



QUARTERLY STATEMENT

As of March 31, 2012
of the Condition and Affairs of the

Ambac Assurance Corporation Segregated Account, in Rehabilitation

NAIC Group Code 1248, 1248 NAIC Company Code 13763 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 March 24, 2010 Commenced Business March 24, 2010

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
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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 of Ambac Assurance Corporation

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
5. David Peter Barranco	Senior Managing Director	6. Iain Hay Bruce	Senior Managing Director
7. Cathleen Jean Matanle	Senior Managing Director	8. Michael Francis Reilly	Senior Managing Director
9. Ronit Vera Fischer	First Vice President & Secretary		

DIRECTORS OR TRUSTEES of Ambac Assurance Corporation

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 reporting entity has no officers, directors or trustees. The persons listed above are officers and/or directors of Ambac Assurance Corporation. The officers of Ambac Assurance Corporation being duly sworn, each depose and say that they are the described officers of Ambac Assurance Corporation, and that this reporting entity has appointed Ambac Assurance Corporation as its manager, with the authority to prepare and attest to this financial statement, 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	Ronit Vera Fischer	Robert Bryan Eisman
1. (Printed Name)	2. (Printed Name)	3. (Printed Name)
President (President & Chief Executive Officer), Ambac Assurance Corporation, in its capacity as manager of the Ambac Assurance Corporation Segregated Account	Secretary (First Vice President), Ambac Assurance Corporation, in its capacity as manager of the Ambac Assurance Corporation Segregated Account	Senior Managing Director & Chief Accounting Officer, Ambac Assurance Corporation, in its capacity as manager of the Ambac Assurance Corporation Segregated Account
(Title)	(Title)	(Title)

Subscribed and sworn to before me
This 15th day of May, 2012

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.....			.0	
2. Stocks:				
2.1 Preferred stocks.....			.0	
2.2 Common stocks.....			.0	
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 (\$.....0), cash equivalents (\$.....0) and short-term investments (\$.....96,501,809).....	96,501,809		96,501,809	
6. Contract loans (including \$.....0 premium notes).....			.0	
7. Derivatives.....			.0	
8. Other invested assets.....	1,582,570,398		1,582,570,398	1,687,026,836
9. Receivables for securities.....			.0	
10. Securities lending reinvested collateral assets.....			.0	
11. Aggregate write-ins for invested assets.....	.0	.0	.0	.0
12. Subtotals, cash and invested assets (Lines 1 to 11).....	1,679,072,207	.0	1,679,072,207	1,687,026,836
13. Title plants less \$.....0 charged off (for Title insurers only).....			.0	
14. Investment income due and accrued.....	18,644,569		18,644,569	21,042,822
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection.....			.0	
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$.....0 earned but unbilled premiums).....			.0	
15.3 Accrued retrospective premiums.....			.0	
16. Reinsurance:				
16.1 Amounts recoverable from reinsurers.....			.0	
16.2 Funds held by or deposited with reinsured companies.....			.0	
16.3 Other amounts receivable under reinsurance contracts.....			.0	
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.....			.0	
21. Furniture and equipment, including health care delivery assets (\$.....0).....			.0	
22. Net adjustment in assets and liabilities due to foreign exchange rates.....			.0	
23. Receivables from parent, subsidiaries and affiliates.....			.0	
24. Health care (\$.....0) and other amounts receivable.....			.0	
25. Aggregate write-ins for other than invested assets.....	.0	.0	.0	.0
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 through 25).....	1,697,716,776	.0	1,697,716,776	1,708,069,658
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			.0	
28. Total (Lines 26 and 27).....	1,697,716,776	.0	1,697,716,776	1,708,069,658

DETAILS OF WRITE-INS

1101.....			.0	
1102.....			.0	
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).....	.0	.0	.0	.0
2501.....			.0	
2502.....			.0	
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).....	.0	.0	.0	.0

LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Statement Date	2 December 31 Prior Year
1. Losses (current accident year \$.....0).....		
2. Reinsurance payable on paid losses and loss adjustment expenses.....		
3. Loss adjustment expenses.....		
4. Commissions payable, contingent commissions and other similar charges.....		
5. Other expenses (excluding taxes, licenses and fees).....	2,068,226	1,661,400
6. Taxes, licenses and fees (excluding federal and foreign income taxes).....		
7.1 Current federal and foreign income taxes (including \$.....0 on realized capital gains (losses)).....	100,000,000	
7.2 Net deferred tax liability.....		
8. Borrowed money \$.....0 and interest thereon \$.....0.....		
9. Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$.....0 and including warranty reserves of \$.....0 and accrued accident and health experience rating refunds including \$.....0 for medical loss ratio rebate per the Public Health Service Act.....		
10. Advance premium.....		
11. Dividends declared and unpaid:		
11.1 Stockholders.....		
11.2 Policyholders.....		
12. Ceded reinsurance premiums payable (net of ceding commissions).....		
13. Funds held by company under reinsurance treaties.....		
14. Amounts withheld or retained by company for account of others.....		
15. Remittances and items not allocated.....		
16. Provision for reinsurance.....		
17. Net adjustments in assets and liabilities due to foreign exchange rates.....		
18. Drafts outstanding.....		
19. Payable to parent, subsidiaries and affiliates.....		
20. Derivatives.....		
21. Payable for securities.....		
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.....	1,490,504,343	1,600,509,012
26. Total liabilities excluding protected cell liabilities (Lines 1 through 25).....	1,592,572,569	1,602,170,412
27. Protected cell liabilities.....		
28. Total liabilities (Lines 26 and 27).....	1,592,572,569	1,602,170,412
29. Aggregate write-ins for special surplus funds.....	0	0
30. Common capital stock.....		
31. Preferred capital stock.....		
32. Aggregate write-ins for other than special surplus funds.....	0	0
33. Surplus notes.....	89,081,612	89,081,612
34. Gross paid in and contributed surplus.....		
35. Unassigned funds (surplus).....	16,062,595	16,817,634
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).....	105,144,207	105,899,246
38. Totals.....	1,697,716,776	1,708,069,658

