



QUARTERLY STATEMENT

As of September 30, 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 Stephen Michael Ksenak 212-668-0340
 (Name) (Area Code) (Telephone Number) (Extension)
SKsenak@ambac.com 212-208-3558
 (E-Mail Address) (Fax Number)

Policyowner Relations Contact Stephen Michael Ksenak 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. Diana Newman Adams #	President & Chief Executive Officer	2. Stephen Michael Ksenak #	Senior Managing Director & General Counsel
3. David Trick	Senior Managing Director, Chief Financial Officer & Treasurer	4. Robert Bryan Eisman	Senior Managing Director & Chief Accounting Officer

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	Diana Newman Adams #
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)
Diana Newman Adams #	Stephen Michael Ksenak #	Robert Bryan Eisman
1. (Printed Name)	2. (Printed Name)	3. (Printed Name)
President (President & Chief Executive Officer)	Secretary (Senior Managing Director & General Counsel)	Senior Managing Director & Chief Accounting Officer
(Title)	(Title)	(Title)

Subscribed and sworn to before me
This 14th day of November, 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.....	4,420,437,895		4,420,437,895	4,479,203,394
2. Stocks:				
2.1 Preferred stocks.....			0	
2.2 Common stocks.....	181,853,642	160,358	181,693,284	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 (\$.....1,085,309), cash equivalents (\$.....0) and short-term investments (\$.....717,331,819).....	718,417,128		718,417,128	512,619,523
6. Contract loans (including \$.....0 premium notes).....			0	
7. Derivatives.....			0	
8. Other invested assets.....	12,544,936	4,532,947	8,011,989	8,143,728
9. Receivables for securities.....	112,351,796	99,605,079	12,746,717	15,968,902
10. Securities lending reinvested collateral assets.....			0	
11. Aggregate write-ins for invested assets.....	523,255,251	0	523,255,251	750,899,000
12. Subtotals, cash and invested assets (Lines 1 to 11).....	5,968,860,648	104,298,384	5,864,562,264	5,942,983,883
13. Title plants less \$.....0 charged off (for Title insurers only).....			0	
14. Investment income due and accrued.....	37,286,319		37,286,319	40,839,098
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection.....	371,403	173,146	198,257	218,306
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$.....0 earned but unbilled premiums).....	8,481,584	7,288	8,474,296	13,288,358
15.3 Accrued retrospective premiums.....			0	
16. Reinsurance:				
16.1 Amounts recoverable from reinsurers.....	6,856,610		6,856,610	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.....	1,283,092	1,283,092	0	
21. Furniture and equipment, including health care delivery assets (\$.....0).....	8,601,611	8,601,611	0	
22. Net adjustment in assets and liabilities due to foreign exchange rates.....			0	
23. Receivables from parent, subsidiaries and affiliates.....	1,834,808		1,834,808	1,025,013
24. Health care (\$.....0) and other amounts receivable.....			0	
25. Aggregate write-ins for other than invested assets.....	4,643,069	4,548,430	94,639	94,623
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 through 25).....	6,038,219,144	118,911,951	5,919,307,193	6,005,318,227
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....	1,980,878,084	17,199,623	1,963,678,461	1,934,716,408
28. Total (Lines 26 and 27).....	8,019,097,228	136,111,574	7,882,985,654	7,940,034,635

DETAILS OF WRITE-INS

1101. Inter-company loans with affiliates.....	285,973,251		285,973,251	511,299,000
1102. Secured Inter-company loans with affiliates.....	237,282,000		237,282,000	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).....	523,255,251	0	523,255,251	750,899,000
2501. Prepaid assets.....	4,518,228	4,518,228	0	
2502. Other assets.....	124,841	30,202	94,639	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).....	4,643,069	4,548,430	94,639	94,623

LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Statement Date	2 December 31 Prior Year
1. Losses (current accident year \$.....262,581,270).....	3,022,905,065	2,345,139,759
2. Reinsurance payable on paid losses and loss adjustment expenses.....		
3. Loss adjustment expenses.....	131,895,612	133,295,269
4. Commissions payable, contingent commissions and other similar charges.....		
5. Other expenses (excluding taxes, licenses and fees).....	31,919,108	38,627,794
6. Taxes, licenses and fees (excluding federal and foreign income taxes).....	3,932,532	4,242,986
7.1 Current federal and foreign income taxes (including \$.....0 on realized capital gains (losses)).....	95,000,000	18,319,917
7.2 Net deferred tax liability.....		
8. Borrowed money \$.....1,940,986,699 and interest thereon \$.....22,518,442.....	1,963,505,141	1,934,537,313
9. Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$.....116,260,672 and including warranty reserves of \$.....0).....	1,769,920,580	1,929,321,995
10. Advance premium.....	627,254	1,320,827
11. Dividends declared and unpaid:		
11.1 Stockholders.....		
11.2 Policyholders.....		
12. Ceded reinsurance premiums payable (net of ceding commissions).....	1,842,369	4,511,736
13. Funds held by company under reinsurance treaties.....		
14. Amounts withheld or retained by company for account of others.....	179,690	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.....	324,078	932,008
20. Derivatives.....		
21. Payable for securities.....	7,405,266	
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.....	579,333,127	500,123,737
26. Total liabilities excluding protected cell liabilities (Lines 1 through 25).....	7,609,869,822	6,913,114,454
27. Protected cell liabilities.....		
28. Total liabilities (Lines 26 and 27).....	7,609,869,822	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.....	3,546,364,289	3,549,510,339
35. Unassigned funds (surplus).....	(5,381,659,457)	(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).....	273,115,832	1,026,920,181
38. Totals.....	7,882,985,654	7,940,034,635

DETAILS OF WRITE-INS

2501. Mandatory contingency reserve for adverse losses.....	576,785,428	495,326,774
2502. Deferred gain on purchase of securities from subsidiary.....	1,244,933	1,452,949
2503. Unapplied premium liability.....	46,684	280,764
2598. Summary of remaining write-ins for Line 25 from overflow page.....	1,256,082	3,063,250
2599. Totals (Lines 2501 thru 2503 plus 2598) (Line 25 above).....	579,333,127	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
UNDERWRITING INCOME			
1. Premiums earned:			
1.1 Direct..... (written \$.....117,072,607).....	282,678,136	404,612,008	531,002,431
1.2 Assumed..... (written \$.....108,155).....	463,593	176,108,372	176,786,256
1.3 Ceded..... (written \$.....8,778,561).....	15,338,113	36,366,635	42,295,284
1.4 Net..... (written \$.....108,402,201).....	267,803,616	544,353,745	665,493,403
DEDUCTIONS:			
2. Losses incurred (current accident year \$.....262,647,281):			
2.1 Direct.....	617,960,016	1,499,903,442	1,651,718,605
2.2 Assumed.....		(244,537,218)	(255,611,801)
2.3 Ceded.....	4,396,562	11,614,858	16,554,638
2.4 Net.....	613,563,454	1,243,751,366	1,379,552,166
3. Loss adjustment expenses incurred.....	25,251,179	268,172,178	270,825,965
4. Other underwriting expenses incurred.....	61,235,290	95,452,379	125,830,568
5. Aggregate write-ins for underwriting deductions.....	0	0	0
6. Total underwriting deductions (Lines 2 through 5).....	700,049,923	1,607,375,923	1,776,208,699
7. Net income of protected cells.....			
8. Net underwriting gain (loss) (Line 1 minus Line 6 + Line 7).....	(432,246,307)	(1,063,022,178)	(1,110,715,296)
INVESTMENT INCOME			
9. Net investment income earned.....	208,448,230	201,729,336	252,752,552
10. Net realized capital gains (losses) less capital gains tax of \$.....0.....	(36,547,176)	(852,123,975)	(738,090,142)
11. Net investment gain (loss) (Lines 9 + 10).....	171,901,054	(650,394,639)	(485,337,590)
OTHER INCOME			
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.....	(316,179,232)	32,846,390	124,349,832
15. Total other income (Lines 12 through 14).....	(316,179,232)	32,846,390	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).....	(576,524,485)	(1,680,570,427)	(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).....	(576,524,485)	(1,680,570,427)	(1,471,703,054)
19. Federal and foreign income taxes incurred.....	76,680,083	150,000	200,000
20. Net income (Line 18 minus Line 19) (to Line 22).....	(653,204,568)	(1,680,720,427)	(1,471,903,054)
CAPITAL AND SURPLUS ACCOUNT			
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).....	(653,204,568)	(1,680,720,427)	(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.....	(84,914,800)	(144,101,154)	(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.....	21,601,622	(20,152,904)	(138,304,642)
28. Change in provision for reinsurance.....			3,284,000
29. Change in surplus notes.....		2,000,000,000	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.....	(3,146,050)	22,635,326	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.....	(34,140,553)	(66,771,922)	(91,320,528)
38. Change in surplus as regards policyholders (Lines 22 through 37).....	(753,804,349)	110,071,716	225,051,496
39. Surplus as regards policyholders, as of statement date (Lines 21 plus 38).....	273,115,832	911,940,401	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.....	9,414,892	9,239,285	14,185,910
1402. Estimated provision for uncollectible intercompany loan with affiliate.....	(345,300,000)	(800,000)	71,100,000
1403. Change in liabilities allocated to Ambac Assurance Corp Segregated Account.....	705,898,492	3,250,674,264	3,783,993,909
1498. Summary of remaining write-ins for Line 14 from overflow page.....	(686,192,616)	(3,226,267,159)	(3,744,929,987)
1499. Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above).....	(316,179,232)	32,846,390	124,349,832
3701. Mandatory contingency reserve for adverse losses, net of tax.....	(81,458,654)	(116,959,498)	(159,270,677)
3702. Change in Surplus of Ambac Assurance Corporation Segregated Account excluding non-admitted assets.....	38,504,406	50,187,576	67,950,149
3703. Cumulative effect of prior period error in correction of the liability for losses.....	8,813,695		
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).....	(34,140,553)	(66,771,922)	(91,320,528)

CASH FLOW

	1 Current Year to Date	2 Prior Year To Date	3 Prior Year Ended December 31
CASH FROM OPERATIONS			
1. Premiums collected net of reinsurance.....	109,799,937	197,443,874	250,067,866
2. Net investment income.....	145,708,872	132,639,914	153,383,582
3. Miscellaneous income.....	9,414,892	9,239,285	14,185,910
4. Total (Lines 1 through 3).....	264,923,701	339,323,073	417,637,358
5. Benefit and loss related payments.....	(73,027,883)	(32,610,716)	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.....	105,790,434	2,943,091,342	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).....	32,762,551	2,466,539,904	2,460,728,054
11. Net cash from operations (Line 4 minus Line 10).....	232,161,150	(2,127,216,831)	(2,043,090,696)
CASH FROM INVESTMENTS			
12. Proceeds from investments sold, matured or repaid:			
12.1 Bonds.....	494,726,157	2,665,036,587	2,804,131,231
12.2 Stocks.....			
12.3 Mortgage loans.....			
12.4 Real estate.....			
12.5 Other invested assets.....	1,323,065	113,090	284,768
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments.....	24,946	184,780	190,293
12.7 Miscellaneous proceeds.....	274,275,266	57,684,286	68,852,000
12.8 Total investment proceeds (Lines 12.1 to 12.7).....	770,349,434	2,723,018,743	2,873,458,292
13. Cost of investments acquired (long-term only):			
13.1 Bonds.....	721,857,606	754,927,889	935,978,304
13.2 Stocks.....			
13.3 Mortgage loans.....			
13.4 Real estate.....			
13.5 Other invested assets.....		5,561,637	
13.6 Miscellaneous applications.....	74,706,348	19,848,595	2,521,822
13.7 Total investments acquired (Lines 13.1 to 13.6).....	796,563,954	780,338,121	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).....	(26,214,520)	1,942,680,622	1,934,958,166
CASH FROM FINANCING AND MISCELLANEOUS SOURCES			
16. Cash provided (applied):			
16.1 Surplus notes, capital notes.....			
16.2 Capital and paid in surplus, less treasury stock.....		368,656	
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).....	(149,025)	(14,962,258)	(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).....	(149,025)	(15,410,805)	(4,604,030)
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS			
18. Net change in cash, cash equivalents and short-term investments (Line 11 plus Line 15 plus Line 17).....	205,797,605	(199,947,014)	(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).....	718,417,128	425,409,068	512,619,523
Note: Supplemental disclosures of cash flow information for non-cash transactions:			
20.0001 Issuance of surplus notes in connection with the settlement of insurance liabilities.....		2,000,000,000	2,000,000,000

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 September 30, 2011 and December 31, 2010 was lower by \$76,988,690 and \$35,233,482, respectively, than if the Company had reported such amounts in accordance with NAIC SAP. Net income for the nine months ended September 30, 2011 was lower by \$41,755,208 and for the year ended December 31, 2010 was greater 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, surplus notes issued in conjunction with commutations or the settlement of claims 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 have 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 nine months ended September 30, 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 September 30, 2011 and December 31, 2010 is greater by \$77,248,759 and \$76,709,311 and net income for the nine months ended September 30, 2011 and for the year ended December 31, 2010 are greater by \$40,728,222 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 nine months ended September 30, 2011 and for the year ended December 31, 2010 is greater by \$81,458,654 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:

	<u>September 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
Net Loss, Per Quarterly Statement	\$ (653,204,568)	\$ (1,471,903,054)
Effect of Wisconsin Permitted Practice	<u>(81,458,654)</u>	<u>(159,270,677)</u>
Net Loss, Wisconsin Basis	(734,663,222)	(1,631,173,731)
Effect of Wisconsin Prescribed Practices	1,026,986	382,449,936
Effect of Wisconsin Permitted Practice	<u>81,458,654</u>	<u>159,270,677</u>
Net Loss, NAIC SAP	<u>\$ (652,177,582)</u>	<u>\$ (1,089,453,118)</u>
Statutory Surplus, Wisconsin Basis	\$ 273,115,832	\$ 1,026,920,181
Effect of Wisconsin Prescribed Practices	(260,069)	(41,475,829)
Effect of Wisconsin Permitted Practice	-	-
Statutory Surplus, NAIC SAP	<u>\$ 272,855,763</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.

During the quarter ended September 30, 2011, management discovered an error relating to calculation of the remediation credit component of the Company's loss reserves. The periods affected and the impacts to Policyholder's Surplus and Net Income are detailed in the table below:

Period	Cumulative Understatement of Policyholder's Surplus	Year-to-Date Understatement of Net Income
December 31, 2010	\$3,206,429	\$3,206,429
March 31, 2011	\$12,045,571	\$8,839,142
June 30, 2011	\$15,634,694	\$12,428,265

In the Quarterly Statement for the period ended September 30, 2011, the correction of this error was reported as an increase to surplus of \$15,634,694.

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 September 30, 2011, the total amortized cost immediately prior to the recognition of OTTI losses, the OTTI losses recognized during the nine months ended September 30, 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 nine months ended September 30, 2011	Fair Value at the time OTTI Losses were recognized ⁽¹⁾
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	\$249,388,672	\$36,941,352	\$212,447,320

(1) Fair value of these loan-backed securities at September 30, 2011, based primarily on SVO prices, was \$198,176,502.

