02/10/2011	Deutsche Bank.....		3,511,170	3,000,000	94,300	2FE.....
760761 AD 8	Republic Services Inc 5.250% 11/15/21.....		02/09/2011	RBC Capital Markets.....		2,073,400	2,000,000	25,958	2FE.....
89417E AF 6	Travelers Cos Inc Prope 5.900% 06/02/19.....		02/08/2011	Credit Suisse.....		1,648,380	1,500,000	16,963	1FE.....
05533U AA 6	BBVA Bancomer Commer Ba 4.500% 03/10/16.....	F	03/04/2011	Goldman Sachs.....		2,055,200	2,070,000		1FE.....

QE04

### SCHEDULE D - PART 3

Show all Long-Term Bonds and Stock Acquired During the Current Quarter

1 CUSIP Identification	2 Description	3 Foreign	4 Date Acquired	5 Name of Vendor	6 Number of Shares of Stock	7 Actual Cost	8 Par Value	9 Paid for Accrued Interest and Dividends	10 NAIC Designation or Market Indicator (a)
06675E AB 6	Banque PSA Frin Finance 4.375% 04/04/16.....	F.....	...03/29/2011	Bank of America.....		.....3,491,600	.....3,500,000		2FE.....
404280 AK 5	HSBC Holdings PLC 5.100% 04/05/21.....	F.....	...03/29/2011	HSBC Bank USA Inc.....		.....488,937	.....490,000		1FE.....
539473 AG 3	Lloyds TSB Bank Plc Mon 4.875% 01/21/16.....	F.....	...02/25/2011	Barclays Capital Securities.....		.....2,030,620	.....2,000,000	.....11,104	1FE.....
55608J AE 8	Macquarie Group Ltd 6.250% 01/14/21.....	F.....	...01/07/2011	Barclays Capital Securities.....		.....2,498,260	.....2,525,000		1FE.....
78009P CC 3	Royal Bk of Scotland PL 4.375% 03/16/16.....	F.....	...03/14/2011	RBS Securities.....		.....998,050	.....1,000,000		1FE.....
78010X AG 6	Royal Bk of Scotland PL 3.950% 09/21/15.....	F.....	...02/15/2011	RBS Securities.....		.....2,961,600	.....3,000,000	.....48,717	1FE.....
83364L AB 5	Societe Generale 5.750% 04/20/16.....	F.....	...03/23/2011	Morgan Stanley.....		.....2,352,038	.....2,250,000	.....56,781	1FE.....
87938W AN 3	Telefonica Emisiones SA 3.992% 02/16/16.....	F.....	...02/07/2011	Goldman Sachs.....		.....1,090,000	.....1,090,000		2FE.....
902118 BP 2	Tyco Intl. Group 3.750% 01/15/18.....	F.....	...01/05/2011	Bank of America.....		.....996,820	.....1,000,000		1FE.....
90261X FA 5	UBS AG Stamford Diversi 5.750% 04/25/18.....	F.....	...03/02/2011	UBS.....		.....2,172,700	.....2,000,000	.....42,167	1FE.....
3899999.	Total - Bonds - Industrial & Miscellaneous.....					.....221,053,077	.....275,541,585	.....794,593	.....XXX.....
8399997.	Total - Bonds - Part 3.....					.....241,979,056	.....296,473,585	.....945,661	.....XXX.....
8399999.	Total - Bonds.....					.....241,979,056	.....296,473,585	.....945,661	.....XXX.....
<b>Common Stocks - Parent, Subsidiaries and Affiliates</b>									
G0231# 10 0	Ambac Assurance UK Limited.....	D.....	...03/31/2011	Direct.....		.....4,769	.....XXX.....		
9199999.	Total - Common Stocks - Parent, Subsidiaries and Affiliates.....					.....4,769	.....XXX.....	.....0	.....XXX.....
9799997.	Total - Common Stocks - Part 3.....					.....4,769	.....XXX.....	.....0	.....XXX.....
9799999.	Total - Common Stocks.....					.....4,769	.....XXX.....	.....0	.....XXX.....
9899999.	Total - Preferred and Common Stocks.....					.....4,769	.....XXX.....	.....0	.....XXX.....
9999999.	Total - Bonds, Preferred and Common Stocks.....					.....241,983,825	.....XXX.....	.....945,661	.....XXX.....

(a) For all common stock bearing the NAIC market indicator "U" provide: the number of such issues:.....0.

QE04.1

### SCHEDULE D - PART 4

Show All Long-Term Bonds and Stock Sold, Redeemed or Otherwise Disposed of During the Current Quarter