DETAILS OF WRITE-INS

2501. Liabilities allocated from Ambac Assurance Corporation.....	6,801,814,599	6,208,078,715
2502. Liabilities ceded to Ambac Assurance Corporation.....	(5,311,310,256)	(4,607,569,703)
2503.		
2598. Summary of remaining write-ins for Line 25 from overflow page.....	0	0
2599. Totals (Lines 2501 thru 2503 plus 2598) (Line 25 above).....	1,490,504,343	1,600,509,012
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 \$.....0)			
1.2 Assumed..... (written \$.....0)			
1.3 Ceded..... (written \$.....0)			
1.4 Net..... (written \$.....0)	0	0	0
DEDUCTIONS:			
2. Losses incurred (current accident year \$.....0):			
2.1 Direct.....			
2.2 Assumed.....			
2.3 Ceded.....			
2.4 Net.....	0	0	0
3. Loss adjustment expenses incurred.....			
4. Other underwriting expenses incurred.....	7,665,830	40,244,580	82,595,445
5. Aggregate write-ins for underwriting deductions.....	0	0	0
6. Total underwriting deductions (Lines 2 through 5).....	7,665,830	40,244,580	82,595,445
7. Net income of protected cells.....			
8. Net underwriting gain (loss) (Line 1 minus Line 6 + Line 7).....	(7,665,830)	(40,244,580)	(82,595,445)
INVESTMENT INCOME			
9. Net investment income earned.....	18,644,569	20,721,467	85,323,777
10. Net realized capital gains (losses) less capital gains tax of \$.....0			
11. Net investment gain (loss) (Lines 9 + 10).....	18,644,569	20,721,467	85,323,777
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.....	89,021,261	19,523,113	(2,728,332)
15. Total other income (Lines 12 through 14).....	89,021,261	19,523,113	(2,728,332)
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15).....	100,000,000	0	0
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).....	100,000,000	0	0
19. Federal and foreign income taxes incurred.....	100,000,000		
20. Net income (Line 18 minus Line 19) (to Line 22).....	0	0	0
CAPITAL AND SURPLUS ACCOUNT			
21. Surplus as regards policyholders, December 31 prior year.....	105,899,246	50,179,095	50,179,095
22. Net income (from Line 20).....	0	0	0
23. Net transfers (to) from Protected Cell accounts.....			
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$.....0	(755,039)	1,095,553	(1,132,515)
25. Change in net unrealized foreign exchange capital gain (loss).....			
26. Change in net deferred income tax.....			
27. Change in nonadmitted assets.....		(1,084,599)	17,771,054
28. Change in provision for reinsurance.....			
29. Change in surplus notes.....		3,000,000	39,081,612
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.....			
33.2 Transferred to capital (Stock Dividend).....			
33.3 Transferred from capital.....			
34. Net remittances from or (to) Home Office.....			
35. Dividends to stockholders.....			
36. Change in treasury stock.....			
37. Aggregate write-ins for gains and losses in surplus.....	0	0	0
38. Change in surplus as regards policyholders (Lines 22 through 37).....	(755,039)	3,010,954	55,720,151
39. Surplus as regards policyholders, as of statement date (Lines 21 plus 38).....	105,144,207	53,190,049	105,899,246
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. Change in liabilities allocated from Ambac Assurance Corporation.....	(593,735,885)	(7,337,096)	(581,674,665)
1402. Settlements of liabilities allocated from Ambac Assurance Corporation.....	(20,983,407)	(19,610,754)	(283,693,384)
1403. Change in liabilities ceded to Ambac Assurance Corporation.....	703,740,553	46,470,963	862,639,717
1498. Summary of remaining write-ins for Line 14 from overflow page.....	0	0	0
1499. Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above).....	89,021,261	19,523,113	(2,728,332)
3701.			
3702.			
3703.			
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).....	0	0	0

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.....			
2. Net investment income.....			
3. Miscellaneous income.....			
4. Total (Lines 1 through 3).....	0	0	0
5. Benefit and loss related payments.....			
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			
7. Commissions, expenses paid and aggregate write-ins for deductions.....	17,475,000	11,046,392	146,947,611
8. Dividends paid to policyholders.....			
9. Federal and foreign income taxes paid (recovered) net of \$.....0 tax on capital gains (losses).....			
10. Total (Lines 5 through 9).....	17,475,000	11,046,392	146,947,611
11. Net cash from operations (Line 4 minus Line 10).....	(17,475,000)	(11,046,392)	(146,947,611)
CASH FROM INVESTMENTS			
12. Proceeds from investments sold, matured or repaid:			
12.1 Bonds.....			
12.2 Stocks.....			
12.3 Mortgage loans.....			
12.4 Real estate.....			
12.5 Other invested assets.....	113,976,809	11,046,392	146,947,611
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments.....			
12.7 Miscellaneous proceeds.....			
12.8 Total investment proceeds (Lines 12.1 to 12.7).....	113,976,809	11,046,392	146,947,611
13. Cost of investments acquired (long-term only):			
13.1 Bonds.....			
13.2 Stocks.....			
13.3 Mortgage loans.....			
13.4 Real estate.....			
13.5 Other invested assets.....			
13.6 Miscellaneous applications.....			
13.7 Total investments acquired (Lines 13.1 to 13.6).....	0	0	0
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).....	113,976,809	11,046,392	146,947,611
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.....			
16.3 Borrowed funds.....			
16.4 Net deposits on deposit-type contracts and other insurance liabilities.....			
16.5 Dividends to stockholders.....			
16.6 Other cash provided (applied).....			
17. Net cash from financing and miscellaneous sources (Lines 16.1 through 16.4 minus Line 16.5 plus Line 16.6).....	0	0	0
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).....	96,501,809	0	0
19. Cash, cash equivalents and short-term investments:			
19.1 Beginning of year.....	0		
19.2 End of period (Line 18 plus Line 19.1).....	96,501,809	0	0

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.....		3,000,000	3,000,000
20.0002	Issuance of junior surplus notes in connection with the termination of One State Street Plaza office lease.....			36,081,612
20.0003	Settlement of commutation via reduction in Secured Note.....			101,643,126
20.0004	Settlement of loss adjustment expenses via reduction in Secured Note.....	3,508,407	5,564,363	32,102,647
20.0005	Settlement of other expenses via reduction in Secured Note.....	7,259,004	4,483,724	47,915,683
20.0006	Increase in Secured Note for capitalized interest.....	21,042,822	22,287,908	86,767,180

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

a. Accounting Practices

The accompanying financial statements of Ambac Assurance Corporation Segregated Account, in Rehabilitation (the "Segregated Account" or the "Company") have been prepared on the basis of accounting practices prescribed or permitted by Office of the Commissioner of Insurance of the State of Wisconsin ("OCI"). The financial statements of the Segregated Account should be read collectively with the financial statements of Ambac Assurance Corporation ("Ambac Assurance").