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 September 30, 2011, the total amortized cost immediately prior to the recognition of OTTI losses, the OTTI losses recognized during the nine months ended September 30, 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 9/30/2011
12666TAB2	\$9,076,917	\$8,554,382	\$522,535	\$8,554,382	\$7,389,369
12666TAC0	8,031,334	7,310,889	720,445	7,310,889	8,943,623
12666TAD8	3,323,142	3,210,807	112,335	3,210,807	4,445,967
126684AF6	7,809,504	7,783,729	25,775	7,783,729	12,188,012
126685AK2	14,072,643	12,704,824	1,367,819	12,704,824	13,022,854
126685CS3	884,684	708,881	175,803	708,881	1,439,711
126685CZ7	13,048,377	11,969,035	1,079,342	11,969,035	11,109,280
126685DA1	1,097,566	379,493	718,073	379,493	831,875
126685DJ2	17,964,437	16,081,034	1,883,403	16,081,034	19,589,703
12668RAC2	2,944,517	1,143,862	1,800,655	1,143,862	180,195
21075WDR3	828,301	819,201	9,100	819,201	802,852
25151AAG6	819,125	802,343	16,782	802,343	577,152
32029HAB8	10,264,077	5,601,073	4,663,004	5,601,073	6,365,459
39538WEF1	1,169,441	1,145,123	24,318	1,145,123	146,876
43709RAA2	1,153,427	715,711	437,716	715,711	1,133,973
45254TTF1	6,876,061	6,659,442	216,619	6,659,442	5,846,080
45257BAD2	5,058,362	4,359,135	699,227	4,359,135	3,446,328
45667HAB7	30,099,108	30,080,428	18,680	30,080,428	22,803,189
45667HAC5	11,996,178	8,497,617	3,498,561	8,497,617	5,197
464125AC7	11,103,340	10,775,873	327,467	10,775,873	11,806,020
46412RAB1	6,836,094	6,167,053	669,041	6,167,053	5,447,635
52523YAC8	2,387,448	2,196,585	190,863	2,196,585	1,831,507
52524PAG7	3,949,100	3,677,119	271,981	3,677,119	18,522,762
52525LAS9	39,413,377	36,837,496	2,575,881	36,837,496	16,718,466
68402VAG7	4,140,489	3,546,893	593,596	3,546,893	3,070,650
69121YAA2	25,999,281	13,059,653	12,939,628	13,059,653	5,008,920
7609854A6	5,335,389	5,133,029	202,360	5,133,029	5,316,641
760985SU6	830,673	778,044	52,629	778,044	833,134
785778PF2	485,235	338,436	146,799	338,436	2,551,794
785778PG0	2,391,045	1,410,130	980,915	1,410,130	6,801,278
TOTAL	\$249,388,672	\$212,447,320	\$36,941,352	\$212,447,320	\$198,176,502

NOTES TO FINANCIAL STATEMENTS

- iv. The following table shows impaired amounts (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 September 30, 2011:

	Unrealized Loss	Fair Value
Less than 12 months	\$71,763,913	\$202,599,453
Greater than 12 months	\$43,676,559	\$96,857,662

- v. Management has determined that the unrealized losses reflected in the table above are temporary in nature as of September 30, 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 September 30, 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 September 30, 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 or for debt securities that are beneficial interests in securitized financial assets, at a rate equal to the current yield used to accrete the beneficial interest. 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 in Note 1 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.

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:

	9/30/2011
Current income tax incurred	\$ 76,680,083
Change in deferred income tax (without tax on unrealized gains & losses)	-
Total income tax reported	\$ 76,680,083
Loss before taxes	\$ (576,524,485)
	35%
Expected income tax benefit at 35% statutory rate	\$ (201,783,570)
Increase (decrease) in actual tax reported resulting from:	
a. Dividends received deduction	-
b. Nondeductible expenses for meals, penalties & lobbying	28,000
c. Tax-exempt income	(14,888,381)
d. Net effect of Income from subsidiaries	26,961,204
e. Investment income adjustments	(20,792,030)
f. Premiums earned	(6,776,006)
g. Interest on Surplus Notes	(14,860,125)
h. Change in valuation allowance for NOL	232,251,047
i. Change in tax reserves	76,680,083
j. Other	(140,139)
Total income tax reported	\$ 76,680,083

NOTES TO FINANCIAL STATEMENTS

e. Operating loss carryforward

- (1) At September 30, 2011, the Company, on a non-consolidated basis, had an unused ordinary operating loss carryforwards of \$6,437,062,718 available to offset against future taxable income, which will begin expiring in 2029 and fully expire in 2031, and a capital loss carryforward of \$282,012,186 available to offset future capital gains which will expire in 2014.
- (2) At September 30, 2011 there are no amounts available for recoupment in the event of future net losses.
- (3) The Company has no deposits admitted under Section 6603 of the Internal Revenue Code.

f. Consolidated federal income tax return

- Pursuant to a written tax-sharing agreement (“TSA”) approved by both the OCI and the Ambac Assurance’s Board of Directors, Ambac Assurance is included in Ambac Financial Group, Inc.’s (“Ambac”) consolidated Federal income tax return, which includes the following taxable entities (the “Ambac Consolidated Group”): 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 Financial Guarantee Corp. (“Everspan”).
- Amounts assessed/reimbursed under the TSA are based upon separate return and other calculations made as if Ambac Assurance had filed its own federal income tax return for each taxable period.
- Pursuant to a Mediation Agreement between Ambac, the Company, the Segregated Account (as defined in Note 10 below), the court-appointed rehabilitator of the Segregated Account, OCI and the Official Committee of Unsecured Creditors of Ambac, signed September 21, 2011 (the “Mediation Agreement”), effective as of the Plan Settlement Closing Date (as defined below), to the extent the Company generates taxable income after September 30, 2011, which is offset with the Company’s NOL carryforward, it is obligated to make payments to Ambac in accordance with the following NOL Usage table:

NOL Usage Table

NOL Usage Tier	Allocated NOLs	Applicable Percentage
A	The first \$0.5 billion	15%
B	The next \$1.1 billion after Tier A	40%
C	The next \$1.1 billion after Tier B	10%
D	The next \$1.1 billion after Tier C	15%

In the event that the amount of NOLs allocated to Ambac Assurance pursuant to the amended tax sharing agreement to be entered into by Ambac and Ambac Assurance (among others) pursuant to the Mediation Agreement (the “Allocated NOL Amount”) or the amount of AMT NOLs allocated to Ambac Assurance pursuant to the amended tax sharing agreement to be entered into by Ambac and Ambac Assurance (among others) pursuant to the Mediation Agreement (the “Allocated AMT NOL Amount”) is less than \$3,800,000,000 (or the proportionate amount of AMT NOLs), the size of each usage tier will be reduced proportionally. Such proportionate reduction shall be applied separately to the Allocated NOL Amount and the Allocated AMT NOL Amount. For the avoidance of doubt, if the Allocated NOL Amount is 10% less than \$3,800,000,000 and the Allocated AMT NOL Amount is 20% less than \$3,800,000,000 (or the proportionate amount of AMT NOLs), then the size of each usage tier within the Allocated NOL Amount will be reduced by 10% as compared to the representative usage tiers shown above and the size of each usage tier within the Allocated AMT NOL Amount will be reduced by 20% as compared to the representative usage tiers shown above.

“Plan Settlement Closing Date” is defined in the Mediation Agreement as a date that shall occur no later than ten business days following the date on which each of the following conditions has been satisfied or waived by each of the parties thereto: (i) entry of a final order by the court overseeing the Segregated Account rehabilitation proceeding approving the transactions contemplated by the Mediation Agreement; (ii) entry of a final, nonappealable order by the Bankruptcy Court (as defined in Note 10 below) confirming Ambac’s Reorganization Plan (as defined in Note 10 below); (iii) resolution of the matters that are the subject of the adversary proceeding initiated by Ambac in the Bankruptcy Court against the Internal Revenue Service (“IRS”) captioned Ambac Financial Group, Inc. vs. United States of America, Case No. 10-04210 (the “IRS Dispute”) without (A) any member of the AAC Subgroup (as defined below) having to make a payment to the IRS of more than \$100 million and (B) a reduction by more than 10% of the NOLs (as defined in Note 10 below) allocated to the AAC Subgroup pursuant to the amended tax sharing agreement to be entered into by Ambac and Ambac Assurance (among others) pursuant to the Mediation Agreement; and (iv) a determination made in accordance with the Mediation Agreement that neither an Ownership Change (as defined in Note 10 below) with respect to Ambac Assurance nor a Deconsolidation Event (as defined in Note 10 below) occurred during the 2010 taxable year. As used above, “AAC Subgroup” means Ambac Assurance and any direct or indirect subsidiary of Ambac Assurance that would be treated as an includable corporation of an affiliated group of corporations under the Internal Revenue Code if Ambac Assurance were the common parent of such affiliated group.

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

On November 8, 2010, Ambac filed a voluntary petition for relief (the “Bankruptcy Filing”) under Chapter 11 of the United States Bankruptcy Code (“Bankruptcy Code”) in the United States Bankruptcy Court for the Southern District of New York (“Bankruptcy Court”). 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, on November 17, 2010, the United States Trustee appointed a statutory committee of 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, as debtor and debtor-in-possession, filed a Plan of Reorganization on July 6, 2011, a First Amended Plan of Reorganization on September 21, 2011, and a Second Amended Plan of Reorganization on September 30, 2011 (such Second Amended Plan of Reorganization, as it may be further amended, the “Reorganization Plan”). Simultaneously with the filing of the Second Amended Plan of Reorganization, on September 30, 2011, Ambac also filed with the Bankruptcy Court that certain Second Amended Disclosure Statement of Ambac Financial Group, Inc. (the “Disclosure Statement”).

Under the Reorganization Plan, Ambac’s debt holders and other creditors will receive all of the equity in the reorganized company. Additionally, the Reorganization Plan sets forth the revised capital structure of a newly reorganized Ambac and provides for corporate governance subsequent to emergence from bankruptcy. The Reorganization Plan also reflects a resolution of certain issues (the “Amended Plan Settlement”) among Ambac, the

NOTES TO FINANCIAL STATEMENTS

statutory committee of creditors appointed by the United States Trustee on November 17, 2010 (the "Creditors' Committee"), Ambac Assurance, the Segregated Account of Ambac Assurance Corporation, in Rehabilitation (the "Segregated Account") and the Wisconsin Office of the Commissioner of Insurance ("OCI") (as regulator of Ambac Assurance and as Rehabilitator of the Segregated Account) related to (i) the net operating losses ("NOLs") of the Ambac Consolidated Group, (ii) certain tax refunds received in respect thereof (the "Tax Refunds") and (iii) the sharing of expenses between Ambac and Ambac Assurance.

The terms of the Amended Plan Settlement are memorialized in the Mediation Agreement dated as of September 21, 2011 (the "Mediation Agreement"), among such parties. In accordance with the Amended Plan Settlement, Ambac shall retain ownership of Ambac Assurance, and except as otherwise approved by OCI, Ambac shall use its best efforts to preserve the use of NOLs as contemplated by the Amended Plan Settlement, including but not limited to refraining from taking any action that would result in, and taking such affirmative steps as are appropriate to avoid, any event that results in neither Ambac Assurance nor any entity that succeeds to the tax attributes of Ambac Assurance being characterized as an includible corporation with the affiliated group of corporations of which Ambac (or any successor thereto) is the common parent (the "Ambac Consolidated Group"), all within the meaning of the Internal Revenue Code (a "Deconsolidation Event"). Additionally, the Amended Plan Settlement contemplates (i) the execution of the Amended TSA (as defined below), Cost Allocation Agreement (as defined below), and Cooperation Agreement Amendment (as defined below), (ii) the settlement of certain claims among Ambac and Ambac Assurance, OCI (as regulator of Ambac Assurance and as Rehabilitator of the Segregated Account) and the Segregated Account, and (iii) broad releases of Ambac, Ambac Assurance, the Segregated Account, OCI, the board of directors and board committees of Ambac and Ambac Assurance, all current and former individual directors, officers, or employees of Ambac and Ambac Assurance, the Creditors' Committee and the individual members thereof, and certain other released parties.

Pursuant to the Mediation Agreement, Ambac and Ambac Assurance agreed to, and agreed to cause their affiliates to, enter into an amended and restated tax sharing agreement (the "Amended TSA"), which agreement shall become effective upon the later of (a) the date on which an order is entered by the Bankruptcy Court confirming Ambac's Reorganization Plan (the "Confirmation Date" and such order, the "Confirmation Order") and (b) the date on which a non-stayed order is entered by the Circuit Court of Dane County, Wisconsin in which the Segregated Account Rehabilitation Proceedings are pending (the "Rehabilitation Court") approving the transactions contemplated by the Mediation Agreement (such date, the "Plan Settlement Effective Date"). The Amended TSA shall replace, supersede and nullify in its entirety the existing tax sharing agreement among Ambac and its affiliates. The Amended TSA shall address certain issues including, but not limited to, the allocation of NOLs among members of the Ambac Consolidated Group; payments to be made by Ambac Assurance to Ambac, and by Ambac to Ambac Assurance, in connection with the utilization of NOLs; and certain actions to be taken to preserve the use of the NOLs for the benefit of the parties, including upon the occurrence of a Deconsolidation Event. Amounts payable by Ambac Assurance under the Amended TSA shall be paid no later than the date on which the applicable tax return is filed, provided that any such amounts due prior to the Plan Settlement Closing Date (as defined below) shall be deposited in an escrow account and transferred to Ambac on the Plan Settlement Closing Date.

The Mediation Agreement further provides that Ambac, Ambac Assurance and their affiliates will enter into an expense sharing and cost allocation agreement (the "Cost Allocation Agreement"), which agreement shall become effective on the Plan Settlement Effective Date. The Cost Allocation Agreement shall provide for the allocation of costs and expenses among Ambac, Ambac Assurance and their affiliates and shall include an undertaking by Ambac Assurance to pay operating expenses of Ambac subject to certain limitations and conditions. The Mediation Agreement also provides for sharing by Ambac and Ambac Assurance of the expenses incurred since November 1, 2010 in connection with the litigation with the Internal Revenue Service ("IRS").

As part of the Amended Plan Settlement, Ambac, Ambac Assurance, the Segregated Account and OCI (as Rehabilitator of the Segregated Account) also agreed, pursuant to the Mediation Agreement, to enter into an amendment, effective as of the Plan Settlement Effective Date (the "Cooperation Agreement Amendment"), of that certain Cooperation Agreement, dated as of March 24, 2010, by and between the Segregated Account and Ambac Assurance. The Cooperation Agreement Amendment shall provide for the Rehabilitator to have certain rights with respect to (a) the tax positions taken by Ambac in its consolidated tax return; (b) the acceptance by Ambac Assurance of the repayment of intercompany loans or the modification of the terms thereof; (c) changes by Ambac Assurance in the assumptions or vendors utilized in determining loss reserves; and (d) changes to Ambac Assurance's investment policy and transfer of the investment management function for Ambac Assurance's investment portfolio.

The Mediation Agreement provides that Ambac Assurance shall transfer \$30,000,000 to an escrow account on the Plan Settlement Effective Date (the "Cash Grant"), and further provides that such amount shall be released from escrow to Ambac on the "Plan Settlement Closing Date," which is defined in the Mediation Agreement as a date that shall occur no later than ten business days following the date on which each of the following conditions has been satisfied or waived by each of the parties to the Amended Plan Settlement: (i) entry of a final order by the Rehabilitation Court approving the transactions contemplated by the Amended Plan Settlement; (ii) entry of a final, nonappealable Confirmation Order by the Bankruptcy Court; (iii) resolution of the matters that are the subject of the adversary proceeding initiated by Ambac in the Bankruptcy Court against the IRS captioned Ambac Financial Group, Inc. vs. United States of America, Case No. 10-04210 (the "IRS Dispute") without (A) any member of the AAC Subgroup (as defined below) having to make a payment to the IRS of more than \$100,000,000 and (B) a reduction of the NOLs allocated to the AAC Subgroup pursuant to the Amended TSA by more than 10%; and (iv) a determination that neither an Ownership Change (as defined below) with respect to Ambac Assurance nor a Deconsolidation Event occurred during the 2010 taxable year. Pursuant to the Amended TSA, in consideration of the payment of the Cash Grant Ambac Assurance shall receive credits of up to \$15,000,000 against certain payments due to Ambac with respect to the utilization of NOLs. As used herein, "AAC Subgroup" means Ambac Assurance and any direct or indirect subsidiary of Ambac Assurance that would be treated as an includable corporation of an affiliated group of corporations under the Internal Revenue Code if Ambac Assurance were the common parent of such affiliated group.