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value					16	17	18	19	20	21	22
										11	12	13	14	15							
CUSIP Identification	Description	F o r e i g n	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/ Adjusted Carrying Value	Unrealized Valuation Increase/ (Decrease)	Current Year's (Amortization)/ Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11+12-13)	Total Foreign Exchange Change in B./A.C.V.	Book/ Adjusted Carrying Value At Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/ Stock Dividends Received During Year	Maturity Date	NAIC Desig- nation or Market Indicator (a)
<b>Bonds - U.S. Government</b>																					
36213C	YP 9		03/01/2011	GNMA #550718 5.00%		10,153	10,153	10,526	10,505		(352)		(352)		10,153			.0	.90	11/15/2035	1
36241K	VV 7		03/01/2011	GNMA #782428 5.00%		86,707	86,707	89,836	89,686		(2,979)		(2,979)		86,707			.0	.668	10/15/2038	1
36241K	YZ 5		03/01/2011	GNMA #782528 5.00%		63,812	63,812	66,115	66,006		(2,194)		(2,194)		63,812			.0	.469	01/15/2039	1
36297A	3U 5		03/01/2011	GNMA #706511 5.00% 01/01/39		74,886	74,886	77,600	77,500		(2,614)		(2,614)		74,886			.0	.459	01/01/2039	1
912828	EX 4		02/28/2011	US Treasury Note 4.5%		50,000,000	50,000,000	53,996,094	50,219,949		(219,949)		(219,949)		50,000,000			.0	1,125,000	02/28/2011	1
059999				Total - Bonds - U.S. Government		50,235,558	50,235,558	54,240,171	50,463,646		(228,088)		(228,088)		50,235,558			.0	1,126,666	XXX	XXX
<b>Bonds - U.S. Political Subdivisions of States, Territories and Possessions</b>																					
647639	AW 3		01/15/2011	New Orleans LA Home Mtg 6.250% 01/15/11		2,835,000	2,835,000	2,835,000	2,835,000				.0		2,835,000			.0	88,594	01/15/2011	1
249999				Total - Bonds - U.S. Political Subdivisions of States, Territories & Possessions		2,835,000	2,835,000	2,835,000	2,835,000		.0		.0		2,835,000			.0	88,594	XXX	XXX
<b>Bonds - U.S. Special Revenue and Special Assessment</b>																					
<b>QE05</b>	31283H	5A 9	03/01/2011	Freddie Mac Pool # G017 6.500% 10/01/34		20,649	20,649	21,737	21,679		(1,030)		(1,030)		20,649			.0	.215	10/01/2034	1
	31283H	N2 7	03/01/2011	Freddie Mac Pool # G013 7.000% 08/01/31		320	320	338	337		(17)		(17)		320			.0	.3	08/01/2031	1
	3128H7	H3 9	03/01/2011	Freddie Mac FGCI # E992 6.000% 09/01/18		1,604	1,604	1,685	1,669		(65)		(65)		1,604			.0	.16	09/01/2018	1
	3128KF	BD 1	03/01/2011	Freddie Mac Pool # A527 6.000% 09/01/36		64,089	64,089	66,763	66,631		(2,541)		(2,541)		64,089			.0	.608	09/01/2036	1
	3128NC	SZ 3	03/01/2011	Freddie Mac FHARM #1G08 2.772% 08/01/35		5,550	5,550	5,537	5,536		14		14		5,550			.0	(.360)	08/01/2035	1
	31292H	VU 5	03/01/2011	Freddie Mac C01527 5.500% 04/01/33		46,998	46,998	48,261	48,185		(1,187)		(1,187)		46,998			.0	.406	04/01/2033	1
	31295W	D7 0	03/01/2011	FGLMC A01026 9.500% 05/01/20		262	262	273	267		(5)		(5)		262			.0	.4	05/01/2020	1
	31295W	GF 9	03/01/2011	FGLMC A01098 9.500% 09/01/20		565	565	587	575		(10)		(10)		565			.0	.11	09/01/2020	1
	31295W	PP 7	03/01/2011	FGLMC A01330 9.500% 09/01/16		451	451	469	456		(5)		(5)		451			.0	.7	09/01/2016	1
	312962	5K 5	03/01/2011	Freddie Mac FG #B10850 4.500% 11/01/18		75,848	75,848	78,123	77,694		(1,846)		(1,846)		75,848			.0	.686	11/01/2018	1
	31296P	EM 0	03/01/2011	Freddie Mac FG #A14640 5.000% 10/01/33		51,906	51,906	53,529	53,427		(1,521)		(1,521)		51,906			.0	.382	10/01/2033	1
	312971	H9 8	03/01/2011	Freddie Mac FG #B18356 5.000% 05/01/20		20,180	20,180	20,921	20,803		(623)		(623)		20,180			.0	.166	05/01/2020	1
	31297M	H2 7	03/01/2011	Freddie Mac Pool #A3204 5.500% 04/01/35		764,329	764,329	791,080	790,376		(26,047)		(26,047)		764,329			.0	4,800	04/01/2035	1
	31297T	6K 4	03/01/2011	FGLMC FGA38074 5.000% 10/01/35		11,789	11,789	12,141	12,121		(332)		(332)		11,789			.0	.77	10/01/2035	1
	3133TD	JS 6	03/01/2011	FHLMC 2050 PE 6.500% 04/15/13		197,835	197,835	199,226	197,835						197,835			.0	2,084	04/15/2013	1
	3133TG	U4 9	03/01/2011	FHLMC Series 2091 Class 6.000% 11/15/28		19,301	19,301	19,953	19,901		(600)		(600)		19,301			.0	.186	11/15/2028	1
	3133TS	BS 1	03/01/2011	Freddie Mac FHR 2293 6.500% 03/15/31		46,664	46,664	50,076	49,137		(2,474)		(2,474)		46,664			.0	.560	03/15/2031	1
	31362T	GE 7	03/01/2011	FNMA #070367 8.000% 07/01/19		1,188	1,188	1,120	1,135		53		53		1,188			.0	.16	07/01/2019	1
	31365D	JV 8	03/01/2011	FNCL #124576 9.000% 09/01/22		119	119	121	120		(1)		(1)		119			.0	.1	09/01/2022	1
	31371J	6T 6	03/01/2011	FNMA 15YR 5.500% 08/01/16		25,995	25,995	25,463	25,639		357		357		25,995			.0	.197	08/01/2016	1
	31371K	EJ 6	03/01/2011	FNCI #254037 5.500% 10/01/16		27,346	27,346	26,947	27,087		259		259		27,346			.0	.274	10/01/2016	1
	31371L	A6 6	03/01/2011	Fannie Mae FN 254829 5.500% 08/01/33		203,984	203,984	202,374	202,483		1,501		1,501		203,984			.0	1,859	08/01/2033	1
31384W	BA 7	03/01/2011	FNCI # 535633 5.500% 12/01/14		28,920	28,920	28,497	28,690		230		230		28,920			.0	.259	12/01/2014	1	
31385J	CH 9	03/01/2011	FNCI #545572 6.000% 04/01/17		33,881	33,881	33,989	33,888		(7)		(7)		33,881			.0	.339	01/01/2017	1	
31387K	V5 9	03/01/2011	FNMA 15 YR 586636 6.000% 06/01/16		1,194	1,194	1,182	1,186		.8		.8		1,194			.0	.12	06/01/2016	1	