The OCI 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 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, 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 certain surplus notes issued in settlement of third party 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 common and preferred shareholders. Statutory surplus is not impacted as a result of the prescribed practice as it is a reclassification from unassigned funds to surplus notes. Net income for the three months ended March 31, 2012 and for the year ended December 31, 2011 is lower by \$0 and \$39,081,612 respectively than if the Company had recorded the issuance of surplus notes in accordance with NAIC SAP.

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>March 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
Net Income, Wisconsin basis	\$ -	\$ -
Effect of Wisconsin Prescribed Practice:	-	39,081,612
Effect of Wisconsin Permitted Practice:	-	-
Net Income, NAIC SAP	<u>\$ -</u>	<u>\$ 39,081,612</u>
Statutory Surplus, Wisconsin basis	\$ 105,144,207	\$ 105,899,246
Effect of Wisconsin Prescribed Practice:	-	-
Effect of Wisconsin Permitted Practice:	-	-
Statutory Surplus, NAIC SAP	<u>\$ 105,144,207</u>	<u>\$ 105,899,246</u>

The Segregated Account may issue surplus notes in connection with the commutation of various insurance policies and settlement of liabilities allocated to the Segregated Account. In addition, the Segregated Account may issue junior surplus notes in connection with the settlement of non policy liabilities. As further discussed in Note 10, the Segregated Account is expected to issue \$350,000,000 of junior surplus notes to Ambac Financial Group, Inc. ("Ambac") on the bankruptcy plan Settlement Closing Date.

For the three months ended March 31, 2012 the Segregated Account did not issue any surplus notes.

Note 2 - Accounting Changes and Corrections of Errors

No significant change from 2011 Notes to Financial Statements.

Note 3 - Business Combinations and Goodwill

No significant change from 2011 Notes to Financial Statements.

Note 4 - Discontinued Operations

No significant change from 2011 Notes to Financial Statements.

Note 5 - Investments

e. Repurchase Agreements and/or Securities Lending Agreements.

In March 2012, the Segregated Account entered into a repurchase agreement with Ambac Assurance under which the Segregated Account loaned Ambac Assurance \$96,501,809. The repurchase agreement matures on December 31, 2012, earns interest at a rate 4.5% per annum, and is collateralized with investment grade corporate and taxable municipal securities with a combined fair value of \$106,921,149 as of March 31, 2012. The securities received by the Segregated Account pursuant to the repurchase transaction have been placed in escrow pursuant to the terms of the Offer Letter (as defined in Note 14). Under the terms of the repurchase agreement, if at any time the fair value of the collateral falls below the threshold specified, then the Segregated Account may require Ambac Assurance to transfer additional cash or securities to satisfy the shortfall. See Note 9 for more information about the repurchase agreement, escrow account and related transactions.

Note 6 - Joint Ventures, Partnerships and Limited Liability Companies

No significant change from 2011 Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS**Note 7 – Investment Income**

No significant change from 2011 Notes to Financial Statements.

Note 8 – Derivative Instruments

No significant change from 2011 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:

	3/31/2012
Current income tax incurred	\$ 100,000,000
Change in deferred income tax (without tax on unrealized gains & losses)	-
Total income tax reported	\$ 100,000,000
Income before taxes	\$ 100,000,000
	35%
Expected income tax benefit at 35% statutory rate	\$ 35,000,000
Increase in actual tax reported resulting from:	
a. Additional tax effect of changes in tax reserves	65,000,000
Total income tax reported	\$ 100,000,000

The \$100,000,000 increase in tax reserves relates to the proposed IRS Settlement (described below in Note 14). It is offset by \$100,000,000 income due to the cession of the liability via an excess of loss reinsurance agreement with Ambac Assurance. The result is a net profit and loss after tax effect of zero.

As described in Note 14, Ambac Assurance and/or the Segregated Account offered to pay \$100,000,000 to the United States Department of the Treasury to settle the IRS Dispute (as defined in Note 10) and related proceedings, subject to the other terms and conditions of the Offer Letter (as defined in Note 14). In accordance with the Offer Letter, the United States and the Segregated Account entered into an Escrow Agreement, dated as of March 8, 2012 (the "Escrow Agreement"), with The Bank of New York Mellon as escrow agent (the "Escrow Agent"), pursuant to which the Segregated Account deposited with the Escrow Agent securities with an aggregate fair market value of no less than \$100,000,000. The Escrow Agreement requires the Segregated Account to maintain at least \$100,000,000 in cash or qualifying securities until (i) the IRS Settlement (as defined in Note 14) is consummated or (ii) the Seventh Circuit Court of Appeals issues a ruling with respect to the appeals pending in such court (as described in Note 14). In connection with the transactions contemplated by the Escrow Agreement, Ambac Assurance and the Segregated Account entered into a repurchase agreement whereby Ambac Assurance borrowed \$96,501,809 from the Segregated Account in exchange for collateral consisting of corporate and taxable municipal securities which have an aggregate fair value of \$106,921,149 as of March 31, 2012 (the "Repurchase Collateral"). The Segregated Account subsequently utilized the Repurchase Collateral to satisfy the requirements of the Escrow Agreement. The Segregated Account acquired the amount loaned to Ambac Assurance by drawing on the Secured Note (as defined in Note 20).

Note 10 - Information Concerning Parent, Subsidiaries, Affiliates and Other Related Parties**2010, 2011 and Recent Events - Ambac and Ambac Assurance:****Segregated Account**

On March 24, 2010, Ambac Assurance established 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. The purpose of the Segregated Account is to segregate certain segments of Ambac Assurance's liabilities. The Office of the Commissioner of Insurance for the State of Wisconsin ("OCI" (which term shall be understood to refer to such office as regulator of Ambac Assurance and to the Commissioner of Insurance for the State of Wisconsin as rehabilitator of the Segregated Account (the "Rehabilitator"), as the context requires)) commenced rehabilitation proceedings with respect to the Segregated Account (the "Segregated Account Rehabilitation Proceedings") in order to permit the OCI to facilitate an orderly run-off and/or settlement of the liabilities allocated to the Segregated Account pursuant to the provisions of the Wisconsin Insurers Rehabilitation and Liquidation Act. The Rehabilitator is Theodore Nickel, the Commissioner of Insurance of the State of Wisconsin. 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 Circuit Court of Dane County, Wisconsin in which the Segregated Account Rehabilitation Proceedings are pending (the "Rehabilitation Court"). The Rehabilitation Court confirmed the Segregated Account Rehabilitation Plan on January 24, 2011. The confirmed Segregated Account Rehabilitation Plan also makes permanent the injunctions issued by the Rehabilitation Court on March 24, 2010.