The Mediation Agreement further provides that the Segregated Account shall issue \$350,000,000 of junior surplus notes to Ambac on the Plan Settlement Closing Date and that Ambac Assurance commits to undertake commercially reasonable efforts to transfer to Ambac a more than insignificant amount of an active trade or business, subject to (a) OCI's determination that such a transfer does not violate the law, is reasonable and fair to the interests of Ambac Assurance and the Segregated Account, and protects and is equitable to the interests of Ambac Assurance and the Segregated Account policyholders generally, and (b) Ambac's receipt of a tax opinion stating that it is at least more likely than not that such transfer satisfies the requirements of Internal Revenue Code section 269. Additionally, in accordance with the Amended Plan Settlement, upon the reasonable request of Ambac Assurance at any time on or after the Plan Settlement Closing Date, OCI commits to allow Ambac Assurance to repurchase surplus notes, preferred stock or other securities or other consideration issued pursuant to the Segregated Account Rehabilitation Plan (as defined below) (whether issued by Ambac Assurance or the Segregated Account) subject to OCI's determination in its sole and absolute discretion that such repurchases do not violate the law, are reasonable and fair to the interests of Ambac Assurance and the Segregated Account, and protect and are equitable to the interests of Ambac Assurance and the Segregated Account policyholders generally.

The Reorganization Plan provides for broad releases of Ambac, Ambac Assurance, the Segregated Account, OCI (as regulator and Rehabilitator), the board of directors and board committees of Ambac and Ambac Assurance, all current and former individual directors, officers or employees of Ambac and Ambac Assurance, the Creditors' Committee and the individual members thereof, the trustees under the indentures governing Ambac's debt securities, the ad hoc group of creditors represented by Akin Gump Strauss Hauer and Feld LLP in connection with the Reorganization Plan and the individual members thereof, and each of their respective representatives (each of the foregoing in its individual capacity as such). Additionally, pursuant to the Amended Plan Settlement, effective as of the Plan Settlement Closing Date, Ambac and the Creditors' Committee shall provide an unconditional, full and complete release of OCI (as regulator and Rehabilitator), Ambac Assurance and the Segregated Account from all claims and causes of action arising prior to the Plan Settlement Closing Date, and Ambac Assurance, OCI (as regulator and Rehabilitator) and the Segregated Account shall provide an unconditional, full and complete release of Ambac and members of the Creditors' Committee from all claims and causes of action arising prior to the Plan Settlement Closing Date.

NOTES TO FINANCIAL STATEMENTS

A hearing to determine whether the Disclosure Statement contains “adequate information,” as defined in the Bankruptcy Code, to enable Ambac’s creditors to decide how to vote on the Reorganization Plan, was held on October 5, 2011. At the conclusion of such hearing the Bankruptcy Court entered an order approving the Disclosure Statement for use in connection with soliciting acceptances or rejections of the Reorganization Plan. The current deadline for voting to accept or reject the Reorganization Plan is November 23, 2011 at 5:00 p.m. (prevailing Pacific Time). The hearing at which the Bankruptcy Court will consider confirmation of the Reorganization Plan is currently scheduled for December 8, 2011 at 10:00 a.m. (prevailing Eastern Time). The current deadline for filing an objection to the Reorganization Plan with the Bankruptcy Court is November 23, 2011 at 4:00 p.m. (prevailing Eastern Time).

By order of the Bankruptcy Court entered on August 10, 2011, Ambac’s exclusive right to solicit votes to accept or reject a plan of reorganization was extended to December 5, 2011. By motion dated October 24, 2011, Ambac requested a further extension of such exclusive period to February 3, 2012. On November 7, 2011, the Bankruptcy Court entered an order granting such motion. If Ambac’s exclusivity period lapses, any party in interest would be able to file and solicit votes to accept or reject a plan of reorganization with respect to Ambac. In addition to being approved by at least one class of holders of impaired claims, a plan of reorganization must satisfy certain requirements of the Bankruptcy Code and must be confirmed by the Bankruptcy Court in order to become effective.

A plan of reorganization will be deemed accepted by holders of claims against and equity interests in Ambac if (1) at least one-half in number and two-thirds in dollar amount of claims actually voting in each impaired class of claims have voted to accept the plan and (2) at least two-thirds in amount of equity interests actually voting in each impaired class of equity interests has voted to accept the plan. Under certain circumstances set forth in Section 1129(b) of the Bankruptcy Code, however, the Bankruptcy Court may confirm a plan even if such plan has not been accepted by all impaired classes of claims and equity interests. A class of claims or equity interests that does not receive or retain any property under the plan on account of such claims or interests is deemed to have voted to reject the plan. The precise requirements and evidentiary showing for confirming a plan, notwithstanding its rejection by one or more impaired classes of claims or equity interests, depends upon a number of factors, including, without limitation, the status and seniority of the claims or equity interests in the rejecting class (i.e., secured claims or unsecured claims, subordinate or senior claims, preferred or common stock). Generally, with respect to common stock interests, a plan may be “crammed down” even if the stockholders receive no recovery if the proponent of the plan demonstrates that (1) no class junior to the common stock is receiving or retaining property under the plan and (2) no class of claims or interests senior to the common stock is being paid more than in full.

Consummation of the Reorganization Plan is subject to the satisfaction or waiver of the following conditions: (i) the Bankruptcy Court shall have entered an order confirming the Reorganization Plan and such order shall have become final in accordance with the Reorganization Plan; (ii) the Bankruptcy Court shall have approved any supplement filed with respect to the Reorganization Plan; (iii) new organizational documents of Ambac shall have been effected; (iv) Ambac shall have executed and delivered all documents necessary to effectuate the issuance of the common stock and warrants (if applicable) pursuant to the Reorganization Plan; (v) all authorizations, consents and regulatory approvals required, if any, in connection with the consummation of the Reorganization Plan shall have been obtained; (vi) the stipulation of settlement related to certain securities class actions and derivative actions against Ambac and other defendants shall have become effective; (vii) the IRS Dispute shall have been resolved in a manner satisfactory to Ambac, Ambac Assurance, OCI and the Creditors’ Committee; (viii) the Bankruptcy Court shall have entered an order finding that neither an Ownership Change with respect to Ambac Assurance nor a Deconsolidation Event occurred during the 2010 taxable year, unless Ambac and the IRS enter into an agreement to such effect; (ix) the aggregate face amount of allowed and disputed general unsecured claims shall be less than \$50,000,000; (x) the Rehabilitation Court shall have approved the transactions contemplated in the Reorganization Plan; (xi) the Cash Grant shall have been paid or paid into escrow as provided in the Mediation Agreement; (xii) the Amended TSA, the Cooperation Agreement Amendment and the Cost Allocation Agreement shall have been executed; and (xiii) all other actions, documents, certificates and agreements necessary to implement the Reorganization Plan shall have been effected or executed and delivered.

A significant consideration for any restructuring or reorganization is the impact, if any, on Ambac’s estimated \$6,914,802,000 net operating loss tax carry forward as of September 30, 2011. Ambac considers the NOLs to be a valuable asset. However, Ambac’s ability to use the NOLs could be substantially limited if there were an “ownership change” as defined under Section 382 of the Internal Revenue Code of 1986, as amended (the “Code”) (an “Ownership Change”). In general, an ownership change would occur if shareholders owning 5% or more of Ambac’s stock increased their percentage ownership (by value) in Ambac to 50% or more, as measured over a rolling three year period beginning with the last ownership change. These provisions can be triggered by new issuances of stock, merger and acquisition activity or normal market trading. On February 2, 2010, Ambac entered into a Tax Benefit Preservation Plan to reduce the risk of an ownership change resulting from the trading of Ambac’s stock. Moreover, on November 30, 2010, the Bankruptcy Court entered an order restricting certain transfers of equity interests in, and claims against, Ambac in order to mitigate the possibility of an ownership change occurring upon consummation of the Reorganization Plan and to increase the likelihood that Ambac will be able to utilize a special exception under Section 382 of the Code for ownership changes occurring as a result of a bankruptcy plan of reorganization. On July 21, 2011, Ambac filed a notice (the “Reporting Notice”) requiring that any entity holding claims against Ambac in an amount that equals or exceeds \$55,000,000 (each, a “Substantial Claimholder”) to serve upon Ambac and its counsel a “Substantial Claimholder Notice” in the form attached to the Reporting Notice. Each Substantial Claimholder could, in certain circumstances, be required to sell a portion of its claims pursuant to a further order of the Bankruptcy Court. See Note 14 below for additional information about potential changes to the amount of NOLs.

Segregated Account

On March 24, 2010, Ambac Assurance acquiesced to the request of OCI to establish the Segregated Account. Under Wisconsin insurance law, the Segregated Account is a separate insurer from Ambac Assurance for purposes of the Segregated Account Rehabilitation Proceedings (as defined and described below). The purpose of the Segregated Account is to segregate certain segments of Ambac Assurance’s liabilities. The Segregated Account is operated in accordance with a Plan of Operation (the “Plan of Operation”) and certain operative documents relating thereto (which include the Secured Note, the Reinsurance Agreement, the Management Services Agreement and the Cooperation Agreement). These operative documents provide that the Segregated Account will act exclusively through the rehabilitator. 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 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 \$2,446,192,028 for policies allocated to the Segregated Account have not yet been paid. Net par exposure as of September 30, 2011 for policies allocated to the Segregated Account is \$39,066,211,657. 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 subsequently settled long-term lease with One State Street, LLC (“OSS”), and its contingent liability (as guarantor), if any, under the subsequently 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

NOTES TO FINANCIAL STATEMENTS

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.

Policy obligations not allocated 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 Assurance is not, itself, in rehabilitation proceedings.

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. The Segregated Account Rehabilitation Plan also makes permanent the injunctions issued by the Rehabilitation Court on March 24, 2010.

The confirmed Segregated Account Rehabilitation Plan provides that holders of permitted policy claims will receive 25% of their permitted claims in cash and 75% in surplus notes issued by the Segregated Account. The issuance of surplus notes by both Ambac Assurance, and by the Segregated Account as contemplated by the current Segregated Account Rehabilitation Plan, could subject Ambac Assurance to the risk of deconsolidation from Ambac for tax purposes, which may also result in a Section 382 limitation with respect to Ambac Assurance's NOLs or an attribution of NOLs to Ambac, or could subject Ambac Assurance to the risk of recognizing significant cancellation of indebtedness income ("CODI"). Any of these consequences 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 Segregated Account Rehabilitation Plan and/or the initiation of rehabilitation proceedings with respect to Ambac Assurance. Such amendments to the Segregated Account 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.

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 insurance policies allocated to the Segregated Account. At June 30, 2011, the Segregated Account had outstanding Segregated Account Surplus Notes in an aggregate par amount of \$53,000,000 that have a scheduled maturity of June 7, 2020. 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. To the extent that interest payments are deferred for more than five years, a portion of the deferred interest may not be a tax deduction until paid or may be disallowed under the applicable high yield debt obligation provisions of the Code.

In May 2011, the Segregated Account issued Segregated Account Junior Surplus Notes with a par value of \$36,081,612 in connection with a Settlement Agreement (the "Settlement Agreement") to terminate Ambac's existing headquarters office lease with OSS. The Junior Surplus Notes have a scheduled maturity of June 7, 2020. Interest on the Segregated Account Junior Surplus Notes is payable annually in June at the rate of 5.1% on the unpaid principal balance outstanding. No payment of interest on or principal of the junior surplus notes may be made until all existing and future indebtedness of the Segregated Account, inclusive of Segregated Account Surplus Notes, policy claims and claims having statutory priority have been paid in full. 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 Settlement Agreement settled all claims among Ambac, Ambac Assurance, the Segregated Account of Ambac Assurance Corporation and OSS relating to the terminated lease. Additionally, Ambac Assurance entered into a new lease (the "New AAC Lease") with OSS for an initial term commencing on May 19, 2011 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 approximately \$14,000,000 (the "AFG Payment"). The AFG Payment will be made by Ambac in the same form as payment is made to Ambac's other creditors.

On June 1, 2011 OCI issued its disapproval of the requests of Ambac Assurance and the rehabilitator of the Segregated Account, acting for and on behalf of the Segregated Account, to pay interest on all outstanding Surplus Notes issued by Ambac and the Segregated Account on the first scheduled interest payment date of June 7, 2011.

Note 11- Debt

No significant change from 2010 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

Date Issued	Interest Rate	Par Value (Face Amount of the Note)	Carrying Value of Note	Principal and/or Interest Paid Current Year	Total Principal and/or Interest Paid	Unapproved Principal and/or Interest	Date of Maturity
June 7, 2010	5.1%	\$2,000,000,000	\$2,000,000,000	\$0	\$0	\$102,000,000	June 7, 2020

The interest of \$102,000,000 will accrue and compound annually until paid.

NOTES TO FINANCIAL STATEMENTS

Note 14 – Contingencies

County of Alameda et al. v. Ambac Assurance Corporation et al. (Superior Court of the State of California, County of San Francisco, second amended complaint filed on or about August 23, 2011) (“Alameda Complaint”); Contra Costa County et al. v. Ambac Assurance Corporation et al. (Superior Court of the State of California, County of San Francisco, third amended complaint filed on or about October 21, 2011) (“Contra Costa Complaint”); The Olympic Club v. Ambac Assurance Corporation et al. (Superior Court of the State of California, County of San Francisco, fourth amended complaint filed on or about October 21, 2011) (“Olympic Club Complaint”). The Contra Costa Complaint is brought on behalf of five California municipal entities and the non-profit Jewish Community Center of San Francisco. The Alameda Complaint is brought on behalf of nineteen California municipal entities. The Olympic Club Complaint is brought on behalf of the non-profit Olympic Club. The three actions make similar allegations against Ambac Assurance, various other financial guarantee insurance companies and employees thereof (collectively with Ambac Assurance, the “Bond Insurer Defendants”), and, in the case of the Contra Costa Complaint and the Olympic Club Complaint, the major credit rating agencies (the “Rating Agencies”). The actions allege that (1) Ambac Assurance and the other Bond Insurer Defendants colluded with the Rating Agencies to perpetuate a “dual rating system” pursuant to which the Rating Agencies rated the debt obligations of municipal issuers differently from corporate debt obligations, thereby keeping municipal ratings artificially low relative to corporate ratings; (2) Ambac Assurance and the other Bond Insurer Defendants issued false and misleading financial statements which failed to disclose the extent of the insurers’ respective exposures to mortgage-backed securities and collateralized debt obligations; and (3) as a result of these actions, plaintiffs incurred higher interest costs and bond insurance premiums in respect of their respective bond issues. Ambac Financial Group was originally a defendant in each of these actions, but on November 22, 2010, Ambac Financial Group was dismissed without prejudice as a defendant by the plaintiffs in each of these actions. Ambac Assurance and the other Bond Insurer Defendants filed a demurrer seeking the dismissal of each of these complaints on September 17, 2010. The Superior Court of California sustained the demurrer in part, dismissing the causes of actions for breach of the covenant of good faith and fair dealing, negligence, negligent misrepresentation and unjust enrichment with prejudice and dismissing the claim for fraud without prejudice, allowing the Plaintiffs an opportunity to amend their complaints for that cause of action. The demurrers were otherwise overruled. Amended complaints were filed on August 23, 2011. (Further technical amendments to the Contra Costa Complaint and the Olympic Club Complaint were filed on October 21, 2011 to correct a non-substantive error.) Ambac Assurance and the other Bond Insurer Defendants filed a demurrer seeking dismissal of the current amended complaints on September 21, 2011, which was denied on October 20, 2011. (The October 20, 2011 denial applies to the Contra Costa Complaint and the Olympic Club Complaint, both of which were given a technical filing date of October 21, 2011).