### SCHEDULE D - PART 4

Show All Long-Term Bonds and Stock Sold, Redeemed or Otherwise Disposed of During the Current Quarter

1 CUSIP Identification	2 Description	3 F o r e i g n Disposal Date	4 Name of Purchaser	6 Number of Shares of Stock	7 Consideration	8 Par Value	9 Actual Cost	10 Prior Year Book/ Adjusted Carrying Value	Change in Book/Adjusted Carrying Value					16 Book/ Adjusted Carrying Value At Disposal Date	17 Foreign Exchange Gain (Loss) on Disposal	18 Realized Gain (Loss) on Disposal	19 Total Gain (Loss) on Disposal	20 Bond Interest/ Stock Dividends Received During Year	21 Maturity Date	22 NAIC Desig- nation or Market Indicator (a)	
									11 Unrealized Valuation Increase/ (Decrease)	12 Current Year's (Amortization)/ Accretion	13 Current Year's Other Than Temporary Impairment Recognized	14 Total Change in B./A.C.V. (11+12-13)	15 Total Foreign Exchange Change in B./A.C.V.								
31387K V8 3	FNMA #586639 6.000% 06/01/16.....	03/01/2011	Paydown.....		.....4,777	.....4,777	.....4,729	.....4,744	.....	.....32	.....	.....32	.....	.....4,777	.....	.....0	.....47	06/01/2016	1.....		
31387N YL 5	FNMA 589415 5.500% 07/01/16.....	03/01/2011	Paydown.....		.....11,073	.....11,073	.....10,864	.....10,972	.....	.....101	.....	.....101	.....	.....11,073	.....	.....0	.....101	07/01/2016	1.....		
31389H HL 5	Fannie Mae # 625835 6.000% 01/01/17.....	03/01/2011	Paydown.....		.....7,481	.....7,481	.....7,492	.....7,482	.....	.....(1)	.....	.....(1)	.....	.....7,481	.....	.....0	.....75	01/01/2017	1.....		
31392J AD 1	Fannie Mae Series 2003- 7.500% 07/25/42.....	03/01/2011	Paydown.....		.....237	.....237	.....253	.....252	.....	.....(15)	.....	.....(15)	.....	.....237	.....	.....0	.....3	07/25/2042	1.....		
31392J YH 6	Fannie Mae Series 2003- 7.500% 08/25/42.....	03/01/2011	Paydown.....		.....339	.....339	.....361	.....360	.....	.....(21)	.....	.....(21)	.....	.....339	.....	.....0	.....5	08/25/2042	1.....		
31401H PU 0	Fannie Mae FN #708835 5.000% 06/01/18.....	03/01/2011	Paydown.....		.....13,545	.....13,545	.....14,078	.....13,970	.....	.....(426)	.....	.....(426)	.....	.....13,545	.....	.....0	.....132	06/01/2018	1.....		
31401H SE 3	Fannie Mae 708917 6.000% 06/01/33.....	03/01/2011	Paydown.....		.....3,250	.....3,250	.....3,418	.....3,363	.....	.....(113)	.....	.....(113)	.....	.....3,250	.....	.....0	.....33	06/01/2033	1.....		
31401J ND 6	Fannie Mae FN 709688 5.500% 06/01/33.....	03/01/2011	Paydown.....		.....658,370	.....658,370	.....658,596	.....656,567	.....	.....1,803	.....	.....1,803	.....	.....658,370	.....	.....0	.....5,291	06/01/2033	1.....		
31401W GV 5	Fannie Mae 720312 4.500% 06/01/18.....	03/01/2011	Paydown.....		.....1,018,077	.....1,018,077	.....1,019,190	.....1,017,521	.....	.....556	.....	.....556	.....	.....1,018,077	.....	.....0	.....6,940	06/01/2018	1.....		
31401W KH 1	Fannie Mae FN 720396 5.000% 07/01/18.....	03/01/2011	Paydown.....		.....726,208	.....726,208	.....737,328	.....732,156	.....	.....(5,949)	.....	.....(5,949)	.....	.....726,208	.....	.....0	.....5,572	07/01/2018	1.....		
31402C 4H 2	FNCL 725424 5.500% 04/01/34.....	03/01/2011	Paydown.....		.....904,387	.....904,387	.....909,332	.....906,740	.....	.....(2,353)	.....	.....(2,353)	.....	.....904,387	.....	.....0	.....7,707	04/01/2034	1.....		
31402C XE 7	FNCL 725277 4.500% 03/01/19.....	03/01/2011	Paydown.....		.....625,008	.....625,008	.....630,868	.....627,634	.....	.....(2,625)	.....	.....(2,625)	.....	.....625,008	.....	.....0	.....4,720	03/01/2019	1.....		
31402J SW 8	FNCL 730533 5.000% 08/01/33.....	03/01/2011	Paydown.....		.....617,038	.....617,038	.....619,961	.....618,561	.....	.....(1,522)	.....	.....(1,522)	.....	.....617,038	.....	.....0	.....4,446	08/01/2033	1.....		
31403N UF 2	Fannie Mae 753982 5.500% 12/01/33.....	03/01/2011	Paydown.....		.....134,541	.....134,541	.....139,291	.....139,158	.....	.....(4,618)	.....	.....(4,618)	.....	.....134,541	.....	.....0	.....1,059	12/01/2033	1.....		
31403U MG 3	Fannie Mae FN #758259 6.000% 12/01/33.....	03/01/2011	Paydown.....		.....1,310	.....1,310	.....1,368	.....1,365	.....	.....(55)	.....	.....(55)	.....	.....1,310	.....	.....0	.....9	12/01/2033	1.....		
31404F JZ 7	Fannie Mae 767180 4.500% 02/01/19.....	03/01/2011	Paydown.....		.....1,300,528	.....1,300,528	.....1,312,721	.....1,304,492	.....	.....(3,963)	.....	.....(3,963)	.....	.....1,300,528	.....	.....0	.....9,299	02/01/2019	1.....		