The Segregated Account Rehabilitation Plan is not effective and is subject to modification. Pursuant to the injunctions issued by the Rehabilitation Court, claims on policies allocated to the Segregated Account have not been paid since the commencement of the Segregated Account Rehabilitation Proceedings. Net par exposure as of March 31, 2012 for policies allocated to the Segregated Account is \$33,593,392,974. The Rehabilitator may seek to effectuate the current Segregated Account Rehabilitation Plan, modify such Plan or modify the injunctions issued by the Rehabilitation Court to allow for the payment of policy claims in such manner and at such times as the Rehabilitator determines to be in the best interest of policyholders.

Chapter 11 Reorganization

On November 8, 2010 (the "Petition Date"), Ambac (the "Debtor") 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

NOTES TO FINANCIAL STATEMENTS

(“Bankruptcy Court”). Ambac, as debtor and debtor-in-possession, filed a Fifth Amended Plan of Reorganization on March 12, 2012 (such Fifth Amended Plan of Reorganization, as it may be amended, the “Reorganization Plan”). The Bankruptcy Court entered an order confirming the Reorganization Plan on March 14, 2012.

The Reorganization Plan reflects a resolution of certain issues (the “Amended Plan Settlement”) among Ambac, the statutory committee of creditors appointed by the United States Trustee on November 17, 2010 (the “Creditors’ Committee”), Ambac Assurance, the Segregated Account and OCI related to (i) the net operating loss carryforwards (“NOLs”) of the consolidated tax group of which Ambac is the parent and Ambac Assurance is a member (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 that certain Mediation Agreement dated 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.

Pursuant to the Amended Plan Settlement, (i) Ambac, Ambac Assurance and certain affiliates entered into an amended and restated tax sharing agreement (the “Amended TSA”), (ii) Ambac, Ambac Assurance and certain affiliates entered into an expense sharing and cost allocation agreement (the “Cost Allocation Agreement”) and (iii) Ambac, Ambac Assurance, the Segregated Account and OCI entered into an amendment (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”).

The Amended TSA replaces, supersedes and nullifies in its entirety the existing tax sharing agreement among Ambac and its affiliates. The Amended TSA addresses certain issues including, but not limited to, the allocation and use of NOLs by Ambac, Ambac Assurance and their respective subsidiaries.

The Cost Allocation Agreement provides for the allocation of costs and expenses among Ambac, Ambac Assurance and certain affiliates. 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 United States Internal Revenue Service (“IRS”) described in Note 14.

The Cooperation Agreement Amendment provides 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 determined in accordance with Statutory Accounting Principles; and (d) changes to Ambac Assurance’s investment policy and transfer of the investment management function for Ambac Assurance’s investment portfolio.

Pursuant to the Mediation Agreement Ambac Assurance transferred \$30,000,000 (the “Cash Grant”) to an escrow on March 15, 2012. The Mediation Agreement 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 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 Ambac Assurance 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 Ambac Assurance Subgroup pursuant to the Amended TSA by more than 10%; and (iv) a determination that neither an “ownership change” as defined under Section 382 of the Internal Revenue Code of 1986, as amended (the “Tax Code”) with respect to Ambac Assurance nor a deconsolidation for tax purposes occurred during the 2010 taxable year as a result of certain events. 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, “Ambac Assurance 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 Tax 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 Tax 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 Amended Plan Settlement, Mediation Agreement, Amended TSA, Cost Allocation Agreement and Cooperation Agreement Amendment collectively memorialize the settlement of certain claims among Ambac and Ambac Assurance, OCI and the Segregated Account, and contain 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.

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 (as defined in Note 14) shall have become effective; (vii) the terms of the IRS Settlement (as defined in Note 14) shall have been approved by OCI, the United States, the Rehabilitation Court, and the Creditors’ Committee, and all conditions to the effectiveness of the IRS Settlement shall have been satisfied; (viii) the IRS Settlement and all transaction documents relating thereto shall have been executed by the parties thereto; (ix) the Bankruptcy Court shall have entered an order pursuant to Bankruptcy Rule 9019 approving the IRS Settlement; (x) the aggregate face amount of allowed and disputed general unsecured claims shall be less than \$50,000,000; (xi) the Rehabilitation Court shall have approved the transactions contemplated by the Mediation Agreement, the Amended TSA, the Cost Allocation Agreement, and the Cooperation Agreement Amendment; (xii) \$30,000,000 shall have been paid or paid into escrow by Ambac Assurance as provided in the Mediation Agreement; (xiii) the Amended TSA, the Cooperation Agreement Amendment and the Cost Allocation Agreement shall have been executed; and (xiv) all other actions, documents, certificates and agreements necessary to implement the Reorganization Plan shall have been effected or executed and delivered to the required parties and, to the extent required, filed with applicable governmental units in accordance with applicable laws. Of the conditions

NOTES TO FINANCIAL STATEMENTS

enumerated above, the following have been satisfied: (i); (x); (xi); (xii) and (xiii). There can be no assurance about whether or when the remaining conditions will be met.

B. Transactions with Affiliates

As discussed in Note 5.e. and Note 9, in March 2012, the Segregated Account entered into a repurchase agreement with Ambac Assurance, under which the Segregated Account loaned Ambac Assurance \$96,501,809.

Note 11- Debt

No significant change from 2011 Notes to Financial Statements.

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

No significant change from 2011 Notes to Financial Statements.

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

No significant change from 2011 Notes to Financial Statements.

Note 14 – Contingencies

Ambac Assurance periodically receives 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 Segregated Account Rehabilitation Proceedings. On January 24, 2011, the Rehabilitation Court issued its Decision and Final Order Confirming the Rehabilitator's Segregated Account 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 holding policyholders. Such appeals are pending.

On November 10, 2011, the Rehabilitation Court issued an order authorizing the Commissioner, as Rehabilitator, and the Segregated Account to proceed in accordance with the terms and conditions of the Mediation Agreement and its related agreements and to carry out all transactions necessary to effectuate those agreements. Notices of appeal from this order were filed by the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) and a group describing itself as the "RMBS Holders," which claims to own or manage funds that own residential mortgage-backed securities insured by Ambac Assurance.

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 CDS is an unsettled area of the tax law. In 2010, the IRS 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 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 approximately \$807 million 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. 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 approximately \$807 million.