NPS LLC v. Ambac Assurance Corporation (United States District Court, District of Massachusetts, filed on July 8, 2008). This action was brought by NPS LLC (“NPS”), the owner of Gillette Stadium, the home stadium of the New England Patriots, with respect to the termination of a financial guarantee insurance policy issued by Ambac Assurance with respect to auction rate bonds issued by NPS in 2006. Due to well-documented disruption of the auction rate securities market, the interest rate on the bonds floated to high levels and NPS therefore refinanced the bonds in a fixed rate financing without Ambac Assurance’s involvement. Pursuant to the insurance agreement between NPS and Ambac Assurance, NPS is obligated to pay a “make whole” premium to Ambac Assurance equal to the present value of the installment premiums that Ambac Assurance would have earned through 2017 if the bonds had not been redeemed (approximately \$2,700,000). NPS alleged that it is not liable to pay the “make whole” premium because Ambac Assurance misrepresented its financial condition at the time the bonds were issued and that the alleged misrepresentations induced NPS to enter into the insurance agreement, thereby causing NPS to incur additional interest costs in connection with the bonds. NPS also alleged that Ambac Assurance was liable to NPS for the additional interest costs incurred by NPS which resulted from the disruption of the auction rate securities market. On February 25, 2010, the court granted Ambac Assurance’s motion for summary judgment as to all of NPS’s claims and Ambac Assurance’s counterclaim for the “make whole” premium and interest and costs. The parties are awaiting a determination by the court of the amount of Ambac Assurance’s legal fees that NPS will be required to pay. NPS has stated that it intends to appeal the grant of summary judgment in favor of Ambac Assurance.

City of Phoenix v. Ambac Assurance Corporation et al. (United States District Court, District of Arizona, filed on or about March 11, 2010). This action is brought by the City of Phoenix against Ambac Assurance and other financial guarantee insurance companies. The complaint alleges that the defendants sought to perpetuate the Rating Agencies’ “dual rating system”, and that the perpetuation of the “dual rating system” enabled the defendants to unfairly discriminate against the City of Phoenix in the pricing of bond insurance premiums. Pursuant to the Court’s Scheduling Order, fact discovery is scheduled to be completed by February 15, 2012, followed by expert discovery, which is to be completed by June 15, 2012. Dispositive motions are due by August 17, 2012.

Water Works Board of the City of Birmingham v. Ambac Financial Group, Inc. and Ambac Assurance Corporation (United States District Court, Northern District of Alabama, Southern Division, filed on November 10, 2009). This action alleged breach of contract, misrepresentation, deceit, suppression of truth and negligence. Plaintiff claims that, in connection with plaintiff’s purchase of a debt service reserve fund surety bond from Ambac Assurance in March 2007 with respect to its bond issue, Ambac Assurance misrepresented the stability of its “AAA” financial strength ratings and subsequently breached a covenant to maintain its “AAA” ratings, thereby causing loss to plaintiff when it was required to replace the Ambac Assurance surety bond upon the downgrade of Ambac Assurance’s ratings. On April 1, 2010, the court granted defendants’ motion to dismiss all claims. The plaintiff has appealed the dismissal to the U.S. Court of Appeals for the Eleventh Circuit. On January 25, 2011, the Circuit Court stayed the appeal in light of Ambac’s pending bankruptcy proceedings.

Ambac Assurance Corporation v. Adelanto Public Utility Authority (United States District Court, Southern District of New York, filed on June 1, 2009). Ambac Assurance commenced this action to recover \$4,524,000 from the defendant on account of Ambac Assurance’s payment under a swap termination surety bond. The defendant has counterclaimed (as amended on June 12, 2010), alleging breach of contract, breach of the covenant of good faith and fair dealing, violations of California insurance statutes, fraud and promissory estoppel. Defendant claims that, in connection with defendant’s purchase of a bond insurance policy with respect to its variable rate bond issue in September 2005, Ambac Assurance misrepresented the stability of its “AAA” financial strength ratings and subsequently breached an implied covenant by underwriting risky structured obligations that ultimately led to the loss of the “AAA” ratings. Ambac Assurance has moved to dismiss all of the defendant’s counterclaims and that motion has been fully briefed.

Gunn v. Ambac Assurance Corporation et al. (United States District Court, Southern District of New York, filed on or about July 26, 2011). This action is brought by *pro se* plaintiff La Mar Gunn against Ambac Assurance and EQCC Home Equity Loan Trust 1998-2 and EQCC Home Equity Loan Trust 1998-3. Plaintiff attempts to challenge the validity of a foreclosure judgment rendered in Delaware state court by alleging that the defendants engaged in acts constituting fraud, malicious prosecution, civil conspiracy, and racketeering. Ambac believes the claims against it are without merit and intends to vigorously defend the case.

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 and the IRS. 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. In 2010, 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. As discussed above, Ambac Assurance believes these

NOTES TO FINANCIAL STATEMENTS

contracts are properly characterized as notional principal contracts. However, on May 4, 2011, as a result of its examination, the IRS issued to Ambac Notices of Proposed Adjustment asserting that these contracts should be characterized as capital assets or as generating capital losses. On June 3, 2011, Ambac notified the IRS that it disagreed with the proposed adjustments. On May 4, 2011 the IRS filed a proof of claim in the Bankruptcy Court in the amount of \$807,244,000 relating to the tax treatment of the CDS contracts (the "IRS Claim"). Ambac filed its opposition to the proof of claim on June 14, 2011. The IRS has until December 6, 2011 to file a response to Ambac's opposition to the IRS Claim. If the IRS is successful in its claim, 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 \$807,244,000. On November 9, 2010, Ambac filed and served a complaint against the IRS for a declaratory judgment relating to the tax refunds, which resulted from the losses on the CDS portfolio. On the same date, 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 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 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 and no hearing on the motion has been scheduled. 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. Mediation was held in New York on July 6, 7 and 8, 2011. Mediation continued in New York on September 8 and 9, and October 18 and 20, 2011. The Bankruptcy Court also approved a scheduling order which, pursuant to further stipulation of the parties, requires all discovery in the adversary proceeding to be completed by November 2, 2011; dispositive motions to be filed by November 4, 2011, and trial to be scheduled, thereafter, pursuant to further order of the Court. On October 12, 2011, Ambac filed a motion for an order (a) determining that the IRS Claim shall be estimated pursuant to Bankruptcy Code section 502(c), and (b) setting procedures and a hearing date for such estimation inclusive of the determination pursuant to Bankruptcy Code section 505(a) of, among other things, (i) the appropriate method to account for Ambac's losses on its post-2004 CDS contracts and (ii) whether an ownership change, within the meaning of section 382 of the Internal Revenue Code, with respect to Ambac Assurance or a deconsolidation event occurred during the 2010 taxable year as a result of the Bank Settlement or for any other reason [Docket No. 362] (the "IRS Claim Estimation Motion"). The IRS Claim Estimation Motion is scheduled for hearing on December 13, 2011. If the IRS Claim Estimation Motion is granted, a hearing on estimation and determination of tax issues will be held on January 19, 2012, or as soon thereafter as the Bankruptcy Court can hear the matter.

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 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. On August 22, 2011 the Seventh Circuit granted a motion by the IRS to consolidate the two appeals. Briefing on the consolidated appeal will conclude on December 12, 2011.

On October 26, 2011, Ambac and the United States Attorney's Office for the Southern District of New York reported to the Bankruptcy Court that substantial progress has been made toward achieving a framework for settlement of the IRS Dispute and that the parties hoped that a framework for settlement would be agreed to and that the United States Attorney's Office would be in a position to recommend the settlement for approval to the IRS and the Department of Justice, Tax Division at the time the parties next report to the Bankruptcy Court, which is currently scheduled to be on December 13, 2011. Any approved settlement would also be subject to review by the Joint Committee on Taxation. As a result of the progress made toward a settlement framework, remaining discovery in the case was put on hold pending the parties' next report to the Bankruptcy Court.

Although no settlement has been reached on all of the issues in the IRS Dispute, Ambac intends to submit to the Department of Justice a proposal to settle this dispute which includes the following terms that Ambac believes will be acceptable to the United States: (i) a payment by Ambac Assurance of approximately \$100,000,000 as permitted by the Mediation Agreement, and a payment by Ambac of approximately \$1,900,000 in connection with the IRS's claim for the recovery of certain federal tax refunds that were received prior to November 7, 2010 by Ambac and (ii) a \$1,000,000,000 reduction of the NOL of the Ambac Consolidated Group. Ambac will continue to negotiate the terms of a final settlement with the IRS. The terms of any final settlement would require the approval of OCI, the IRS, the Department of Justice, Tax Division, the Joint Committee on Taxation, the Bankruptcy Court, the Rehabilitation Court and the boards of directors of both Ambac and Ambac Assurance. There can be no assurance that the IRS Dispute will be settled on the terms described above, if at all, or as to the timing of any such settlement.

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 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 LLC (formerly known as EMC Mortgage Corporation), J.P. Morgan Securities, Inc. (formerly known as Bear, Stearns & Co. Inc.), and JP Morgan Chase Bank, N.A. (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 Assurance 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. On July 18, 2011, Ambac Assurance filed a First Amended Complaint in its state-court litigation. 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. In its First Amended Complaint, Ambac Assurance asserts an additional claim for breach of contract against EMC and a claim for successor liability against a new defendant, JP Morgan Chase Bank, N.A. The Defendants filed their answer to the First Amended Complaint on August 30, 2011, and the parties are currently engaged in discovery.
- 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

NOTES TO FINANCIAL STATEMENTS

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. On April 25, 2011, Ambac Assurance filed a notice of appeal of that decision and on May 6, 2011, the defendants filed a notice of cross-appeal. On May 9, 2011, Ambac Assurance filed a motion for leave to reargue the Court's April 7 decision. Supplemental briefing on the motion to reargue was completed on August 29, 2011. In a decision dated October 7, 2011, the Court granted the motion to reargue and reinstated Ambac Assurance's cause of action for fraudulent inducement.

- 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 Assurance filed an Amended Complaint on September 8, 2011. Ambac Assurance 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. Discovery is ongoing.

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. Ambac Assurance believes that it has substantial defenses to the claims filed against it in these lawsuits and, to the extent that these actions proceed, Ambac Assurance intends to defend itself vigorously; however, Ambac Assurance 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 OSS, 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.

In May 2011, the Segregated Account issued Segregated Account Junior Surplus Notes with a par value of \$36,081,612 in connection with a Settlement Agreement to terminate Ambac's headquarters office lease with OSS. Ambac Assurance entered into a new lease with OSS for an initial term commencing on May 19, 2011 through December 31, 2015. The New AAC Lease provides for the rental of a reduced amount of space at Ambac Assurance's current location, One State Street Plaza.

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

- 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 Securities Valuation Office ("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.

Short-Term Investments, Cash and Cash Equivalents and Intercompany Loans with Affiliates

The fair values of short-term investments are determined by using independent market sources. The fair value of cash approximate their amortized cost. Fair values for intercompany loans with affiliates are valued at amortized cost or determined using appropriate valuation methodologies as no market quotes are available.

Investment Income Due and Accrued

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

NOTES TO FINANCIAL STATEMENTS**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

The 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, (ii) reinsurance recoverables on paid and unpaid losses and (iii) expected reinsurance recoveries on ceded losses for non-defaulted credits.

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 pursuant to paragraph 14 of Statement of Statutory Accounting Principles No. 100 "Fair Value Measurements", 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:

	September 30, 2011	
	Carrying amount	Estimated fair value
Financial assets:		
Bonds	\$ 4,420,437,895	\$ 4,798,751,730
Short-term investments	717,331,819	717,336,724
Cash and cash equivalents	1,085,309	1,085,309
Other unaffiliated invested assets	8,011,989	6,583,034
Intercompany loans with affiliates	523,255,251	514,821,651
Investment income due and accrued	37,286,319	37,286,319
Liabilities allocated to Segregated Account	6,304,293,799	6,304,293,799
Financial liabilities:		
Borrowed money and interest thereon	\$ 1,963,505,141	\$ 1,963,505,141
Liabilities allocated from Segregated Account	4,431,126,352	4,431,126,352
Liability for net financial guarantees written	5,487,819,894	10,215,337,422

- c. The following table sets forth Ambac Assurance's financial assets that were measured at fair value as of September 30, 2011 by level within the fair value hierarchy due to the securities having an NAIC designation of 3 or higher and the fair value being lower than amortized cost.

2011	Level 1	Level 2	Level 3	Total
<i>Financial assets:</i>				
Bonds				
Industrial and Miscellaneous				
Defined Multi-Class Residential Mortgage-Backed Securities	\$ -	\$1,838,205	\$ -	\$1,838,205
Other Multi-Class Residential Mortgage-Backed Securities	-	149,040,266	-	149,040,266
Other Multi-Class Commercial Mortgage-Backed/ Asset-Backed Securities	-	1,990,467	-	1,990,467
Total financial assets measured at fair value	\$ -	\$152,868,938	\$ -	\$152,868,938

For securities measured at fair value there were no transfers between Level 1 and Level 2 as of September 30, 2011.

- b. There are no financial instruments categorized within Level 3 of the fair value hierarchy as of September 30, 2011.
- c. Transfers between Levels are recognized at the beginning of each accounting period.
- a. 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 SVO 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.

NOTES TO FINANCIAL STATEMENTS

- d. There are no derivative assets and liabilities as of September 30, 2011.
- e. There are no classes of financial instruments where it isn't practicable to estimate the fair value as of September 30, 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 November 14, 2011 for the nine months ended September 30, 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:

	Liabilities allocated to the Segregated Account	Liabilities Assumed from the Segregated Account	Net Liabilities allocated to the Segregated Account
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	677,889,749	(686,196,365)	(8,306,616)
Assets/(Liabilities) at September 30, 2011	<u>\$6,304,293,799</u>	<u>\$(4,431,126,352)</u>	<u>\$1,873,167,447</u>
	Liabilities allocated to the Segregated Account	Liabilities Assumed from the Segregated Account	Net Increase (Decrease) to Surplus
Assets/(Liabilities) at September 30, 2011	\$6,304,293,799	\$(4,431,126,352)	\$ 1,873,167,447
Consideration Provided to the Segregated Account	(2,000,000,000)	-	(2,000,000,000)
Prior Year Settlements	157,589,859	-	157,589,859
Current Year Settlements	28,024,273	-	28,024,273
Surplus Impact at September 30, 2011	<u>\$4,489,907,931</u>	<u>\$(4,431,126,352)</u>	<u>\$ 58,781,579</u>

Ambac Assurance incurred ever-to-date operating expenses of \$28,145,060 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 nine months ended September 30, 2011 or to Surplus as of September 30, 2011.

Note 24 - Retrospectively Rated Contracts & Contracts Subject to Redetermination

No significant change from 2010 Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS**Note 25 - Change in Incurred Losses and Loss Adjustment Expenses**

Loss incurred of \$613,563,454 for the nine months ended September 30, 2011 is primarily due to adverse development of \$810,070,149 on first lien residential mortgage backed credits partially offset by improvements in second lien residential mortgage backed credits that defaulted prior to 2011. Losses incurred on credits that defaulted for the nine months ended September 30, 2011 total \$262,647,281.