31404K SG 8	Fannie Mae FN #771019 5.000% 04/01/34.....	03/01/2011	Paydown.....		.....3,918	.....3,918	.....4,041	.....4,033	.....	.....(115)	.....	.....(115)	.....	.....3,918	.....	.....0	.....33	04/01/2034	1.....		
31405A KB 8	Fannie Mae FN #783390 6.500% 09/01/34.....	03/01/2011	Paydown.....		.....100	.....100	.....106	.....105	.....	.....(5)	.....	.....(5)	.....	.....100	.....	.....0	.....1	09/01/2034	1.....		
31407M MT 9	FNCL FN #834770 6.500% 07/01/35.....	03/01/2011	Paydown.....		.....27,423	.....27,423	.....28,824	.....28,750	.....	.....(1,327)	.....	.....(1,327)	.....	.....27,423	.....	.....0	.....279	07/01/2035	1.....		
31409W W8 0	Fannie Mae FN #880971 5.500% 10/01/21.....	03/01/2011	Paydown.....		.....12,023	.....12,023	.....12,507	.....12,438	.....	.....(415)	.....	.....(415)	.....	.....12,023	.....	.....0	.....105	10/01/2021	1.....		
373541 TN 1	Georgia Mun Elec Auth P 6.600% 01/01/18.....	01/01/2011	Redemption 100.0000.....		.....5,000	.....5,000	.....4,994	.....4,997	.....	.....0	.....	.....0	.....	.....4,997	.....	.....3	.....3	01/01/2018	2FE.....		
64468T JW 8	New Hampshire St Hsg Fi 6.000% 07/01/16.....	01/01/2011	Redemption 100.0000.....		.....70,000	.....70,000	.....70,000	.....70,000	.....	.....0	.....	.....0	.....	.....70,000	.....	.....0	.....2,100	07/01/2016	1FE.....		
650034 RT 0	New York St Urban Dev C 5.500% 01/01/13.....	01/01/2011	Redemption 100.0000.....		.....685,000	.....685,000	.....709,838	.....690,146	.....	.....0	.....	.....0	.....	.....690,146	.....	.....(5,146)	.....(5,146)	01/01/2013	1FE.....		
658203 PH 1	North Carolina Muni Pwr 5.500% 01/01/13.....	01/01/2011	Redemption 100.0000.....		.....3,160,000	.....3,160,000	.....3,217,346	.....3,208,865	.....	.....0	.....	.....0	.....	.....3,208,865	.....	.....(48,865)	.....(48,865)	01/01/2013	1.....		
674758 GN 1	Ocean Cnty NJ Utils Aut 5.000% 01/01/18.....	01/01/2011	Call 101.0000.....		.....1,262,500	.....1,262,500	.....1,204,900	.....1,226,512	.....	.....0	.....	.....0	.....	.....1,226,512	.....	.....35,988	.....35,988	01/01/2018	1FE.....		
681793 US 2	Omaha Pub Pwr Dist NE E 7.625% 02/01/12.....	02/01/2011	Redemption 100.0000.....		.....680,000	.....680,000	.....665,448	.....678,625	.....	.....166	.....	.....166	.....	.....678,791	.....	.....1,209	.....1,209	02/01/2012	1.....		
796253 NS 7	San Antonio Tex Elec & 5.750% 02/01/11.....	02/01/2011	Maturity.....		.....520,000	.....520,000	.....526,651	.....520,015	.....	.....(15)	.....	.....(15)	.....	.....520,000	.....	.....0	.....14,950	02/01/2011	1.....		
929836 AP 9	Waco Tex Health Facs De 5.270% 02/01/16.....	02/01/2011	Redemption 100.0000.....		.....1,605,000	.....1,605,000	.....1,605,000	.....1,605,000	.....	.....0	.....	.....0	.....	.....1,605,000	.....	.....0	.....42,292	02/01/2016	2FE.....		
31999999	Total - Bonds - U.S. Special Revenue & Assessment.....				.....15,708,100	.....15,695,600	.....15,809,897	.....15,781,680	.....	.....0	.....(56,769)	.....0	.....(56,769)	.....0	.....15,724,911	.....0	.....(16,811)	.....(16,811)	.....281,085	.....XXX... .....XXX...	
<b>Bonds - Industrial and Miscellaneous</b>																					
000759 CF 5	ABFS Mortgage Loan Trus 7.010% 12/15/32.....	03/01/2011	Paydown.....		.....157,291	.....157,291	.....71,887	.....71,887	.....	.....85,404	.....	.....85,404	.....	.....157,291	.....	.....0	.....1,996	12/15/2032	12*.....		
007036 SE 7	Adjustable Rate Mortgag 0.520% 11/25/35.....	03/25/2011	Paydown.....		.....209,242	.....209,242	.....102,186	.....87,241	.....	.....122,001	.....	.....122,001	.....	.....209,242	.....	.....0	.....163	11/25/2035	12*.....		
007036 TM 8	Adjustable Rate Mortgag 0.510% 01/25/36.....	03/25/2011	Paydown.....		.....364,069	.....364,069	.....169,563	.....131,306	.....	.....232,763	.....	.....232,763	.....	.....364,069	.....	.....0	.....274	01/25/2036	12*.....		
007036 UQ 7	Adjustable Rate Mortgag 0.520% 02/25/36.....	03/25/2011	Paydown.....		.....316,820	.....316,820	.....143,599	.....116,695	.....	.....200,125	.....	.....200,125	.....	.....316,820	.....	.....0	.....267	02/25/2036	12*.....		
02660T FV 0	American Home Mortgage 0.510% 09/25/35.....	03/25/2011	Paydown.....		.....13,997	.....13,997	.....13,997	.....13,997	.....	.....0	.....	.....0	.....	.....13,997	.....	.....0	.....11	09/25/2035	12*.....		
026935 AR 7	American Home Mortgage 0.600% 09/25/27.....	03/25/2011	Paydown.....		.....904,243	.....904,243	.....904,243	.....415,057	.....	.....489,186	.....	.....489,186	.....	.....904,243	.....	.....0	.....958	09/25/2027	12*.....		

