



QUARTERLY STATEMENT

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

Ambac Assurance Corporation

NAIC Group Code 1248, 1248 NAIC Company Code 18708 Employer's ID Number 39-1135174
 (Current Period) (Prior Period)
 Organized under the Laws of Wisconsin State of Domicile or Port of Entry Wisconsin Country of Domicile United States of America
 Incorporated/Organized February 25, 1970 Commenced Business March 16, 1970

Statutory Home Office c/o Dewitt Ross & Stevens S.C., 2 East Mifflin Street, Suite 600 Madison, WI 53703
 (Street and Number) (City or Town, State and Zip Code)
 Main Administrative Office One State Street Plaza New York, NY 10004 212-668-0340
 (Street and Number) (City or Town, State and Zip Code) (Area Code) (Telephone Number)
 Mail Address One State Street Plaza New York, NY 10004
 (Street and Number or P. O. Box) (City or Town, State and Zip Code)
 Primary Location of Books and Records One State Street Plaza New York, NY 10004 212-668-0340
 (Street and Number) (City or Town, State and Zip Code) (Area Code) (Telephone Number)
 Internet Website Address http://www.ambac.com
 Statutory Statement Contact Stephen Michael Ksenak 212-668-0340
 (Name) (Area Code) (Telephone Number) (Extension)
SKsenak@ambac.com 212-208-3558
 (E-Mail Address) (Fax Number)
 Policyowner Relations Contact Stephen Michael Ksenak One State Street Plaza
 (Name) (Street and Number)
New York, NY 10004 212-668-0340
 (City or Town, State and Zip Code) (Area Code) (Telephone Number) (Extension)

OFFICERS

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

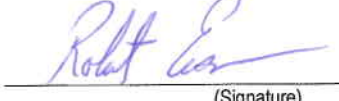
Michael Anthony Callen	Henry Daniel George Wallace	Philip Nicholas Duff	Thomas Charles Theobald
Laura Simone Unger	Diane Beth Glossman	Gary Hilton Stern	Diana Newman Adams
Thomas Peter Gybel			

State of New York
County of New York

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



 (Signature)
 Diana Newman Adams
 1. (Printed Name)
 President (President & Chief Executive Officer)
 (Title)


 (Signature)
 Ronit Vera Fischer
 2. (Printed Name)
 Secretary (First Vice President)
 (Title)


 (Signature)
 Robert Bryan Eisman
 3. (Printed Name)
 Senior Managing Director & Chief Accounting Officer
 (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.....	4,378,287,344		4,378,287,344	4,359,062,166
2. Stocks:				
2.1 Preferred stocks.....			.0	
2.2 Common stocks.....	307,813,553	108,871,009	198,942,544	197,327,189
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 (\$.....31,841,993), cash equivalents (\$.....0) and short-term investments (\$.....723,529,702).....	755,371,695		755,371,695	662,622,744
6. Contract loans (including \$.....0 premium notes).....			.0	
7. Derivatives.....			.0	
8. Other invested assets.....	163,673,652	21,387	163,652,265	150,143,845
9. Receivables for securities.....	143,759,606	128,782,489	14,977,117	13,940,868
10. Securities lending reinvested collateral assets.....			.0	
11. Aggregate write-ins for invested assets.....	470,317,540	.0	470,317,540	470,599,000
12. Subtotals, cash and invested assets (Lines 1 to 11).....	6,219,223,390	237,674,885	5,981,548,505	5,853,695,812
13. Title plants less \$.....0 charged off (for Title insurers only).....			.0	
14. Investment income due and accrued.....	36,922,766		36,922,766	40,794,327
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection.....	1,160,117	135,196	1,024,921	131,809
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$.....0 earned but unbilled premiums).....	6,051,179	6,804	6,044,375	7,789,449
15.3 Accrued retrospective premiums.....			.0	
16. Reinsurance:				
16.1 Amounts recoverable from reinsurers.....	9,473,888		9,473,888	1,574,927
16.2 Funds held by or deposited with reinsured companies.....			.0	
16.3 Other amounts receivable under reinsurance contracts.....			.0	14,746
17. Amounts receivable relating to uninsured plans.....			.0	
18.1 Current federal and foreign income tax recoverable and interest thereon.....	5,286,360		5,286,360	
18.2 Net deferred tax asset.....			.0	
19. Guaranty funds receivable or on deposit.....			.0	
20. Electronic data processing equipment and software.....	981,445	981,445	.0	
21. Furniture and equipment, including health care delivery assets (\$.....0).....	8,378,643	8,378,643	.0	
22. Net adjustment in assets and liabilities due to foreign exchange rates.....			.0	
23. Receivables from parent, subsidiaries and affiliates.....	2,098,854	358,852	1,740,002	1,003,482
24. Health care (\$.....0) and other amounts receivable.....			.0	
25. Aggregate write-ins for other than invested assets.....	2,625,998	2,596,415	29,583	.0
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 through 25).....	6,292,202,640	250,132,240	6,042,070,400	5,905,004,552
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....	1,697,716,776		1,697,716,776	1,708,069,658
28. Total (Lines 26 and 27).....	7,989,919,416	250,132,240	7,739,787,176	7,613,074,210