September 30, 2011 loss reserves include \$2,446,192,028 of claims that have been presented to Ambac Assurance and have not been paid. Although Ambac Assurance has not paid any Segregated Account claims presented, its reinsurers have continued to pay Ambac Assurance for their portion of the claims presented. Accordingly the reinsurance amounts on unpaid claims are not included in loss reserves.

Case basis loss reserves, net of representation and warranties breaches of \$2,252,363,899 and \$2,203,037,944, at September 30, 2011 and December 31, 2010 were as follows:

	September 30, 2011	December 31, 2010	Change
Mortgage-Backed & Home Equity - First Lien	\$ 2,010,243,713	\$ 1,200,173,564	\$810,070,149
Mortgage-Backed & Home Equity - Second Lien	647,313,129	837,874,893	(190,561,764)
Mortgage-Backed & Home Equity – Other	215,277,505	168,238,482	47,039,023
Total Mortgage-Backed & Home Equity	2,872,834,348	2,206,286,939	666,547,409
Public Finance	175,717,386	169,762,871	5,954,515
Other	(25,646,670)	(30,910,051)	5,263,382
Total Loss Reserves	\$ 3,022,905,065	\$ 2,345,139,759	\$677,765,305
Total Losses Paid (Recovered) for the nine months ended September 30, 2011			(73,015,546)
Cumulative effect of prior period error in correction of the liability for estimated losses			8,813,695
Total Losses Incurred for the nine months ended September 30, 2011			\$613,563,454

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 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, 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 7 sponsors represent the 32 transactions which have been reviewed as of September 30, 2011. While our contractual recourse is generally to the sponsor/subsidiary, rather than to the financial institutional

NOTES TO FINANCIAL STATEMENTS

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 additional 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.

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

NOTES TO FINANCIAL STATEMENTS

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”

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 September 30, 2011:

		Nine Months Ended September 30, 2011
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	262,581,270	
Change in existing credits	425,946,833	
Change in subrogation recoveries	(49,716,807)	
Subrogation and reinsurance recoveries received, net of claim payments	46,368,048	
Cumulative effect of prior period error in correction of the liability for estimated losses	(8,813,695)	
Net change in losses and loss adjustment expenses reserves		676,365,649
Loss and Loss Adjustment Expenses at September 30, 2011 *		\$ 3,154,800,677

* Includes \$ 2,446,192,028 of claims that have been presented and not paid as of September 30, 2011.

NOTES TO FINANCIAL STATEMENTS

	<u>Surveillance Categories</u>		
	<u>IV</u>	<u>V</u>	<u>Total</u>
Number of Policies	178	1	179
Remaining weighted-average contract period (in years)	8	10	8
Gross insured contractual payments outstanding:			
Principal	\$13,463,796,918	\$46,704	\$13,463,843,622
Interest	3,348,722,076	28,781	3,348,750,857
Total	<u>\$16,812,518,994</u>	<u>\$75,485</u>	<u>\$16,812,594,479</u>
Gross claim liability	\$ 7,005,359,173	\$75,485	\$7,005,434,658
Less:			
Gross potential recoveries	(3,260,355,171)	-	(3,260,355,171)
Discount	(590,251,590)	(27,220)	(590,278,810)
Claim liability reported in the balance sheet	<u>\$3,154,752,412</u>	<u>\$48,265</u>	<u>\$3,154,800,677</u>
Gross unearned premium revenue	\$ 31,152,960	\$ -	\$31,152,960
Reinsurance recoverables reported in the balance sheet	<u>\$ 6,856,610</u>	<u>\$ -</u>	<u>\$6,856,610</u>

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 [X] No []

10.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: \$.....618,246

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 [X] No []

11.2 If yes, give full and complete information relating thereto:
The Company loaned securities with a carrying value of \$268,711,699 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 [X] No []

14.2 If yes, please complete the following:

	1 Prior Year-End Book/Adjusted Carrying Value	2 Current Quarter Book/Adjusted Carrying Value
14.21 Bonds.....	\$0	\$0
14.22 Preferred Stock.....	\$0	\$0
14.23 Common Stock.....	\$235,468,204	\$181,753,642
14.24 Short-Term Investments.....	\$0	\$0
14.25 Mortgage Loans on Real Estate.....	\$0	\$0
14.26 All Other.....	\$7,758,092	\$4,532,947
14.27 Total Investment in Parent, Subsidiaries and Affiliates (Subtotal Lines 14.21 to 14.26).....	\$243,226,296	\$186,286,589
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 [X]

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 [X] No []

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

1 Name of Custodian(s)	2 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 Name(s)	2 Location(s)	3 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 [X]

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

1 Old Custodian	2 New Custodian	3 Date of Change	4 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 Central Registration Depository	2 Name(s)	3 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 [X] 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 %	..490,712,632	.....	.....	..490,712,632	...(71,775,451)	.....	.....	...(71,775,451)
Total.....	.....XXX...	.....XXX.....	..490,712,632	.....0	.....0	..490,712,632	...(71,775,451)	.....0	.....0	...(71,775,451)

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

	1	Direct Premiums Written		Direct Losses Paid (Deducting Salvage)		Direct Losses Unpaid	
		2	3	4	5	6	7
States, Etc.	Active Status	Current Year to Date	Prior Year to Date	Current Year to Date	Prior Year to Date	Current Year to Date	Prior Year to Date
1. Alabama.....AL	L	269,068	179,250				
2. Alaska.....AK	L						
3. Arizona.....AZ	L	29,069	29,674				
4. Arkansas.....AR	L	61,414	586,497				
5. California.....CA	L	7,937,426	9,958,057	(1,183,755)	38,561,255	991,068,446	543,569,052
6. Colorado.....CO	L	1,838,989	2,752,822				
7. Connecticut.....CT	L	481,945	1,472,364				
8. Delaware.....DE	L	4,855,373	5,790,121	(5,587,978)	23,799,918		
9. District of Columbia.....DC	L						
10. Florida.....FL	L	695,304	785,029	8,650,410	8,881,285	(21,390,380)	(7,815,476)
11. Georgia.....GA	L	410,284	678,133				
12. Hawaii.....HI	L	1,309,140	1,535,246				
13. Idaho.....ID	L	98	184				
14. Illinois.....IL	L	5,084,399	11,191,629	(20,837,274)	24,029,224	158,234,572	30,879,122
15. Indiana.....IN	L	154,311	253,648				
16. Iowa.....IA	L	78,964	109,303				
17. Kansas.....KS	L	385,470	386,867	9,343	3,756		
18. Kentucky.....KY	L	290,639	603,066				
19. Louisiana.....LA	L	427,554	594,457				
20. Maine.....ME	L		252,513				
21. Maryland.....MD	L	1,136,505	1,268,528	(1,253,380)	2,984,806	377,317,666	295,220,178
22. Massachusetts.....MA	L	7,639,373	8,566,654	(5,204,876)	(494,453)	138,778,225	94,728,906
23. Michigan.....MI	L	981,247	1,394,829				
24. Minnesota.....MN	L	11,149,205	11,621,648	8,641,021	3,956,342	224,702,481	281,539,913
25. Mississippi.....MS	L						
26. Missouri.....MO	L	1,650,295	1,708,305				
27. Montana.....MT	L	242,790	409,540				
28. Nebraska.....NE	L						
29. Nevada.....NV	L	342,790	317,795			211,865,288	198,248,412
30. New Hampshire.....NH	L	146,743	142,118				
31. New Jersey.....NJ	L	422,893	394,827	7,582,437	7,126,005	(9,588,410)	(2,235,643)
32. New Mexico.....NM	L	267,888	369,430				
33. New York.....NY	L	57,136,052	110,543,310	(56,787,920)	78,412,526	978,791,464	782,580,719
34. North Carolina.....NC	L	1,220,311	1,267,998				
35. North Dakota.....ND	L		7,200				
36. Ohio.....OH	L	777,732	838,607				
37. Oklahoma.....OK	L						
38. Oregon.....OR	L	16,427	16,566				
39. Pennsylvania.....PA	L	696,286	715,700	(2,632,274)	(3,952,233)	(23,936,592)	(24,109,106)
40. Rhode Island.....RI	L	556,069	929,620				
41. South Carolina.....SC	L	578,038	485,269				
42. South Dakota.....SD	L						
43. Tennessee.....TN	L		12,316				
44. Texas.....TX	L	2,165,003	2,776,977				
45. Utah.....UT	L	4,866					
46. Vermont.....VT	L		124,495				
47. Virginia.....VA	L	441,491	442,182				
48. Washington.....WA	L	574,161	578,694				
49. West Virginia.....WV	L	156,250	81,250	93,670			
50. Wisconsin.....WI	L	3,697	4,995				
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	4,451,823	9,561,347	0	(45,503)	0	0
59. Totals.....	(a).....54	117,072,607	191,739,060	(68,510,576)	183,262,928	3,025,842,760	2,192,606,077

DETAILS OF WRITE-INS

5801. Cayman Islands.....	XXX	1,153,361	6,388,685		(45,503)		
5802. Australia.....	XXX	3,218,841	3,102,599				
5803. New Zealand.....	XXX	79,621	70,063				
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	4,451,823	9,561,347	0	(45,503)	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

NONE

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.....	279,678,273	617,960,016	221.0	373.6
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.....	2,999,863		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.....	282,678,136	617,960,016	218.6	370.7

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.....	34,124,167	117,013,267	191,679,720
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	59,340	59,340
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.....	34,143,947	117,072,607	191,739,060

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	(34,070)		(34,070)	179,078			179,078	(81,128)	0	(81,128)
2. 2009.....	1,174,897		1,174,897	(36,024)		(36,024)	1,337,878			1,337,878	126,957	0	126,957
3. Subtotals 2009 + Prior.....	1,401,033	0	1,401,033	(70,094)	0	(70,094)	1,516,956	0	0	1,516,956	45,829	0	45,829
4. 2010.....	1,068,588		1,068,588	11,011		11,011	1,319,495			1,319,495	261,918	0	261,918
5. Subtotals 2010 + Prior.....	2,469,621	0	2,469,621	(59,083)	0	(59,083)	2,836,451	0	0	2,836,451	307,747	0	307,747
6. 2011.....	XXX	XXX	XXX	XXX	12,718	12,718	XXX	318,350		318,350	XXX	XXX	XXX
7. Totals.....	2,469,621	0	2,469,621	(59,083)	12,718	(46,365)	2,836,451	318,350	0	3,154,801	307,747	0	307,747
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. ....12.5 %	2. ....0.0 %	3. ....12.5 %
													Col. 13, Line 7 Line 8
													4. ....30.0 %

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.

	Response
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:



Statement for September 30, 2011 of the **Ambac Assurance Corporation**
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.....	(6,304,293,799)	(5,626,404,050)
2505. Liabilities assumed from Ambac Assurance Corporation Segregated Account.....	4,431,126,352	3,744,929,987
2506. Liabilities of Ambac Assurance Corporation Segregated Account.....	1,874,423,529	1,884,537,313
2597. Summary of remaining write-ins for Line 25.....	1,256,082	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 Corp Segregated Account.....	(686,192,616)	(3,226,267,159)	(3,744,929,987)
1497. Summary of remaining write-ins for Line 14.....	(686,192,616)	(3,226,267,159)	(3,744,929,987)

Ambac Assurance Corporation 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.....	109,437	9,242
3. Capitalized deferred interest and other.....		
4. Accrual of discount.....		
5. Unrealized valuation increase (decrease).....	(1,387,065)	4,823,036
6. Total gain (loss) on disposals.....	559	(23,751,121)
7. Deduct amounts received on disposals.....	2,079,909	284,768
8. Deduct amortization of premium and depreciation.....		
9. Total foreign exchange change in book/adjusted carrying value.....	94	(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).....	12,544,936	15,901,820
12. Deduct total nonadmitted amounts.....	4,532,947	7,758,092
13. Statement value at end of current period (Line 11 minus Line 12).....	8,011,989	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.....	722,619,222	936,442,604
3. Accrual of discount.....	159,831,970	166,956,463
4. Unrealized valuation increase (decrease).....	(84,617,664)	(92,907,891)
5. Total gain (loss) on disposals.....	2,251,020	71,860,176
6. Deduct consideration for bonds and stocks disposed of.....	845,868,849	2,804,131,231
7. Deduct amortization of premium.....	28,653,878	49,552,933
8. Total foreign exchange change in book/adjusted carrying value.....	894,561	(10,646,282)
9. Deduct current year's other than temporary impairment recognized.....	38,836,443	40,306,724
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9).....	4,602,291,537	4,714,671,598
11. Deduct total nonadmitted amounts.....	160,358	59,318,868
12. Statement value at end of current period (Line 10 minus Line 11).....	4,602,131,179	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
BONDS								
1. Class 1 (a).....	4,368,735,483	1,102,888,702	1,145,010,472	(70,738,388)	4,422,514,715	4,368,735,483	4,255,875,325	4,242,372,192
2. Class 2 (a).....	534,770,801	8,865,585	12,105,229	89,353,650	528,358,644	534,770,801	620,884,807	627,318,052
3. Class 3 (a).....	11,813,351		1,307,420	(3,515,808)	7,622,177	11,813,351	6,990,123	8,467,655
4. Class 4 (a).....		10,607,336	817,759	3,011,744	1,051,959		12,801,321	
5. Class 5 (a).....	27,423,540	13,578,215	6,214,433	4,852,189	65,127,827	27,423,540	39,639,511	15,073,303
6. Class 6 (a).....	183,966,309	37,540,533	17,746,039	(2,182,176)	170,283,477	183,966,309	201,578,627	96,233,205
7. Total Bonds.....	5,126,709,484	1,173,480,371	1,183,201,352	20,781,211	5,194,958,799	5,126,709,484	5,137,769,714	4,989,464,407
PREFERRED STOCK								
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.....	5,126,709,484	1,173,480,371	1,183,201,352	20,781,211	5,194,958,799	5,126,709,484	5,137,769,714	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 \$.....274,237,432; 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.....	717,331,819	XXX	717,338,472	489,039	76,618

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.....	2,698,475,028	9,099,932,216
3. Accrual of discount.....		
4. Unrealized valuation increase (decrease).....		
5. Total gain (loss) on disposals.....	37,688	(155,439)
6. Deduct consideration received on disposals.....	2,491,429,168	9,208,961,941
7. Deduct amortization of premium.....		.82
8. Total foreign exchange change in book/adjusted carrying value.....	(12,742)	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).....	717,331,819	510,261,013
11. Deduct total nonadmitted amounts.....		
12. Statement value at end of current period (Line 10 minus Line 11).....	717,331,819	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.						