QE05.1

## SCHEDULE D - PART 4

Show All Long-Term Bonds and Stock Sold, Redeemed or Otherwise Disposed of During the Current Quarter

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value					16	17	18	19	20	21	22
										11	12	13	14	15							
CUSIP Identification	Description	Forfeiture	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/ Adjusted Carrying Value	Unrealized Valuation Increase/ (Decrease)	Current Year's (Amortization)/ Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11+12-13)	Total Foreign Exchange Change in B./A.C.V.	Book/ Adjusted Carrying Value At Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/ Stock Dividends Received During Year	Maturity Date	NAIC Designation or Market Indicator (a)
07386H XN 6	Bear Sterns Alt- A Trus 0.510% 11/25/35.....		03/25/2011	Paydown.....		268,207	268,207	135,467	107,651				160,556		268,207			0	254	11/25/2035	1Z*
07401W AA 7	Bear Sterns Second Lien 0.440% 01/25/37.....		03/25/2011	Paydown.....		1,276,852	1,276,852	592,489	579,831	9,590	684,363		693,953		1,276,852			0	966	01/25/2037	6Z*
07401W AP 4	Bear Sterns Second Lien 0.470% 08/25/37.....		03/25/2011	Paydown.....		1,940,373	1,940,373	1,940,373	726,747	1,213,626			1,213,626		1,940,373			0	2,046	08/25/2037	1Z*
07401W BA 6	Bear Sterns Second Lien 0.470% 08/25/37.....		03/25/2011	Paydown.....		29,634	29,634	7,907	7,907		21,727		21,727		29,634			0	20	08/25/2037	1Z*
12666T AB 2	Countrywide Asset-Backe 6.017% 09/25/46.....		03/01/2011	Paydown.....		129,078	129,078	114,315	108,125	7,282	13,671		20,953		129,078			0	1,144	09/25/2046	6FE
12666T AC 0	Countrywide Asset-Backe 6.050% 09/25/46.....		03/01/2011	Paydown.....		194,202	194,202	98,029	98,029		96,174		96,174		194,202			0	1,701	09/25/2046	1Z*
12666T AD 8	Countrywide Asset-Backe 6.300% 09/25/46.....		03/01/2011	Paydown.....		114,053	114,053	40,845	40,845		73,208		73,208		114,053			0	1,040	09/25/2046	1Z*
12666T AF 3	Countrywide Asset-Backe 6.150% 09/25/46.....		03/01/2011	Paydown.....		518,880	518,880	268,561	268,561		250,319		250,319		518,880			0	4,926	09/25/2046	1Z*
126673 TP 7	Countrywide Home Equity 0.495% 02/15/30.....		03/15/2011	Paydown.....		17,873	17,873	7,888	7,888		9,986		9,986		17,873			0	14	02/15/2030	1Z*
126684 AB 5	Countrywide Asset-Backe 5.519% 03/25/34.....		03/01/2011	Paydown.....		2,522,417	2,522,417	2,243,696	2,243,696		278,723		278,723		2,522,417			0	23,267	03/25/2034	5Z*
126684 AC 3	Countrywide Asset-Backe 5.658% 03/25/34.....		03/01/2011	Paydown.....		357,659	357,659	150,288	150,288		207,372		207,372		357,659			0	3,572	03/25/2034	6Z*
126684 AD 1	Countrywide Asset-Backe 5.799% 03/25/34.....		03/01/2011	Paydown.....		54,438	54,438	15,010	15,010		39,429		39,429		54,438			0	557	03/25/2034	1Z*
126684 AE 9	Countrywide Asset-Backe 5.962% 11/25/36.....		03/01/2011	Paydown.....		544,382	544,382	174,942	174,942		369,440		369,440		544,382			0	5,729	11/25/2036	1Z*
126684 AF 6	Countrywide Asset-Backe 5.657% 03/25/34.....		03/01/2011	Paydown.....		639,785	639,785	345,897	345,897		293,888		293,888		639,785			0	6,174	03/25/2034	1Z*
126685 AK 2	Countrywide Home Equity 0.495% 12/15/35.....		03/15/2011	Paydown.....		227,737	227,737	103,450	103,450		124,287		124,287		227,737			0	173	12/15/2035	1Z*
126685 CS 3	Countrywide Home Equity 0.425% 05/15/36.....		03/15/2011	Paydown.....		178,552	178,552	68,608	68,608		109,944		109,944		178,552			0	147	05/15/2036	1Z*