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 non-debtor subsidiaries in the consolidated tax group that would violate the injunction entered by the Wisconsin Rehabilitation Court, whether or not such injunction is 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 non-debtor 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 that, pursuant to further stipulation of the parties, required 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 (A) an ownership change, within the meaning of section 382 of the Tax Code, with respect to Ambac Assurance, or (B) 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, within the meaning of the Tax Code, occurred during the 2010 taxable year as a result of the transactions consummated pursuant to the Settlement Agreement entered into on June 7, 2010 by Ambac, Ambac Assurance, Ambac Credit Products, LLC ("ACP") and counterparties to outstanding credit default swaps with ACP, or for any other reason [Docket No. 362] (the "IRS Claim Estimation Motion"). The IRS Claim Estimation Motion was scheduled for hearing on December 13, 2011, but was adjourned pending settlement discussions with the United States.

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 tax group. On December 8, 2010, the IRS removed the Segregated Account Rehabilitation Proceedings to the United

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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 a supplemental injunction (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 condition 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 against the IRS of the Supplemental Injunction and the Confirmation Order. 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 appeals concluded on January 24, 2012, but oral argument has not been scheduled. The parties have jointly asked the Seventh Circuit not to schedule oral argument in light of the written settlement offer submitted to the IRS and the Department of Justice, Tax Division, which is described below.

On February 24, 2012, Ambac, the Creditors' Committee, Ambac Assurance, the Segregated Account, OCI, and the Rehabilitator submitted to the IRS and the Department of Justice, Tax Division a proposal (the "Offer Letter") to settle the IRS Dispute and related proceedings which includes the following terms that Ambac believes will be acceptable to the United States: (i) a payment by Ambac Assurance and/or the Segregated Account of \$100,000,000; (ii) a payment by Ambac of \$1,900,000; (iii) the Ambac Consolidated Group will relinquish its claim to all loss carry-forwards resulting from losses on credit default swap contracts and arising on or before December 31, 2010 to the extent such loss carry-forwards exceed \$3.4 billion; and (iv) the IRS will be paid 12.5% of any payment to Ambac by Ambac Assurance associated with NOL Usage Tier C (as described in the Amended TSA) and the IRS will be paid 17.5% of any payment to Ambac by Ambac Assurance associated with NOL Usage Tier D (as described in the Amended TSA) (the "IRS Settlement"). Finality of the settlement will require the satisfaction of certain conditions and the approval of the United States, the Bankruptcy Court and the Rehabilitation Court. As a result of the progress made toward a settlement framework, remaining discovery in the case was put on hold pending the parties' further reports to the Bankruptcy Court. There can be no assurance that the IRS Settlement will be finalized on the terms described above, if at all, or as to the timing of any such settlement. Pursuant to the terms of the Offer Letter, on April 24, 2012 Ambac submitted to the IRS a private letter ruling request ("PLR") seeking, in part, a favorable ruling from the IRS with respect to rulings under section 382 and section 269 of the Tax Code regarding certain U.S. federal income tax consequences related to Ambac's bankruptcy plan of reorganization. The IRS Settlement is conditioned on the IRS issuing a favorable ruling on the PLR request.

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, other than with respect to the litigation with the IRS, as to which the Segregated Account has accrued a \$100 million liability. For the remaining litigation matters that do not meet the "probable and reasonably estimable" threshold and where no loss estimates have been provided above, management is unable to make a meaningful estimate of the amount or range of loss that could result from unfavorable outcomes but, under some circumstances, adverse results in any such proceedings could be material to our business, operations, financial position, profitability or cash flows. The Company believes that it has substantial defenses to the claims filed against it in these lawsuits and, to the extent that these actions proceed, the Company intends to defend itself vigorously; however, the Company is not able to predict the outcomes of these actions.

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. 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 March 30, 2012). Ambac Assurance alleges claims for fraudulent inducement and breach of contract against EMC and J.P. Morgan Securities Inc., as well as claims against JP Morgan Chase Bank, N.A. as EMC's successor in interest, arising from the defendants' misrepresentations and breaches of contractual warranties regarding certain transactions that are not the subject of Ambac Assurance's previously filed lawsuit against the same defendants (described above). Defendants have not yet responded to the complaint.
- *Ambac Assurance Corporation and The Segregated Account of Ambac Assurance Corporation v. First Franklin Financial Corporation, Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith Inc., Merrill Lynch Mortgage Lending, Inc., and Merrill Lynch Mortgage Investors, Inc.* (Supreme Court of the State of New York, County of New York, filed April 16, 2012). Ambac Assurance alleges breach of contract, fraudulent inducement, indemnification, reimbursement and requested the repurchase of loans that breach representations and warranties as required under the contracts, as well as damages. Defendants have not yet responded to the Complaint.
- *Ambac Assurance Corporation and the Segregated Account of Ambac Assurance Corporation v. DLJ Mortgage Capital, Inc. and Credit Suisse Securities (USA) LLC* (Supreme Court of the State of New York, County of New York, filed on January 12, 2010). Ambac Assurance alleged breach of contract, fraudulent inducement, breach of implied duty of good faith and fair dealing, indemnification, reimbursement and requested the repurchase of loans that breach representations and warranties as required under the contracts, as well as damages. On July 8, 2010, the defendants moved to dismiss the complaint. Ambac Assurance opposed the motion. In decisions dated April 7, 2011 and October 7, 2011, the Court granted the defendants' motion in part striking only Ambac Assurance's claim for consequential damages and jury demand. The Court otherwise denied the defendants' motion. Discovery is ongoing. No trial date has been set.
- *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

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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. The defendants answered the Amended Complaint on or about November 3, 2011. Discovery is ongoing. No trial date has been set.

Note 15 – Leases

No significant change from 2011 Notes to Financial Statements.

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

In connection with the establishment of the Segregated Account, financial guarantee insurance policies were allocated to the Segregated Account. Financial guarantee insurance policies guarantee payment, when due, of principal and interest on the guaranteed obligation. Total gross principal and interest on exposures allocated to the Segregated Account, at March 31, 2012 was \$49,593,926,654. An excess of loss reinsurance agreement with Ambac Assurance as provided by the Plan of Operation provides protection to the allocated exposures.

Note 17 – Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities

c. The Company did not engage in any wash sale transactions during 2012.

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

No significant change from 2011 Notes to Financial Statements.