Joint Venture or Partnership Interests That Have Underlying Characteristics of Other - Affiliated

	SP Aircraft Holdings, LLC.....	New York.....	NY...	Direct.....	02/11/2005	07/20/2011	.....1,027,152	.....3				.....3			.....1,190,673			.....0	
2099999.	Total - Joint Venture or Partnership Interests That Have Underlying Characteristics of Other - Affiliated.....																		
							.....1,027,152	.....3				.....3			.....1,190,673			.....0	

Non-Collateral Loans - Unaffiliated

	Exchequer Partnership Finance.....	London.....	UK..	Direct.....	09/30/2009	09/30/2011	.....8,143,728					.....0	.....(235,859)	.....8,011,989				.....0	
2599999.	Total - Non-Collateral Loans - Unaffiliated.....																		
							.....8,143,728	.....0	.....0	.....0	.....0	.....0	.....(235,859)	.....8,011,989	.....0	.....0	.....0	.....0	.....0
3999999.	Subtotal - Unaffiliated.....																		
							.....8,143,728	.....0	.....0	.....0	.....0	.....0	.....(235,859)	.....8,011,989	.....0	.....0	.....0	.....0	.....0
4099999.	Subtotal - Affiliated.....																		
							.....1,027,152	.....3	.....0	.....0	.....0	.....3	.....0	.....0	.....1,190,673	.....0	.....0	.....0	.....0
4199999.	Totals.....																		
							.....9,170,880	.....3	.....0	.....0	.....0	.....3	.....(235,859)	.....8,011,989	.....1,190,673	.....0	.....0	.....0	.....0

SCHEDULE D - PART 3

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

1	2	3	4	5	6	7	8	9	10
CUSIP Identification	Description	Foreign	Date Acquired	Name of Vendor	Number of Shares of Stock	Actual Cost	Par Value	Paid for Accrued Interest and Dividends	NAIC Designation or Market Indicator (a)
Bonds - U.S. Government									
912828 QN 3	US Treasury Notes 3.125% 05/15/21.....		08/11/2011	Various.....		3,226,002	3,126,000	20,207	1.....
912828 RB 8	US Treasury Notes 0.500% 08/15/14.....		09/09/2011	Goldman Sachs.....		65,385,938	65,000,000	24,728	1.....
912828 RC 6	US Treasury Notes 2.125% 08/15/21.....		09/20/2011	Various.....		7,412,538	7,382,000	9,884	1FE.....
912828 RD 4	US Treasury Notes 0.125% 08/31/13.....		09/09/2011	Goldman Sachs.....		64,944,140	65,000,000	2,679	1.....
912828 RF 9	US Treasury Notes 1.000% 08/31/16.....		09/20/2011	Various.....		1,683,962	1,672,000	1,056	1FE.....
0599999.	Total - Bonds - U.S. Government.....					142,652,580	142,180,000	58,554	XXX.....
Bonds - Industrial and Miscellaneous									
000759 CF 5	ABFS Mortgage Loan Trus 7.010% 12/15/32.....		07/01/2011	Interest Capitalization.....		857,057	857,057		1Z*.....
05573W AA 3	BMW Vehicle Owner Trust 0.306% 09/25/12.....		09/14/2011	Bank of America.....		10,000,000	10,000,000		1FE.....
07401W AA 7	Bear Sterns Second Lien 0.615% 01/25/37.....		09/30/2011	Various.....		895,118	1,432,042	569	5Z*.....
07401W AP 4	Bear Sterns Second Lien 0.675% 08/25/37.....		08/18/2011	Knights Libertas LLC.....		4,724,000	5,942,138	3,002	6Z*.....
07401W BA 6	Bear Sterns Second Lien 0.675% 08/25/37.....		08/18/2011	Various.....		7,855,422	12,057,058	5,279	6Z*.....
12189L AF 8	Burlingtn North Santa F 3.450% 09/15/21.....		08/17/2011	Citigroup Global Markets, Inc.....		2,992,590	3,000,000		2FE.....
12623C AA 3	CNH Equipment Trust Ser 0.384% 10/12/12.....		09/14/2011	Greenwich Capital Markets.....		18,000,000	18,000,000		1FE.....
14040H AY 1	Capital One Financial C 4.750% 07/15/21.....		07/19/2011	Barclays Capital Securities Inc. Fixed Income.....		3,234,953	3,250,000		2FE.....
249030 AC 1	Dentsply International 4.125% 08/15/21.....		08/18/2011	Morgan Stanley Capital Services Inc.....		1,230,715	1,235,000		2FE.....
38141G FM 1	Goldman Sachs Group Inc 6.150% 04/01/18.....		07/20/2011	Goldman, Sachs & Co. (FI & Eq.) EPN - MBGS.....		3,276,780	3,000,000	58,425	1FE.....
395385 AQ 0	Greenpoint Home Equity 0.695% 07/25/29.....		08/15/2011	BedRok Securities LLC.....		383,793	517,475	216	5Z*.....
395385 AZ 0	Greenpoint Home Equity 0.789% 08/15/30.....		09/14/2011	Various.....		125,971	202,001	8	5Z*.....
43709R AA 2	Indymac Secods Asset 0.395% 02/25/37.....		09/26/2011	Interest Capitalization.....		94,309	94,309		5Z*.....
45255R AA 5	Impac Secured Assets Co 0.405% 11/25/36.....		09/27/2011	RW Baird.....		6,662,738	11,637,971	1,819	6FE.....
45661D AA 4	Indymac Residential Ass 0.387% 06/28/36.....		09/30/2011	Various.....		15,540,483	28,862,240	2,313	6FE.....
52524P AG 7	Lehman XS Trust Series 0.395% 05/25/37.....		08/12/2011	Banc of Manhattan Capital.....		26,036,598	40,662,332	9,021	1Z*.....
55352R AA 6	MSCC HELOC Trust Series 0.335% 12/25/31.....		07/01/2011	Bank of America.....		10,607,336	14,096,128	1,119	4Z*.....
571748 AR 3	Marsh & McLennan Cos Inc.....		07/01/2011	Citigroup Global Markets, Inc.....		664,009	665,000		2FE.....
617446 C2 3	Morgan Stanley Diversif 5.450% 01/09/17.....		08/02/2011	Morgan Stanley Capital Services Inc.....		310,457	290,000	1,141	1FE.....
61747W AL 3	Morgan Stanley Diversif 5.500% 07/28/21.....		07/21/2011	Morgan Stanley Capital Services Inc.....		889,733	890,000		1FE.....
61747Y CJ 2	Morgan Stanley Diversif 5.625% 09/23/19.....		08/12/2011	Jeffries Fixed Income (Bonds Direct).....		2,015,780	2,000,000	44,688	1FE.....
760985 4A 6	Residential Asset Mortg 5.750% 05/25/34.....		09/09/2011	Barclay's Bank.....		5,316,164	9,535,721	19,800	5Z*.....
76110W RT 5	Residential Asset Serie 0.815% 06/25/33.....		09/27/2011	Banc of Manhattan Capital.....		552,341	1,072,507	97	6Z*.....
785778 ND 9	Saco I Trust Series 200 0.755% 06/25/36.....		09/28/2011	Various.....		2,205,549	3,683,906	468	6FE.....
785778 PG 0	Saco I Trust Series 200 0.635% 07/25/36.....		09/28/2011	Various.....		6,581,911	10,740,865	1,736	5Z*.....
785813 AA 4	Saco I Trust Series 200 0.375% 06/25/36.....		09/28/2011	Tejas Securities Group Inc.....		180,949	338,222	25	5Z*.....
88732J BA 5	Time Warner Cable Inc 4.000% 09/01/21.....		09/07/2011	Goldman Sachs & Co.....		743,318	750,000		2FE.....
918204 AV 0	VF Corp Apparel 3.500% 09/01/21.....		08/19/2011	Bank of America, N.A.....		1,340,831	1,345,000		1FE.....
3899999.	Total - Bonds - Industrial & Miscellaneous.....					133,318,905	186,156,972	149,726	XXX.....
8399997.	Total - Bonds - Part 3.....					275,971,485	328,336,972	208,280	XXX.....
8399999.	Total - Bonds.....					275,971,485	328,336,972	208,280	XXX.....
9999999.	Total - Bonds, Preferred and Common Stocks.....					275,971,485	XXX.....	208,280	XXX.....

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)
------------------------------	------------------	--------------	-----------------------	---------------------	-----------------------------------	------------------	----------------	--	--

(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 Designation or Market Indicator (a)

Bonds - U.S. Government

36213C	YP	9	GNMA #550718 5.000% 11/15/35.....	09/01/2011	Paydown.....			7,180	7,180	7,443	7,429	(249)	(249)		7,180			0	221	11/15/2035	1.....	
36241K	VV	7	GNMA #782428 5.000% 10/15/38.....	09/01/2011	Paydown.....			42,333	42,333	43,860	43,787	(1,455)	(1,455)		42,333			0	1,470	10/15/2038	1.....	
36241K	YZ	5	GNMA #782528 5.000% 01/15/39.....	09/01/2011	Paydown.....			38,238	38,238	39,618	39,553	(1,315)	(1,315)		38,238			0	1,276	01/15/2039	1.....	
912828	QN	3	US Treasury Notes 3.125% 05/15/21.....	08/15/2011	Various.....			6,038,042	5,785,000	5,925,185		(665)	(665)		5,924,521		113,521	113,521	40,641	05/15/2021	1.....	
912828	QZ	6	US Treasury Notes 0.500% 05/31/13.....	09/19/2011	Bank of America, N.A.....			1,996,857	1,985,000	1,987,171		(302)	(302)		1,986,869		9,987	9,987	3,037	05/31/2013	1.....	
912828	RC	6	US Treasury Notes 2.125% 08/15/21.....	08/18/2011	Bank of America, N.A.....			2,385,701	2,400,000	2,361,750		23	23		2,361,773		23,928	23,928	797	08/15/2021	1FE.....	
0599999.			Total - Bonds - U.S. Government.....					10,508,351	10,257,751	10,365,027	90,769	0	(3,963)	0	(3,963)	0	10,360,914	0	147,436	147,436	47,442	XXX...XXX..

Bonds - U.S. Special Revenue and Special Assessment

07201T	ZH	4	Bay Area Govt Assn Cali 5.000% 09/01/12.....	09/01/2011	Redemption 100.0000.....			1,345,000	1,345,000	1,342,660	1,343,978	455	455		1,344,434		566	566	67,250	09/01/2012	1.....
291195	EK	7	Emeryville CA Pub Fing 6.625% 09/01/19.....	09/01/2011	Redemption 100.0000.....			180,000	180,000	181,498	180,907	(33)	(33)		180,874		(874)	(874)	11,925	09/01/2019	2FE.....
31283H	5A	9	Freddie Mac Pool # G017 6.500% 10/01/34.....	09/01/2011	Paydown.....			15,045	15,045	15,837	15,795	(750)	(750)		15,045			0	662	10/01/2034	1.....
31283H	N2	7	Freddie Mac Pool # G013 7.000% 08/01/31.....	09/01/2011	Paydown.....			233	233	247	246	(13)	(13)		233			0	11	08/01/2031	1.....
3128H7	H3	9	Freddie Mac FGCI # E992 6.000% 09/01/18.....	09/01/2011	Paydown.....			1,655	1,655	1,738	1,722	(68)	(68)		1,655			0	66	09/01/2018	1.....
3128KF	BD	1	Freddie Mac Pool # A527 6.000% 09/01/36.....	09/01/2011	Paydown.....			31,453	31,453	32,765	32,700	(1,247)	(1,247)		31,453			0	1,228	09/01/2036	1.....
3128NC	SZ	3	Freddie Mac FHARM #1G08 2.415% 08/01/35.....	09/01/2011	Paydown.....			7,545	7,545	7,528	7,513	33	33		7,545			0	157	08/01/2035	1.....
31292H	VU	5	Freddie Mac C01527 5.500% 04/01/33.....	09/01/2011	Paydown.....			28,391	28,391	29,154	29,109	(717)	(717)		28,391			0	1,054	04/01/2033	1.....
31295W	D7	0	FGLMC A01026 9.500% 05/01/20.....	09/01/2011	Paydown.....			276	276	287	281	(5)	(5)		276			0	17	05/01/2020	1.....
31295W	GF	9	FGLMC A01098 9.500% 09/01/20.....	09/01/2011	Paydown.....			418	418	435	426	(8)	(8)		418			0	26	09/01/2020	1.....
31295W	PP	7	FGLMC A01330 9.500% 09/01/16.....	09/01/2011	Paydown.....			497	497	517	502	(6)	(6)		497			0	31	09/01/2016	1.....
312962	5K	5	Freddie Mac FG #B10850 4.500% 11/01/18.....	09/01/2011	Paydown.....			57,369	57,369	59,090	58,765	(1,396)	(1,396)		57,369			0	1,670	11/01/2018	1.....
31296P	EM	0	Freddie Mac FG #A14640 5.000% 10/01/33.....	09/01/2011	Paydown.....			12,142	12,142	12,522	12,498	(356)	(356)		12,142			0	389	10/01/2033	1.....
312971	H9	8	Freddie Mac FG #B18356 5.000% 05/01/20.....	09/01/2011	Paydown.....			27,799	27,799	28,820	28,657	(858)	(858)		27,799			0	936	05/01/2020	1.....
31297M	H2	7	Freddie Mac Pool #A3204 5.500% 04/01/35.....	09/01/2011	Paydown.....			1,052,847	1,052,847	1,089,696	1,088,726	(35,880)	(35,880)		1,052,847			0	39,785	04/01/2035	1.....
31297T	6K	4	FGLMC FGA38074 5.000% 10/01/35.....	09/01/2011	Paydown.....			13,886	13,886	14,301	14,277	(391)	(391)		13,886			0	441	10/01/2035	1.....
3133TD	JS	6	FHLMC 2050 PE 6.500% 04/15/13.....	09/01/2011	Paydown.....			155,704	155,704	156,798	155,704				155,704			0	6,728	04/15/2013	1.....
3133TG	U4	9	FHLMC Series 2091 Class 6.000% 11/15/28.....	09/01/2011	Paydown.....			8,755	8,755	9,051	9,027	(272)	(272)		8,755			0	348	11/15/2028	1.....
3133TS	BS	1	Freddie Mac FHR 2293 6.500% 03/15/31.....	09/01/2011	Paydown.....			68,489	68,489	73,497	72,119	(3,630)	(3,630)		68,489			0	3,219	03/15/2031	1.....
31362T	GE	7	FNMA #070367 8.000% 07/01/19.....	09/01/2011	Paydown.....			8,850	8,850	8,347	8,458	392	392		8,850			0	519	07/01/2019	1.....
31365D	JV	8	FNCL #124576 9.000% 09/01/22.....	09/01/2011	Paydown.....			116	116	118	117	(1)	(1)		116			0	7	09/01/2022	1.....
31371J	6T	6	FNMA 15YR 5.500% 08/01/16.....	09/01/2011	Paydown.....			32,598	32,598	31,931	32,151	447	447		32,598			0	1,237	08/01/2016	1.....
31371K	EJ	6	FNCI #254037 5.500% 10/01/16.....	09/01/2011	Paydown.....			24,693	24,693	24,332	24,459	234	234		24,693			0	903	10/01/2016	1.....
31371L	A6	6	Fannie Mae FN 254829 5.500% 08/01/33.....	09/01/2011	Paydown.....			173,575	173,575	172,205	172,298	1,277	1,277		173,575			0	6,390	08/01/2033	1.....
31384W	BA	7	FNCI # 535633 5.500% 12/01/14.....	09/01/2011	Paydown.....			24,761	24,761	24,399	24,564	197	197		24,761			0	905	12/01/2014	1.....
31385J	CH	9	FNCI #545572 6.000% 04/01/17.....	09/01/2011	Paydown.....			30,241	30,241	30,338	30,247	(6)	(6)		30,241			0	1,202	01/01/2017	1.....
31387K	V5	9	FNMA 15 YR 586636 6.000% 06/01/16.....	09/01/2011	Paydown.....			6,225	6,225	6,163	6,183	42	42		6,225			0	249	06/01/2016	1.....