126685 CZ 7	Countrywide Asset-Backe 5.549% 08/25/21.....		03/01/2011	Paydown.....		2,093,394	2,093,394	1,760,618	1,760,618		332,776		332,776		2,093,394			0	18,845	08/25/2021	6Z*
126685 DA 1	Countrywide Asset-Backe 5.597% 08/25/21.....		03/01/2011	Paydown.....		55,189	55,189	21,385	21,385		33,804		33,804		55,189			0	522	08/25/2021	1Z*
126685 DC 7	Countrywide Asset-Backe 5.597% 08/25/21.....		03/01/2011	Paydown.....		653,641	653,641	405,429	405,429		248,212		248,212		653,641			0	6,120	08/25/2021	6Z*
126685 DJ 2	Countrywide Home Equity 0.435% 05/15/36.....		03/15/2011	Paydown.....		1,945,597	1,945,597	832,280	832,280		1,113,317		1,113,317		1,945,597			0	1,461	05/15/2036	1Z*
12668A SY 2	Countrywide Alternative 0.520% 08/25/35.....		03/25/2011	Paydown.....		507,651	507,651	237,406	205,639		302,012		302,012		507,651			0	445	08/25/2035	1Z*
12668B RC 9	Countrywide Alternative 0.450% 02/25/36.....		03/25/2011	Paydown.....		147,318	1,658,557	561,272	408,430		(261,112)		(261,112)		147,318			0	1,381	02/25/2036	1Z*
12668R AC 2	Countrywide Alternative 0.444% 02/20/47.....		03/21/2011	Paydown.....		203,212	203,212	155,002	14,355	140,647	48,210		188,857		203,212			0	195	02/20/2047	1Z*
16165Y AA 0	Chaseflex Trust Series 0.400% 08/25/37.....		03/25/2011	Paydown.....		622,895	622,895	299,459	178,428		444,467		444,467		622,895			0	412	08/25/2037	1Z*
21075W DR 3	Contimortgage Home Equi 6.880% 01/15/28.....		03/01/2011	Paydown.....		121,710	121,710	121,710	121,710				0		121,710			0	1,259	01/15/2028	2Z*
23242E AC 3	Countrywide Asset-Backe 5.944% 01/25/37.....		03/01/2011	Paydown.....		136,987	136,987	81,419	81,418		55,569		55,569		136,987			0	1,268	01/25/2037	1Z*
23242Y AH 8	Countrywide Home Equity 0.555% 02/15/34.....		03/15/2011	Paydown.....		484,340	484,340	221,585	212,382		271,958		271,958		484,340			0	429	02/15/2034	1Z*
23243N AF 5	Countrywide Asset-Backe 5.804% 07/25/34.....		03/01/2011	Paydown.....		106,051	106,051	38,321	38,321		67,730		67,730		106,051			0	1,114	07/25/2034	6Z*
23243N AG 3	Countrywide Asset-Backe 5.932% 07/25/34.....		03/01/2011	Paydown.....		853,489	853,489	237,762	237,762		615,727		615,727		853,489			0	9,164	07/25/2034	1Z*
23243N AH 1	Countrywide Asset-Backe 6.236% 08/25/38.....		03/01/2011	Paydown.....		624,462	624,462	215,084	215,084		409,378		409,378		624,462			0	7,049	08/25/2038	1Z*
233835 AP 2	Daimlerchrysler 7.750% 01/18/11.....		01/18/2011	Maturity.....		1,985,000	1,985,000	2,080,737	1,988,056		(3,056)		(3,056)		1,985,000			0	76,919	01/18/2011	2FE
25151A AG 6	Deutsche Alt-A Securiti 0.530% 08/25/36.....		03/25/2011	Paydown.....		399,078	399,078	10,252	12,949		(12,949)		(12,949)		399,078			0	403	08/25/2036	1Z*
260543 BX 0	Dow Chemical 8.550% 05/15/19.....		03/23/2011	Call 127.7770.....		2,964,426	2,320,000	2,903,258	2,882,119		(12,456)		(12,456)		2,869,663		94,763	94,763	70,528	05/15/2019	2FE
32029H AB 8	First Franklin Mtg Loan 0.400% 06/25/27.....		03/25/2011	Paydown.....		1,388,176	1,388,176	552,492	552,492		835,684		835,684		1,388,176			0	563	06/25/2027	6Z*
32029H AC 6	First Franklin Mtg Loan 0.470% 06/25/27.....		03/25/2011	Paydown.....		1,762,310	1,762,310	722,547	725,947		1,036,363		1,036,363		1,762,310			0	837	06/25/2027	6FE
361856 EH 6	GMAC Mortgage Corporati 0.490% 02/25/36.....		03/25/2011	Paydown.....		1,047,130	1,047,130	391,355	391,355		655,775		655,775		1,047,130			0	869	02/25/2036	1Z*