Note 19 – Direct Premium Written/Produced by Managing General Agents/Third Party Administrators

No significant change from 2011 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 instruments for which it is practicable to estimate that value:

Short-Term Investments

The fair value of short-term investments approximates carry value.

Other Invested Assets

The fair value of other invested assets approximates carrying value. Included in other invested assets is the \$2,000,000,000 secured note due in 2050 (the “Secured Note”) issued by Ambac Assurance to the Segregated Account. The Company and Ambac Assurance are a single corporate entity and the estimated fair value of the Secured Note included in Other Invested Assets below does not include a credit valuation adjustment for the Ambac Assurance’s creditworthiness, consistent with paragraph 14 of Statement of Statutory Accounting Principles No. 100 “Fair Value Measurements”.

Investment Income Due and Accrued

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

Liabilities Allocated from Ambac Assurance

The fair value estimate represents a net liability to the Company and is the sum of the present values of: expected losses (excluding the effect of reinsurance or subrogation recoveries that reside in Ambac Assurance) for both defaulted and non-defaulted allocated policies, and claims presented and not paid as a result of the claim moratorium imposed by the Rehabilitation Court on March 24, 2010; partially offset by future installment premiums.

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. The risk free rate was utilized to calculate present values, and net par outstanding is monitored by Ambac Assurance’s Surveillance Group.

There are a number of factors that limit our ability to accurately estimate the fair value of the liabilities allocated from Ambac Assurance. The first limitation is the lack of observable pricing data points as a result of Ambac Assurance no longer writing new financial guarantee business. 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.

Liabilities ceded to Ambac Assurance

The fair value estimate represents a net asset to the Company and is the excess of the estimated fair value of liabilities allocated from Ambac Assurance over the sum of the estimated fair values of: (i) other invested assets, and (ii) investment income due and accrued. Under the terms of the Reinsurance Agreement (as defined in Note 23), Ambac Assurance assumes all liabilities in excess of the Secured Note principal balance and the total of all other liquid assets, subject to the minimum Ambac Assurance surplus of \$100,000,000, or such higher amount as the OCI permits pursuant to a prescribed accounting practice.

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

	March 31, 2012	
	Carrying amount	Estimated fair value
Financial assets:		
Short-term investments	\$ 96,501,809	\$ 96,501,809
Other invested assets	1,582,570,398	1,582,570,398
Investment income due and accrued	18,644,569	18,644,569
Liabilities ceded to Ambac Assurance	5,311,310,256	6,883,805,304
Financial liabilities:		
Liabilities allocated from Ambac Assurance	\$ 6,801,814,599	\$ 8,485,020,271

The Segregated Account has no assets or liabilities carried at fair value at March 31, 2012.

Note 21 - Other Items

No significant change from 2011 Notes to Financial Statements.

Note 22 - Events Subsequent

Pursuant to SSAP 9, Subsequent Events, the date through which subsequent events have been evaluated was May 15, 2012 for the three months ended March 31, 2012, the same date on which the Segregated Account's statements are issued.

Note 23 - Reinsurance

Ambac Assurance provides aggregate excess of loss reinsurance to the Segregated Account pursuant to an Aggregate Excess of Loss Reinsurance Agreement (the "Reinsurance Agreement") 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 62, the allocation of insurance policies to the Segregated Account as well as the Reinsurance Agreement has been recorded as retroactive reinsurance since these contracts were executed in connection with a court-ordered rehabilitation of the Segregated Account. Accordingly, the net balances due under these obligations are reported in as a net write-in contra-liability.

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

	Liabilities allocated to the Segregated Account	Liabilities Ceded to Ambac Assurance	Net Liabilities allocated to the Segregated Account
Initial allocation and assumption of (Liabilities)/Assets	\$ (3,639,973,059)	\$ 1,639,973,059	\$ (2,000,000,000)
Changes in 2011 and prior	(2,568,105,656)	2,967,596,644	399,490,988
Changes in current year	(593,735,884)	703,740,553	110,004,669
(Liabilities)/Assets At March 31, 2012	<u>\$ (6,801,814,599)</u>	<u>\$ 5,311,310,256</u>	<u>\$ (1,490,504,343)</u>
	Liabilities allocated to the Segregated Account	Liabilities Ceded to Ambac Assurance	Impact to Surplus
(Liabilities)/Assets as of March 31, 2012	\$ (6,801,814,599)	\$ 5,311,310,256	n/a
Consideration received from Ambac Assurance	2,000,000,000	-	n/a
Loss and LAE payments in 2011 and prior	(441,283,243)	-	n/a
Loss and LAE payments in current year	(20,983,407)	-	n/a
Surplus Impact through March 31, 2012	<u>\$ (5,264,081,249)</u>	<u>\$ 5,311,310,256</u>	<u>\$ 47,229,007</u>

The liabilities allocated to the Segregated Account from Ambac Assurance consist of loss reserves and loss adjustment expenses, gross of remediation and gross of reinsurance.

NOTES TO FINANCIAL STATEMENTS

Settlements in the current year and in 2011 and prior consist of the following:

	<u>Current Year</u>	<u>2011 and Prior</u>
Commutations – in the form of surplus notes issued by the Segregated Account	\$ -	\$ 53,000,000
Commutations – in the form of cash settlements paid by the Segregated Account	17,475,000	211,947,611
Commutations – in the form of cash settlements paid by Ambac Assurance to third parties on behalf of the Segregated Account and settled via reduction of the Secured Note	-	101,643,126
Loss adjustment expenses	3,508,407	74,692,506
	<u>\$ 20,983,407</u>	<u>\$ 441,283,243</u>

Note 24 - Retrospectively Rated Contracts & Contracts Subject to Redetermination

No significant change from 2011 Notes to Financial Statements.

Note 25 - Change in Incurred Losses and Loss Adjustment Expenses

No significant change from 2011 Notes to Financial Statements.

Note 26 - Intercompany Pooling Arrangements

No significant change from 2011 Notes to Financial Statements.

Note 27 - Structured Settlements

No significant change from 2011 Notes to Financial Statements.

Note 28 - Health Care Receivables

No significant change from 2011 Notes to Financial Statements.

Note 29 - Participating Policies and Health Policies

No significant change from 2011 Notes to Financial Statements.

Note 30 - Premium Deficiency Reserves

No significant change from 2011 Notes to Financial Statements.

Note 31 - High Deductibles

No significant change from 2011 Notes to Financial Statements.

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

No significant change from 2011 Notes to Financial Statements.

Note 33 - Asbestos/Environmental Reserve

No significant change from 2011 Notes to Financial Statements.