QE05

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)	
31387K	V8 3 FNMA #586639 6.000% 06/01/16.....		09/01/2011	Paydown.....		4,680	4,680	4,634	4,649		32		32		4,680			.0	.187	06/01/2016	1.....	
31387N	YL 5 FNMA 589415 5.500% 07/01/16.....		09/01/2011	Paydown.....		1,973	1,973	1,936	1,955		18		18		1,973			.0	.72	07/01/2016	1.....	
31389H	HL 5 Fannie Mae # 625835 6.000% 01/01/17.....		09/01/2011	Paydown.....		30,073	30,073	30,115	30,078		(5)		(5)		30,073			.0	1,321	01/01/2017	1.....	
31392J	AD 1 Fannie Mae Series 2003- 7.500% 07/25/42.....		09/01/2011	Paydown.....		2,795	2,795	2,974	2,969		(174)		(174)		2,795			.0	.139	07/25/2042	1.....	
31392J	YH 6 Fannie Mae Series 2003- 7.500% 08/25/42.....		09/01/2011	Paydown.....		769	769	819	817		(48)		(48)		769			.0	.38	08/25/2042	1.....	
31401H	PU 0 Fannie Mae FN #708835 5.000% 06/01/18.....		09/01/2011	Paydown.....		27,228	27,228	28,301	28,084		(856)		(856)		27,228			.0	.947	06/01/2018	1.....	
31401H	SE 3 Fannie Mae 708917 6.000% 06/01/33.....		09/01/2011	Paydown.....		13,660	13,660	14,366	14,135		(476)		(476)		13,660			.0	.496	06/01/2033	1.....	
31401J	ND 6 Fannie Mae FN 709688 5.500% 06/01/33.....		09/01/2011	Paydown.....		382,776	382,776	382,908	381,728		1,048		1,048		382,776			.0	14,489	06/01/2033	1.....	
31401W	GV 5 Fannie Mae 720312 4.500% 06/01/18.....		09/01/2011	Paydown.....		534,199	534,199	534,783	533,908		291		291		534,199			.0	15,867	06/01/2018	1.....	
31401W	KH 1 Fannie Mae FN 720396 5.000% 07/01/18.....		09/01/2011	Paydown.....		500,406	500,406	508,068	504,505		(4,099)		(4,099)		500,406			.0	16,649	07/01/2018	1.....	
31402C	4H 2 FNCL 725424 5.500% 04/01/34.....		09/01/2011	Paydown.....		585,376	585,376	588,578	586,899		(1,523)		(1,523)		585,376			.0	21,423	04/01/2034	1.....	
31402C	XE 7 FNCL 725277 4.500% 03/01/19.....		09/01/2011	Paydown.....		454,015	454,015	458,271	455,922		(1,907)		(1,907)		454,015			.0	13,974	03/01/2019	1.....	
31402J	SW 8 FNCL 730533 5.000% 08/01/33.....		09/01/2011	Paydown.....		201,267	201,267	202,221	201,764		(497)		(497)		201,267			.0	7,073	08/01/2033	1.....	
31403N	UF 2 Fannie Mae 753982 5.500% 12/01/33.....		09/01/2011	Paydown.....		240,105	240,105	248,584	248,346		(8,241)		(8,241)		240,105			.0	9,487	12/01/2033	1.....	
31403U	MG 3 Fannie Mae FN #758259 6.000% 12/01/33.....		09/01/2011	Paydown.....		1,298	1,298	1,356	1,353		(55)		(55)		1,298			.0	.54	12/01/2033	1.....	
31404F	JZ 7 Fannie Mae 767180 4.500% 02/01/19.....		09/01/2011	Paydown.....		1,402,605	1,402,605	1,415,755	1,406,880		(4,274)		(4,274)		1,402,605			.0	42,073	02/01/2019	1.....	
31404K	SG 8 Fannie Mae FN #771019 5.000% 04/01/34.....		09/01/2011	Paydown.....		24,080	24,080	24,836	24,788		(708)		(708)		24,080			.0	.844	04/01/2034	1.....	
31405A	KB 8 Fannie Mae FN #783390 6.500% 09/01/34.....		09/01/2011	Paydown.....		1,029	1,029	1,083	1,080		(51)		(51)		1,029			.0	.40	09/01/2034	1.....	
31407M	MT 9 FNCL FN #834770 6.500% 07/01/35.....		09/01/2011	Paydown.....		460	460	483	482		(22)		(22)		460			.0	.20	07/01/2035	1.....	
31409W	W8 0 Fannie Mae FN #880971 5.500% 10/01/21.....		09/01/2011	Paydown.....		6,305	6,305	6,560	6,523		(218)		(218)		6,305			.0	.239	10/01/2021	1.....	
36297A	3U 5 GNMA #706511 5.000% 01/01/39.....		09/01/2011	Paydown.....		41,500	41,500	43,004	42,949		(1,449)		(1,449)		41,500			.0	1,472	01/01/2039	1.....	
45200K	H3 5 Illinois Health Facs Au 6.250% 08/15/13.....		08/15/2011	Redemption 100.0000.....		340,000	340,000	340,996	340,786		(152)		(152)		340,634		(634)	(634)	.21,250	08/15/2013	1FE.....	
455063	EX 1 Indiana Office Building 6.900% 07/01/11.....		07/01/2011	Maturity.....		365,000	365,000	361,642	364,853		147		147		365,000			.0	25,185	07/01/2011	1FE.....	
46246N	EA 0 Iowa Fin Auth Hosp Fac 6.000% 07/01/12.....		07/01/2011	Redemption 100.0000.....		350,000	350,000	364,119	351,981		(642)		(642)		351,339		(1,339)	(1,339)	.21,000	07/01/2012	1FE.....	
553751	DN 5 MSR CA Pub Pwr Agy San 6.750% 07/01/20.....		07/01/2011	Redemption 100.0000.....		85,000	85,000	83,300	84,084		35		35		84,119		881	.881	5,738	07/01/2020	1.....	
576049	XP 0 Massachusetts St Wtr Re 5.125% 08/01/27.....		08/01/2011	Redemption 101.0000.....		9,090,000	9,090,000	9,069,300	9,087,957		2,043		2,043		9,090,000			.0	461,250	08/01/2027	1FE.....	
64468T	JW 8 New Hampshire St Hsg Fi 6.000% 07/01/16.....		07/01/2011	Redemption 100.0000.....		55,000	55,000	55,000	55,000						55,000			.0	3,300	07/01/2016	1FE.....	
678864	U3 1 Oklahoma Hsg Fin Agy 6.350% 09/01/27.....		09/01/2011	Redemption 100.0000.....		25,000	25,000	25,000	25,000						25,000			.0	1,588	09/01/2027	1FE.....	
708681	AU 5 Pennsylvania Conv Ctr A 6.700% 09/01/16.....		09/01/2011	Redemption 100.0000.....		240,000	240,000	235,800	238,407		185		185		238,591		1,409	1,409	16,080	09/01/2016	1.....	
929836	AP 9 Waco Tex Health Facs De 5.270% 02/01/16.....		08/01/2011	Redemption 100.0000.....		1,650,000	1,650,000	1,650,000	1,650,000						1,650,000			.0	86,955	02/01/2016	2FE.....	
3199999.	Total - Bonds - U.S. Special Revenue & Assessment.....					19,965,162	19,875,162	20,039,066	20,029,311		.0	(64,158)	.0	(64,158)		19,965,153		.9	.9	936,605	.XXX...	.XXX...
Bonds - Industrial and Miscellaneous																						
007036	SE 7 Adjustable Rate Mortgag 0.505% 11/25/35.....		09/26/2011	Paydown.....		158,197	158,197	77,258	65,958		92,239		92,239		158,197			.0	.536	11/25/2035	1Z*.....	
007036	TM 8 Adjustable Rate Mortgag 0.495% 01/25/36.....		09/26/2011	Paydown.....		329,364	329,364	153,399	118,789		210,575		210,575		329,364			.0	1,057	01/25/2036	1Z*.....	
007036	UQ 7 Adjustable Rate Mortgag 0.505% 02/25/36.....		09/26/2011	Paydown.....		230,930	230,930	104,670	85,059		145,871		145,871		230,930			.0	.761	02/25/2036	1Z*.....	
02581F	YH 6 American Express Centur 5.550% 10/17/12.....		09/19/2011	Bank of America, N.A.....		3,136,380	3,000,000	3,205,680	3,126,637		(50,305)		(50,305)		3,076,332		60,048	60,048	154,938	10/17/2012	1FE.....	

QE05.1

SCHEDULE D - PART 4

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

Table with columns: 1 CUSIP Identification, 2 Description, 3 Forfeiture, 4 Disposal Date, 5 Name of Purchaser, 6 Number of Shares of Stock, 7 Consideration, 8 Par Value, 9 Actual Cost, 10 Prior Year Book/Adjusted Carrying Value, 11-15 Change in Book/Adjusted Carrying Value (Unrealized, Current, Current Year's Other Than, Total, Total Foreign), 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 Designation or Market Indicator (a).

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 Date	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)
23243N AG 3	Countrywide Asset-Backe 5.932% 07/25/34.....		09/01/2011	Paydown.....		345,984	345,984	96,383	96,383		249,601		249,601		345,984			0	13,175	07/25/2034	1Z*.....
23243N AH 1	Countrywide Asset-Backe 6.236% 08/25/38.....		09/01/2011	Paydown.....		253,142	253,142	87,190	87,190		165,952		165,952		253,142			0	10,134	08/25/2038	1Z*.....
23336J AA 3	DT Auto Owner Trust Ser 0.960% 01/15/14.....		09/15/2011	Paydown.....		2,104,318	2,104,318	2,104,266			52		52		2,104,318			0	4,293	01/15/2014	1FE.....
25151A AG 6	Deutsche Alt-A Securit 0.515% 08/25/36.....		09/26/2011	Paydown.....		582,075	582,075	14,954	18,887		(18,887)		(18,887)					0	1,951	08/25/2036	1Z*.....
32029H AB 8	First Franklin Mtg Loan 0.385% 06/25/27.....		09/26/2011	Paydown.....		670,605	670,605	244,933	266,900		501,587	97,883	403,704		670,605			0	1,506	06/25/2027	5Z*.....
32029H AC 6	First Franklin Mtg Loan 0.455% 06/25/27.....		09/26/2011	Paydown.....		851,342	851,342	349,050			502,292		502,292		851,342			0	2,941	06/25/2027	6FE.....
36161H AB 7	GE Equipment Midtcket 0.610% 01/14/13.....		09/14/2011	Paydown.....		3,312,352	3,312,352	3,312,352					0		3,312,352			0	3,323	01/14/2013	1FE.....
361856 EH 6	GMAC Mortgage Corporati 0.458% 02/25/36.....		09/26/2011	Paydown.....		867,852	867,852	324,352	324,352		543,501		543,501		867,852			0	2,716	02/25/2036	1Z*.....
361856 EK 9	GMAC Mortgage Corporati 0.495% 02/25/36.....		09/26/2011	Paydown.....		1,655,567	1,655,567	753,061	753,061		902,506		902,506		1,655,567			0	5,402	02/25/2036	1Z*.....
36185T AA 5	Fort Lewis Comm 04/37 @ 7.120% 04/10/37.....		09/10/2011	Paydown.....		227,998	227,998	226,063	226,167		1,831		1,831		227,998			0	10,828	04/10/2037	1FE.....
36186T AA 4	GMAC Commercial Mortgag 6.045% 11/10/40.....		09/10/2011	Paydown.....		71,530	71,530	58,970	59,578		11,952		11,952		71,530			0	3,244	11/10/2040	2FE.....
36233A GT 5	GSA Home Equity Trust 0.505% 03/25/36.....		09/26/2011	Paydown.....		2,978,154	2,978,154	435,916	703,294		2,274,861		2,274,861		2,978,154			0	9,833	03/25/2036	1Z*.....
362381 AC 9	GSA Home Equity Trust 0.485% 08/25/36.....		09/26/2011	Paydown.....		2,488,206	2,488,206	808,494	843,654		1,644,552		1,644,552		2,488,206			0	7,995	08/25/2036	1Z*.....
36298Y AC 4	GSA Home Equity Trust 0.485% 09/25/36.....		09/26/2011	Paydown.....		1,292,431	1,292,431	438,779	440,476		851,954		851,954		1,292,431			0	4,153	09/25/2036	1Z*.....
38011N AA 4	GMAC Commercial Mortgag 7.152% 08/10/36.....		09/10/2011	Paydown.....		203,907	203,907	201,908	202,020		1,887		1,887		203,907			0	9,728	08/10/2036	1Z.....
38011W AA 4	Fort Meade - GMAC 2002- 6.845% 05/10/37.....		09/10/2011	Paydown.....		314,542	314,542	294,616	295,398		19,145		19,145		314,542			0	14,361	05/10/2037	1FE.....
38141E A6 6	Goldman Sachs Group Inc 6.000% 06/15/20.....		07/20/2011	Bank of America, N.A.....		2,957,708	2,750,000	2,951,823			(2,510)		(2,510)		2,949,313		8,395	8,395	100,833	06/15/2020	1FE.....
39121J AA 8	Great River Energy 5.829% 07/01/17.....		07/01/2011	Redemption 100.0000.....		3,043,323	3,043,323	3,043,323	3,043,323				0		3,043,323			0	177,395	07/01/2017	1FE.....
395385 AQ 0	Greenpoint Home Equity 0.695% 07/25/29.....		09/26/2011	Paydown.....		25,347	25,347	18,799			6,548		6,548		25,347			0	23	07/25/2029	5Z*.....
39538W CZ 9	Greenpoint Mortgage Fun 0.409% 09/15/30.....		09/15/2011	Paydown.....		190,300	190,300	94,230	94,230		96,070		96,070		190,300			0	511	09/15/2030	1Z*.....
39538W EF 1	Greenpoint Mortgage Fun 0.505% 11/25/46.....		09/26/2011	Paydown.....		478,369	478,369	270,212	57,074	171,987	208,157		380,144		478,369			0	1,339	11/25/2046	1Z*.....
39538W EL 8	Greenpoint Mortgage Fun 0.505% 11/25/46.....		09/26/2011	Paydown.....		27,332	27,332	10,318			17,014		17,014		27,332			0	29	11/25/2046	6Z*.....
422777 AL 6	Hedged Mutual Fund Fee 0.430% 01/04/13.....		07/05/2011	Paydown.....		150,320	150,320	150,320	150,320				0		150,320			0	424	01/04/2013	1FE.....
422777 AP 7	Hedged Mutual Fund Fee 0.462% 08/05/13.....		09/06/2011	Paydown.....		828,906	828,906	828,906	642,443	186,462			186,462		828,906			0	2,638	08/05/2013	3FE.....
422777 AQ 5	Hedged Mutual Fund Fee 0.422% 12/04/13.....		09/06/2011	Paydown.....		478,514	478,514	478,514	367,437	111,078			111,078		478,514			0	1,396	12/04/2013	3FE.....
43709R AA 2	Indymac Seconds Asset 0.395% 02/25/37.....		08/25/2011	Paydown.....		22,073	22,073	9,303	9,257	6,214	13,971		7,370		22,073			0	54	02/25/2037	5Z*.....
43710A BB 3	Home Equity Mortgage Tr 0.405% 05/25/37.....		09/26/2011	Paydown.....		256,980	256,980	132,987			123,993		123,993		256,980			0	242	05/25/2037	6FE.....
45254N MA 2	Impac CMB Trust Series 0.755% 03/25/35.....		09/26/2011	Paydown.....		140,587	253,115	100,674	100,713		39,874		39,874		140,587			0	1,287	03/25/2035	1Z*.....
45254N PU 5	Impac CMB Trust Series 0.875% 08/25/35.....		09/26/2011	Paydown.....		473,235	473,235	226,519	223,174		250,061		250,061		473,235			0	1,794	08/25/2035	1Z*.....
45254N QG 5	Impac CMB Trust Series 0.735% 10/25/35.....		09/26/2011	Paydown.....		445,528	445,528	201,867	201,867		243,660		243,660		445,528			0	1,850	10/25/2035	1Z*.....
45254T TF 1	Impac Secured Assets Co 0.485% 03/25/36.....		09/26/2011	Paydown.....		448,112	448,112	188,416	184,241		251,276		251,276		448,112			0	1,361	03/25/2036	1Z*.....
45255R AA 5	Impac Secured Assets Co 0.405% 11/25/36.....		09/26/2011	Paydown.....		218,340	218,340	125,000			93,340		93,340		218,340			0	112	11/25/2036	6FE.....
45257B AD 2	Impac Secured Assets Co 0.495% 01/25/37.....		09/26/2011	Paydown.....		665,318	665,318	58,069	63,233		(63,233)		(63,233)					0	2,130	01/25/2037	1Z*.....
45257E AC 8	Impac Secured Assets Co 0.505% 10/25/36.....		09/26/2011	Paydown.....		1,465,739	1,465,739	520,121	456,681		1,009,058		1,009,058		1,465,739			0	4,883	10/25/2036	1Z*.....
456606 LM 2	Indymac Loan Trust Seri 0.405% 04/25/14.....		09/26/2011	Paydown.....		466,471	466,471	250,728			215,743		215,743		466,471			0	775	04/25/2014	6FE.....
45661A AC 6	Indymac Home Equity Loa 0.437% 09/28/36.....		09/28/2011	Paydown.....		155,716	155,716	109,974	109,974		45,743		45,743		155,716			0	360	09/28/2036	1Z*.....