QE05.2





### SCHEDULE D - PART 4

Show All Long-Term Bonds and Stock Sold, Redeemed or Otherwise Disposed of During the Current Quarter

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value					16	17	18	19	20	21	22
										11	12	13	14	15							
CUSIP Identification	Description	Forfeiture	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/Adjusted Carrying Value	Unrealized Valuation Increase/(Decrease)	Current Year's (Amortization)/Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11+12-13)	Total Foreign Exchange Change in B./A.C.V.	Book/Adjusted Carrying Value At Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/Stock Dividends Received During Year	Maturity Date	NAIC Designation or Market Indicator (a)
65535V MJ 4	Nomura Asset Acceptance 0.510% 07/25/35		03/25/2011	Paydown		672,730	672,730	673,018	355,948	317,067	(285)		316,782		672,730			0	440	07/25/2035	1Z*
65535V NL 8	Nomura Asset Acceptance 0.540% 08/25/35		03/25/2011	Paydown		595,933	595,933	272,693	259,033		336,900		336,900		595,933			0	503	08/25/2035	1Z*
65535V PV 4	Nomura Asset Acceptance 0.520% 10/25/35		03/25/2011	Paydown		217,721	217,721	118,617	112,429		105,292		105,292		217,721			0	148	10/25/2035	1Z*
65535V RK 6	Nomura Asset Acceptance 0.510% 12/25/35		03/25/2011	Paydown		136,433	136,433	46,869	32,870		103,563		103,563		136,433			0	101	12/25/2035	1Z*
65538N AA 1	Nomura Asset Acceptance 0.380% 04/25/37		03/25/2011	Paydown		435,672	1,221,288	368,609	334,844		100,828		100,828		435,672			0	800	04/25/2037	1Z*
65538N AB 9	Nomura Asset Acceptance 0.500% 04/25/37		03/25/2011	Paydown		370,932	1,039,806	293,204	264,696		106,236		106,236		370,932			0	890	04/25/2037	1Z*
65538N AC 7	Nomura Asset Acceptance 0.600% 04/25/37		03/25/2011	Redemption	100.0000	334,743	938,361	260,564	236,611		98,132		98,132		334,743			0	961	04/25/2037	1Z*
71531P AA 1	Pershing Road 0.711% 09/01/26		03/01/2011	Redemption	100.0000	844,044	844,044	844,044	844,044				0		844,044			0	1,469	09/01/2026	1FE
76110W XW 1	Residential Asset Serie 1.010% 05/25/34		03/25/2011	Paydown		56,274	56,274	27,021	27,021		29,253		29,253		56,274			0	77	05/25/2034	1Z*
785778 PF 2	Saco I Trust Series 200 0.650% 03/25/37		03/25/2011	Paydown		123,660	123,660	62,292	62,292		61,368		61,368		123,660			0	122	03/25/2037	1Z*
785778 PG 0	Saco I Trust Series 200 0.650% 07/25/36		03/25/2011	Paydown		414,050	414,050	211,499	211,499		202,550		202,550		414,050			0	397	07/25/2036	1Z*
785813 AA 4	Saco I Trust Series 200 0.390% 06/25/36		03/25/2011	Paydown		95,102	95,102	47,800	13,252	34,549	47,301		81,850		95,102			0	61	06/25/2036	1Z*
841238 AB 4	Southbridge Assoc MA 7.590% 02/01/22		02/01/2011	Redemption	100.0000	400,000	400,000	448,956	445,382		(208)		(208)		445,174		(45,174)	(45,174)	15,180	02/01/2022	2FE
881561 W9 1	Tenwin Mortgage Trust 4.500% 10/25/40		03/01/2011	Paydown		10,402	10,402	1,898	1,898		8,504		8,504		10,402			0	84	10/25/2040	1Z*
92976Y AA 0	Wachovia Asset 0.390% 07/25/37		03/25/2011	Paydown		342,246	342,246	183,767	183,767		158,479		158,479		342,246			0	217	07/25/2037	1Z*
92978L AA 6	Wachovia Asset 0.380% 07/25/37		03/25/2011	Paydown		1,098,754	1,098,754	583,843	583,843		514,911		514,911		1,098,754			0	684	07/25/2037	1Z*
05533U AA 6	BBVA Bancomer Commer Ba 4.500% 03/10/16	F..	03/07/2011	Goldman Sachs		2,075,175	2,070,000	2,055,200					0	2,055,200		19,975	19,975			03/10/2016	1FE
19035R AL 3	Coast Investment Grade 0.905% 07/30/17	F..	01/31/2011	Paydown		1,348,433	1,348,433	1,351,485	1,350,510		(2,077)		(2,077)		1,348,433			0	7,885	07/30/2017	1FE
55608J AE 8	Macquarie Group Ltd 6.250% 01/14/21	F..	03/23/2011	HSBC Bank USA Inc.		25,396	25,000	24,735			1		1	24,736		660	660		321	01/14/2021	1FE
87927V AL 2	Telecom Italia Capital 4.950% 09/30/14	F..	02/07/2011	RBS Securities		2,050,840	2,000,000	1,973,780	1,980,336		544		544	1,980,880		69,960	69,960		35,750	09/30/2014	2FE
902118 AY 4	Tyco Intl. Group 6.750% 02/15/11	F..	01/05/2011	Bank of America		1,005,950	1,000,000	1,051,430	1,003,992		(819)		(819)	1,003,173		2,777	2,777		27,188	02/15/2011	1FE
3899999.	Total - Bonds - Industrial & Miscellaneous					76,619,959	84,459,890	49,092,674	43,626,064	2,653,079	27,965,039	0	30,618,118	0	76,327,182	0	292,777	292,777	344,411	XXX	XXX
8399997.	Total - Bonds - Part 4					145,398,617	153,226,048	121,977,742	112,706,390	2,653,079	27,680,182	0	30,333,261	0	145,122,651	0	275,966	275,966	1,840,776	XXX	XXX
8399999.	Total - Bonds					145,398,617	153,226,048	121,977,742	112,706,390	2,653,079	27,680,182	0	30,333,261	0	145,122,651	0	275,966	275,966	1,840,776	XXX	XXX
9999999.	Total - Bonds, Preferred and Common Stocks					145,398,617	XXX	121,977,742	112,706,390	2,653,079	27,680,182	0	30,333,261	0	145,122,651	0	275,966	275,966	1,840,776	XXX	XXX