Note 34 - Subscriber Savings Accounts

No significant change from 2011 Notes to Financial Statements.

Note 35 - Multiple Peril Crop Insurance

No significant change from 2011 Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

Note 36 - Financial Guaranty Insurance

No significant change from 2011 Notes to Financial Statements.

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. 12/31/2011.....

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.

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).

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 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 FDIC	6 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).
The Code of Conduct changes are applicable to all senior officers, senior managers, employees, or persons performing similar functions. Changes to the Code of Conduct include the revision of our No Solicitation and Distribution Policy and the addition of our Non-Public Personal Information Policy. The No Solicitation Policy has been revised to allow for passive fundraising with prior approval from the Company's Compliance Officer. The Non-Public Personal Information Policy outlines the responsibilities for protecting private personal information (i.e. social security numbers, bank account information, credit information, etc.) that an employee may have access to.

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).

PART 1 - FINANCIAL

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

10.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount:

PART 1 - INVESTMENT

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

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

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.....	\$0	\$0
14.24 Short-Term Investments.....	\$0	\$0
14.25 Mortgage Loans on Real Estate.....	\$0	\$0
14.26 All Other.....	\$1,687,026,836	\$1,582,570,398
14.27 Total Investment in Parent, Subsidiaries and Affiliates (Subtotal Lines 14.21 to 14.26).....	\$1,687,026,836	\$1,582,570,398
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 1, III - General Examination Considerations, F. Outsourcing of Critical Functions, Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook? Yes [] No [X]

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

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

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 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 [] No [X]
 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	
						0					0
Total.....	XXX	XXX	0	0	0	0	0	0	0	0	0

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

Ambac Assurance Corporation Segregated Account, in Rehabilitation

SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN

Current Year to Date - Allocated by States and Territories

States, Etc.	1 Active Status	Direct Premiums Written		Direct Losses Paid (Deducting Salvage)		Direct Losses Unpaid	
		2 Current Year to Date	3 Prior Year to Date	4 Current Year to Date	5 Prior Year to Date	6 Current Year to Date	7 Prior Year to Date
1. Alabama.....AL	N						
2. Alaska.....AK	N						
3. Arizona.....AZ	N						
4. Arkansas.....AR	N						
5. California.....CA	N						
6. Colorado.....CO	N						
7. Connecticut.....CT	N						
8. Delaware.....DE	N						
9. District of Columbia.....DC	N						
10. Florida.....FL	N						
11. Georgia.....GA	N						
12. Hawaii.....HI	N						
13. Idaho.....ID	N						
14. Illinois.....IL	N						
15. Indiana.....IN	N						
16. Iowa.....IA	N						
17. Kansas.....KS	N						
18. Kentucky.....KY	N						
19. Louisiana.....LA	N						
20. Maine.....ME	N						
21. Maryland.....MD	N						
22. Massachusetts.....MA	N						
23. Michigan.....MI	N						
24. Minnesota.....MN	N						
25. Mississippi.....MS	N						
26. Missouri.....MO	N						
27. Montana.....MT	N						
28. Nebraska.....NE	N						
29. Nevada.....NV	N						
30. New Hampshire.....NH	N						
31. New Jersey.....NJ	N						
32. New Mexico.....NM	N						
33. New York.....NY	N						
34. North Carolina.....NC	N						
35. North Dakota.....ND	N						
36. Ohio.....OH	N						
37. Oklahoma.....OK	N						
38. Oregon.....OR	N						
39. Pennsylvania.....PA	N						
40. Rhode Island.....RI	N						
41. South Carolina.....SC	N						
42. South Dakota.....SD	N						
43. Tennessee.....TN	N						
44. Texas.....TX	N						
45. Utah.....UT	N						
46. Vermont.....VT	N						
47. Virginia.....VA	N						
48. Washington.....WA	N						
49. West Virginia.....WV	N						
50. Wisconsin.....WI	L						
51. Wyoming.....WY	N						
52. American Samoa.....AS	N						
53. Guam.....GU	N						
54. Puerto Rico.....PR	N						
55. US Virgin Islands.....VI	N						
56. Northern Mariana Islands.....MP	N						
57. Canada.....CN	N						
58. Aggregate Other Alien.....OT	XXX	0	0	0	0	0	0
59. Totals.....	(a).....1	0	0	0	0	0	0

DETAILS OF WRITE-INS

5801.....	XXX						
5802.....	XXX						
5803.....	XXX						
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	0	0	0	0	0	0

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

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

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

**Sch. Y-Pt 1
NONE**

**Schedule Y-Part 1A
NONE**

**Pt 1
NONE**

**Pt 2
NONE**

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)	2012 Loss and LAE Payments on Claims Reported as of Prior Year-End	2012 Loss and LAE Payments on Claims Unreported as of Prior Year-End	Total 2012 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. 2009 + Prior.....			.....0			.....0				.....0	.....0	.....0	.....0
2. 2010.....			.....0			.....0				.....0	.....0	.....0	.....0
3. Subtotals 2010 + Prior.....	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0
4. 2011.....			.....0			.....0				.....0	.....0	.....0	.....0
5. Subtotals 2011 + Prior.....	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0
6. 2012.....	.....XXX	.....XXX	.....XXX	.....XXX		.....0	.....XXX			.....0	.....XXX	.....XXX	.....XXX
7. Totals.....	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0
8. Prior Year-End's Surplus As Regards Policyholders105,899										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
											1.0.0 %	2.0.0 %	3.0.0 %
													Col. 13, Line 7 Line 8
													4.0.0 %

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Statement for March 31, 2012 of the **Ambac Assurance Corporation Segregated Account, in Rehabilitation**
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:



NONE

Statement for March 31, 2012 of the **Ambac Assurance Corporation Segregated Account, in Rehabilitation**
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.....	1,687,026,836	1,930,001,237
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.....	21,042,822	86,767,181
4. Accrual of discount.....		
5. Unrealized valuation increase (decrease).....	(755,040)	(1,132,515)
6. Total gain (loss) on disposals.....		
7. Deduct amounts received on disposals.....	124,744,220	328,609,067
8. Deduct amortization of premium and depreciation.....		
9. Total foreign exchange change in book/adjusted carrying value.....		
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).....	1,582,570,398	1,687,026,836
12. Deduct total nonadmitted amounts.....		
13. Statement value at end of current period (Line 11 minus Line 12).....	1,582,570,398	1,687,026,836