QE05.3

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)
45661D AA 4	Indymac Residential Ass 0.387% 06/28/36		09/28/2011	Paydown		305,562	305,562	183,337			122,225		122,225		305,562			.0	156	06/28/2036	6FE
45667H AB 7	Indymac Loan Trust Seri 0.405% 04/25/12		09/26/2011	Paydown		3,069,379	3,069,379	2,343,894	2,055,810	1,015,365	1,795		1,013,570		3,069,379			.0	7,899	04/25/2012	5FE
45670E AA 1	Indymac IMSC Mortgage L 0.385% 03/25/47		09/26/2011	Paydown		1,667,251	4,294,698	1,226,394	1,164,435	502,817			502,817		1,667,251			.0	10,452	03/25/2047	1Z
45670E AB 9	Indymac IMSC Mortgage L 0.485% 03/25/47		09/26/2011	Paydown		1,581,398	4,073,547	896,180	738,360	843,038			843,038		1,581,398			.0	12,534	03/25/2047	1Z
45670E AC 7	Indymac IMSC Mortgage L 0.595% 03/25/47		09/26/2011	Paydown		1,000,644	2,577,573	335,085	184,183	816,460			816,460		1,000,644			.0	9,755	03/25/2047	1Z
464126 CG 4	Irwin Home Equity Serie 0.875% 05/25/33		09/26/2011	Paydown		97,429	97,429	42,266	42,266	55,163			55,163		97,429			.0	561	05/25/2033	1Z
46412A AE 2	Irwin Home Equity Serie 5.800% 06/25/37		09/01/2011	Paydown		198,028	198,028	117,534	117,534	80,494			80,494		198,028			.0	7,657	06/25/2037	1Z
46412R AB 1	Irwin Home Equity Serie 0.385% 08/25/37		09/26/2011	Paydown		843,356	843,356	626,503	625,533	289,561	71,738		217,823		843,356			.0	2,120	08/25/2037	1Z
466247 QH 9	JP Morgan Series 2005-A 2.726% 06/25/35		09/01/2011	Paydown		761,722	761,722	718,875	727,457	34,265			34,265		761,722			.0	14,639	06/25/2035	1Z
466275 AA 2	JP Morgan Alternative L 0.515% 04/25/47		09/25/2011	Paydown		1,650,807	1,650,807	885,719	843,385	807,423			807,423		1,650,807			.0	5,407	04/25/2047	1Z
493268 BJ 4	Keycorp Student Loan T 0.719% 08/27/31		08/29/2011	Paydown		927,235	927,235	927,235	927,235				.0		927,235			.0	4,806	08/27/2031	2FE
52523Y AC 8	Lehman XS Trust Series 0.485% 12/25/36		09/26/2011	Paydown		156,931	13,516	13,516	15,129	(15,129)			(15,129)					.0	483	12/25/2036	1Z
52524P AG 7	Lehman XS Trust Series 0.395% 05/25/37		09/26/2011	Paydown		1,710,373	1,710,373	1,101,271	1,184,950	(388,182)	7,475		(395,657)		1,710,373			.0	1,431	05/25/2037	1Z
52524P AH 5	Lehman XS Trust Series 5.780% 05/25/37		09/01/2011	Paydown		192,369	192,369	78,448	78,448	113,921			113,921		192,369			.0	7,422	05/25/2037	1Z
52525L AS 9	Lehman XS Trust Series 0.635% 07/25/47		09/26/2011	Paydown		2,871,962	2,871,962	1,207,338	1,207,338	1,664,624			1,664,624		2,871,962			.0	11,901	07/25/2047	1Z
55352R AA 6	MSCC HELOC Trust Series 0.335% 12/25/31		09/26/2011	Paydown		365,070	365,070	274,715		90,355			90,355		365,070			.0	149	12/25/2031	4Z
574754 AA 5	Mashantucket Pequot Tri 6.910% 09/01/12		09/01/2011	Redemption	100.0000	2,000,000	2,000,000	2,079,120	2,033,522	(12,890)			(12,890)		2,020,633		(20,633)	(20,633)	138,200	09/01/2012	2FE
574754 AB 3	Mashantucket Pequot Tri 6.570% 09/01/13		09/01/2011	Redemption	100.0000	2,600,000	2,600,000	2,406,612	2,465,036	31,212			31,212		2,496,248		103,752	103,752	170,820	09/01/2013	1FE
59217E BZ 6	Met Life Glob Funding I 2.875% 09/17/12		09/19/2011	Royal Bank of Scotland Plc		5,275,157	5,180,000	5,165,237	5,171,286	3,702			3,702		5,174,988		100,169	100,169	150,993	09/17/2012	1FE
61747W AF 6	Morgan Stanley Diversif 5.750% 01/25/21		08/12/2011	Jeffries Fixed Income		2,039,020	2,000,000	2,084,380		(1,239)			(1,239)		2,083,141		(44,121)	(44,121)	64,208	01/25/2021	1FE
61747W AL 3	Morgan Stanley Diversif 5.500% 07/28/21		08/11/2011	Morgan Stanley Capital Svcs Inc		888,149	890,000	889,733		(29)			(29)		889,704		(1,555)	(1,555)	2,448	07/28/2021	1FE
61747Y DD 4	Morgan Stanley Diversif 3.800% 04/29/16		09/20/2011	Various		2,236,766	2,290,000	2,287,733		.88			.88		2,287,821		(51,056)	(51,056)	33,339	04/29/2016	1FE
61915R AK 2	Mortgageit Trust Series 0.535% 08/25/35		09/25/2011	Paydown		387,807	387,807	387,807	387,807				.0		387,807			.0	1,375	08/25/2035	1Z
65535V MJ 4	Nomura Asset Acceptance 0.495% 07/25/35		09/26/2011	Paydown		156,967	156,967	157,035	83,053	73,981	(66)		73,915		156,967			.0	527	07/25/2035	1Z
65535V NL 8	Nomura Asset Acceptance 0.525% 08/25/35		09/26/2011	Paydown		216,096	216,096	98,883	93,930	122,166			122,166		216,096			.0	781	08/25/2035	1Z
65535V PV 4	Nomura Asset Acceptance 0.505% 10/25/35		09/26/2011	Paydown		324,508	324,508	176,795	167,573	156,935			156,935		324,508			.0	1,139	10/25/2035	1Z
65535V RK 6	Nomura Asset Acceptance 0.495% 12/25/35		09/26/2011	Paydown		161,447	161,447	55,463	38,897	122,550			122,550		161,447			.0	546	12/25/2035	1Z
65538N AA 1	Nomura Asset Acceptance 0.348% 04/25/37		08/25/2011	Bank of America		6,115,977	17,122,595	5,167,942	4,694,552	(146,935)			(146,935)		4,547,617		1,568,360	1,568,360	41,634	04/25/2037	1Z
65538N AA 1	Nomura Asset Acceptance 0.348% 04/25/37		08/25/2011	Paydown		85,937	543,314	163,983	148,962	(63,025)			(63,025)		85,937			.0	1,216	04/25/2037	1Z
65538N AB 9	Nomura Asset Acceptance 0.468% 04/25/37		08/25/2011	Bank of America		5,207,148	14,578,193	4,110,759	3,711,063	(166,805)			(166,805)		3,544,258		1,662,891	1,662,891	47,400	04/25/2037	1Z
65538N AB 9	Nomura Asset Acceptance 0.468% 04/25/37		08/25/2011	Paydown		73,167	462,578	130,438	117,755	(44,588)			(44,588)		73,167			.0	1,381	04/25/2037	1Z
65538N AC 7	Nomura Asset Acceptance 0.568% 04/25/37		08/25/2011	Bank of America		4,699,134	13,155,931	3,653,139	3,317,317	(155,253)			(155,253)		3,162,064		1,537,069	1,537,069	51,765	04/25/2037	1Z
65538N AC 7	Nomura Asset Acceptance 0.568% 04/25/37		08/25/2011	Paydown		66,029	417,448	115,917	105,261	(39,233)			(39,233)		66,029			.0	1,507	04/25/2037	1Z
71531P AA 1	Pershing Road 0.726% 09/01/26		09/01/2011	Redemption	100.0000	870,515	870,515	870,515	870,515				.0		870,515			.0	4,550	09/01/2026	2FE
760985 SU 6	Residential Asset Mortg 0.915% 03/25/33		09/26/2011	Paydown		27,443	27,443	18,121		9,321	1,226		8,095		27,443			.0	36	03/25/2033	5Z
76110W XW 1	Residential Asset Serie 0.995% 05/25/34		09/26/2011	Paydown		87,532	87,532	42,030	42,030	45,502			45,502		87,532			.0	600	05/25/2034	1Z

QE05.4

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 Designation or Market Indicator (a)
785778 ND 9	Saco I Trust Series 200 0.755% 06/25/36		09/26/2011	Paydown		487,434	487,434	298,873					188,560		487,434			0	749	06/25/2036	6FE
785778 PF 2	Saco I Trust Series 200 0.635% 03/25/37		09/26/2011	Paydown		452,689	452,689	271,858	228,037		(10,559)	11,172	(21,731)		452,689			0	804	03/25/2037	4Z*
785778 PG 0	Saco I Trust Series 200 0.635% 07/25/36		09/26/2011	Paydown		960,690	960,690	523,495	490,727		63,971	59,343	4,628		960,689			0	1,647	07/25/2036	1Z*
785813 AA 4	Saco I Trust Series 200 0.375% 06/25/36		09/26/2011	Paydown		340,955	340,955	181,639	47,513	2,085	159,316		161,401		340,955			0	430	06/25/2036	5Z*
841238 AB 4	Southbridge Assoc MA 7.590% 02/01/22		08/01/2011	Redemption 100.0000		500,000	500,000	561,195	556,727		(2,092)		(2,092)		554,635		(54,635)	(54,635)	37,950	02/01/2022	2FE
881561 W9 1	Tenwin Mortgage Trust 4.500% 10/25/40		09/01/2011	Paydown		8,548	8,548	1,560	1,560		6,989		6,989		8,548			0	264	10/25/2040	1Z*
92976Y AA 0	Wachovia Asset 0.375% 07/25/37		09/26/2011	Paydown		244,225	244,225	131,135	131,135		113,090		113,090		244,225			0	602	07/25/2037	1Z*
92978L AA 6	Wachovia Asset 0.365% 07/25/37		09/26/2011	Paydown		944,530	944,530	501,893	501,893		442,637		442,637		944,530			0	2,266	07/25/2037	1Z*
05567L T3 1	BNP PARIBAS Diversified 5.000% 01/15/21	F..	07/06/2011	Credit Suisse SEC (USA), LLC		644,646	635,000	635,730			26		26		635,756		8,890	8,890	15,258	01/15/2021	1FE
19035R AL 3	Coast Investment Grade 0.879% 07/30/17	F..	07/29/2011	Paydown		1,895,441	1,895,441	1,899,731	1,898,360		(2,919)		(2,919)		1,895,441			0	19,610	07/30/2017	1FE
53947M AB 2	Lloyds TSB Bank Plc Mon 5.800% 01/13/20	F..	08/26/2011	Royal Bank of Scotland Plc		275,567	285,000	284,336	284,378		20		20		284,398		(8,831)	(8,831)	18,734	01/13/2020	1FE
78009P CC 3	Royal Bk of Scotland PL 4.375% 03/16/16	F..	07/19/2011	RBS Securities INC		1,001,660	1,000,000	998,050			73		73		998,123		3,537	3,537	15,313	03/16/2016	1FE
78010X AG 6	Royal Bk of Scotland PL 3.950% 09/21/15	F..	07/19/2011	Barclays Capital High Yield		2,989,830	3,000,000	2,961,600			3,219		3,219		2,964,819		25,011	25,011	99,408	09/21/2015	1FE
87927V AU 2	Telecom Italia Capital 6.999% 06/04/18	F..	09/12/2011	Morgan Stanley Capital Svcs Inc		2,349,665	2,377,000	2,641,322	2,613,711		(18,857)		(18,857)		2,594,854		(245,189)	(245,189)	129,858	06/04/2018	2FE
90261X FA 5	UBS AG Stamford Diversi 5.750% 04/25/18	F..	09/14/2011	Deutsche Bank Securities, Inc		2,126,380	2,000,000	2,172,700			(11,153)		(11,153)		2,161,547		(35,167)	(35,167)	103,500	04/25/2018	1FE
90261X FY 3	UBS AG Stamford 3.875% 01/15/15	F..	09/27/2011	Bank of America, N.A.		2,526,595	2,500,000	2,489,323	2,491,183		1,399		1,399		2,492,583		34,016	34,016	114,926	01/15/2015	1FE
3899999.	Total - Bonds - Industrial & Miscellaneous					146,571,224	184,634,801	119,185,042	68,800,536	1,815,091	22,906,167	1,012,809	23,708,449	0	141,724,676	0	4,846,549	4,846,549	2,636,655	XXX	XXX
8399997.	Total - Bonds - Part 4					177,044,737	214,767,714	149,589,135	88,920,616	1,815,091	22,838,046	1,012,809	23,640,328	0	172,050,743	0	4,993,994	4,993,994	3,620,702	XXX	XXX
8399999.	Total - Bonds					177,044,737	214,767,714	149,589,135	88,920,616	1,815,091	22,838,046	1,012,809	23,640,328	0	172,050,743	0	4,993,994	4,993,994	3,620,702	XXX	XXX
9999999.	Total - Bonds, Preferred and Common Stocks					177,044,737	XXX	149,589,135	88,920,616	1,815,091	22,838,046	1,012,809	23,640,328	0	172,050,743	0	4,993,994	4,993,994	3,620,702	XXX	XXX

QE05.5

(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	
Open Depositories								
Citibank, N.A..... London, England.....			720		921,731	1,165,326	171,993	XXX..
Citibank, N.A..... New York, New York.....			3		496,296	154,251	60,131	XXX..
Bank of New York..... New York, New York.....			13		2,351,004	141,698	303,185	XXX..
BNS Time Deposit CD..... Charlotte Amalie, USVI.....	SD.....	1.700		2,166	500,000	500,000	500,000	XXX..
Citibank Time Deposit CD..... Hagatna, Guam.....	SD.....	1.100		767	50,000	50,000	50,000	XXX..
0199999. Total Open Depositories.....	...XXX.....	...XXX.....	736	2,933	4,319,031	2,011,275	1,085,309	XXX..
0399999. Total Cash on Deposit.....	...XXX.....	...XXX.....	736	2,933	4,319,031	2,011,275	1,085,309	XXX..
0599999. Total Cash.....	...XXX.....	...XXX.....	736	2,933	4,319,031	2,011,275	1,085,309	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