QE05.4

(a) For all common stock bearing the NAIC market indicator "U" provide: the number of such issues:.....0.

**Sch. DB-Pt A-Sn 1  
NONE**

**Sch. DB-Pt A-Sn 1-Footer  
NONE**

**Sch. DB-Pt B-Sn 1  
NONE**

**Sch. DB-Pt B-Sn 1-Footer  
NONE**

**Sch. DB-Pt B-Sn 1B-Broker List  
NONE**

**Sch. DB-Pt D  
NONE**

**Sch. DL-Pt. 1  
NONE**

**Sch. DL-Pt. 2  
NONE**

## SCHEDULE E - PART 1 - CASH

### Month End Depository Balances

1 Depository	2 Code	3 Rate of Interest	4 Amount of Interest Received During Current Quarter	5 Amount of Interest Accrued at Current Statement Date	Book Balance at End of Each Month During Current Quarter			9 *
					6 First Month	7 Second Month	8 Third Month	
<b>Open Depositories</b>								
Citibank, N.A..... London, England.....			748		464,652	373,929	1,283,361	XXX..
Citibank, N.A..... New York, New York.....			8		78,073	170,337	171,356	XXX..
Bank of New York..... New York, New York.....			27		240,156	186,249	1,150,291	XXX..
BNS Time Deposit CD..... Charlotte Amalie, USVI.....	SD.....	2.500		10,103	500,000	500,000	500,000	XXX..
Citibank Time Deposit CD..... Hagatna, Guam.....	SD.....	1.100		491	50,000	50,000	50,000	XXX..
0199999. Total Open Depositories.....	...XXX.....	...XXX.....	783	10,594	1,332,881	1,280,515	3,155,008	XXX..
0399999. Total Cash on Deposit.....	...XXX.....	...XXX.....	783	10,594	1,332,881	1,280,515	3,155,008	XXX..
0599999. Total Cash.....	...XXX.....	...XXX.....	783	10,594	1,332,881	1,280,515	3,155,008	XXX..

### SCHEDULE E - PART 2 - CASH EQUIVALENTS

Show Investments Owned End of Current Quarter

1 Description	2 Code	3 Date Acquired	4 Rate of Interest	5 Maturity Date	6 Book/Adjusted Carrying Value	7 Amount of Interest Due & Accrued	8 Amount Received During Year
------------------	-----------	-----------------------	--------------------------	-----------------------	--------------------------------------	--	-------------------------------------

**NONE**