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.....	0	
2. Cost of bonds and stocks acquired.....		
3. Accrual of discount.....		
4. Unrealized valuation increase (decrease).....		
5. Total gain (loss) on disposals.....		
6. Deduct consideration for bonds and stocks disposed of.....		
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

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).....		96,501,809			96,501,809			
2. Class 2 (a).....								
3. Class 3 (a).....								
4. Class 4 (a).....								
5. Class 5 (a).....								
6. Class 6 (a).....								
7. Total Bonds.....	0	96,501,809	0	0	96,501,809	0	0	0
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.....	0	96,501,809	0	0	96,501,809	0	0	0

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(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 \$.....96,501,809; 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.....	96,501,809	XXX	96,501,809		

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.....	0	
2. Cost of short-term investments acquired.....	96,501,809	
3. Accrual of discount.....		
4. Unrealized valuation increase (decrease).....		
5. Total gain (loss) on disposals.....		
6. Deduct consideration received on disposals.....		
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).....	96,501,809	0
11. Deduct total nonadmitted amounts.....		
12. Statement value at end of current period (Line 10 minus Line 11).....	96,501,809	0

**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**

**Sch. E-Verification
NONE**

**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 Design- ation	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.						

Collateral Loans - Affiliated

	Secured Note Due from Ambac Assurance Corporation	New York.....	NY...	Ambac Assurance Corporation.....	03/24/2010	03/31/2012	.....21,042,822	.....	.....	.....	.....21,042,822	.....21,042,822	.....	.....	.....	.....	.....	.....0	.....
	Secured Note Due from Ambac Assurance Corporation	New York.....	NY...	Ambac Assurance Corporation.....	03/24/2010	03/16/2012	.....96,501,809	.....	.....	.....	.....	.....0	.....	.....96,501,809	.....	.....	.....	.....0	.....
	Secured Note Due from Ambac Assurance Corporation	New York.....	NY...	Ambac Assurance Corporation.....	03/24/2010	03/29/2012	.....17,475,000	.....	.....	.....	.....	.....0	.....	.....17,475,000	.....	.....	.....	.....0	.....
	Secured Note Due from Ambac Assurance Corporation	New York.....	NY...	Ambac Assurance Corporation.....	03/24/2010	03/31/2012	.....10,767,411	.....	.....	.....	.....	.....0	.....	.....10,767,411	.....	.....	.....	.....0	.....
2499999	Total - Collateral Loans - Affiliated.....						.....145,787,042	.....0	.....0	.....0	.....21,042,822	.....21,042,822	.....0	.....0	.....124,744,220	.....0	.....0	.....0	.....0
4099999	Subtotal - Affiliated.....						.....145,787,042	.....0	.....0	.....0	.....21,042,822	.....21,042,822	.....0	.....0	.....124,744,220	.....0	.....0	.....0	.....0
4199999	Totals.....						.....145,787,042	.....0	.....0	.....0	.....21,042,822	.....21,042,822	.....0	.....0	.....124,744,220	.....0	.....0	.....0	.....0

**Sch. D-Pt 3
NONE**

**Sch. D-Pt 4
NONE**

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

**Sch. DB-Pt B-Sn 1
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**

**Sch. E-Pt 1-Cash
NONE**

**Sch. E-Pt 2-Cash Equivalents
NONE**

NONE

QE06FE

SCHEDULE DB - PART B - SECTION 1

Futures Contracts Open December 31 of Current Year

1 Ticker Symbol	2 Number of Contracts	3 Notional Amount	4 Description	5 Description of Hedged Item(s)	6 Schedule/ Exhibit Identifier	7 Type(s) of Risk	8 Date of Maturity or Expiration	9 Exchange	10 Trade Date	11 Transaction Price	12 Reporting Date Price	13 Fair Value	14 Book/ Adjusted Carrying Value	Change in Variation Margin				19 Potential Exposure	20 Hedge Effectiveness at Inception and at Quarter-end (a)
														15 Cumulative	16 Gain (Loss) Recognized in Current Year	17 Gain (Loss) Used to Adjust Basis of Hedged Item	18 Deferred		

NONE

QE07

Broker Name	Net Cash Deposits
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NONE

QE07FE

NONE

SCHEDULE DB - PART D

Counterparty Exposure for Derivative Instruments Open as of Current Statement Date

1 Description Counterparty or Exchange Traded	2 Master Agreement (Y or N)	3 Credit Support Annex (Y or N)	4 Fair Value of Acceptable Collateral	Book Adjusted Carrying Value			Fair Value			11 Potential Exposure	12 Off-Balance Sheet Exposure
				5 Contracts With Book Adjusted Carrying Value > 0	6 Contracts With Book Adjusted Carrying Value < 0	7 Exposure Net of Collateral	8 Contracts With Fair Value > 0	9 Contracts With Fair Value < 0	10 Exposure Net of Collateral		

NONE

**SCHEDULE DL - PART 1
SECURITIES LENDING COLLATERAL ASSETS**

Reinvested Collateral Assets Owned Current Statement Date

1	2	3	4	5	6	7
CUSIP Identification	Description	Code	NAIC Designation /Market Indicator	Fair Value	Book/Adjusted Carrying Value	Maturity Dates

General Interrogatories:

1. The activity for the year to date: Fair Value \$.....0 Book/Adjusted Carrying Value \$.....0
2. Average balance for the year to date: Fair Value \$.....0 Book/Adjusted Carrying Value \$.....0
3. Reinvested securities lending collateral assets book/adjusted carrying value included in this schedule by NAIC designation:
 NAIC 1: \$.....0 NAIC 2: \$.....0 NAIC 3: \$.....0 NAIC 4: \$.....0 NAIC 5: \$.....0 NAIC 6: \$.....0

NONE

**SCHEDULE DL - PART 2
SECURITIES LENDING COLLATERAL ASSETS**

Reinvested Collateral Assets Owned Current Statement Date

1	2	3	4	5	6	7
CUSIP Identification	Description	Code	NAIC Designation /Market Indicator	Fair Value	Book/Adjusted Carrying Value	Maturity Dates

General Interrogatory:

1. The activity for the year to date: Fair Value \$.....0 Book/Adjusted Carrying Value \$.....0
2. Average balance for the year to date: Fair Value \$.....0 Book/Adjusted Carrying Value \$.....0
3. Grand Total Schedule DL Part 1 and Part 2: Fair Value \$.....0 Book/Adjusted Carrying Value \$.....0

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	

NONE

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
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NONE