DETAILS OF WRITE-INS

1101. Inter-company loans with affiliates.....	234,659,540		234,659,540	245,075,000
1102. Secured Inter-company loans with affiliates.....	235,658,000		235,658,000	225,524,000
1103. ....			.0	
1198. Summary of remaining write-ins for Line 11 from overflow page.....	.0	.0	.0	.0
1199. Totals (Lines 1101 thru 1103 plus 1198) (Line 11 above).....	470,317,540	.0	470,317,540	470,599,000
2501. Prepaid assets.....	2,596,415	2,596,415	.0	
2502. Other assets.....	29,583		29,583	
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).....	2,625,998	2,596,415	29,583	.0

LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Statement Date	2 December 31 Prior Year
1. Losses (current accident year \$....264,473,124).....	3,352,342,483	3,100,407,349
2. Reinsurance payable on paid losses and loss adjustment expenses.....		
3. Loss adjustment expenses.....	184,834,929	125,919,472
4. Commissions payable, contingent commissions and other similar charges.....		
5. Other expenses (excluding taxes, licenses and fees).....	21,085,776	33,581,968
6. Taxes, licenses and fees (excluding federal and foreign income taxes).....	4,448,118	4,042,765
7.1 Current federal and foreign income taxes (including \$.....0 on realized capital gains (losses)).....		95,150,000
7.2 Net deferred tax liability.....		
8. Borrowed money \$....1,831,610,417 and interest thereon \$....25,519,075.....	1,857,129,492	1,865,519,166
9. Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$....111,126,257 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.....	1,629,414,730	1,696,161,806
10. Advance premium.....	99,832	627,254
11. Dividends declared and unpaid:		
11.1 Stockholders.....		
11.2 Policyholders.....		
12. Ceded reinsurance premiums payable (net of ceding commissions).....	1,579,270	1,908,261
13. Funds held by company under reinsurance treaties.....		
14. Amounts withheld or retained by company for account of others.....		45,317
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.....	30,355,724	541,089
20. Derivatives.....		
21. Payable for securities.....	37,780,203	1,588,768
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.....	387,828,710	192,287,556
26. Total liabilities excluding protected cell liabilities (Lines 1 through 25).....	7,506,899,267	7,117,780,771
27. Protected cell liabilities.....		
28. Total liabilities (Lines 26 and 27).....	7,506,899,267	7,117,780,771
29. Aggregate write-ins for special surplus funds.....	0	0
30. Common capital stock.....	82,000,000	82,000,000
31. Preferred capital stock.....	26,411,000	26,411,000
32. Aggregate write-ins for other than special surplus funds.....	0	0
33. Surplus notes.....	2,000,000,000	2,000,000,000
34. Gross paid in and contributed surplus.....	3,546,364,289	3,546,364,289
35. Unassigned funds (surplus).....	(5,421,887,380)	(5,159,481,850)
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).....	232,887,909	495,293,439
38. Totals.....	7,739,787,176	7,613,074,210

DETAILS OF WRITE-INS

2501. Mandatory contingency reserve for adverse losses.....	284,457,426	189,317,125
2502. Deferred gain on purchase of securities from subsidiary.....	1,244,933	1,244,933
2503. Unapplied premium liability.....	58,125	64,098
2598. Summary of remaining write-ins for Line 25 from overflow page.....	102,068,226	1,661,400
2599. Totals (Lines 2501 thru 2503 plus 2598) (Line 25 above).....	387,828,710	192,287,556
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 \$.....30,590,089).....	99,571,596	86,789,580	392,358,213
1.2 Assumed..... (written \$.....50,830).....	82,619	142,462	479,093
1.3 Ceded..... (written \$.....2,543,356).....	4,809,576	5,217,361	20,749,167
1.4 Net..... (written \$.....28,097,563).....	94,844,639	81,714,681	372,088,139
DEDUCTIONS:			
2. Losses incurred (current accident year \$.....281,764,399):			
2.1 Direct.....	274,686,363	239,019,656	920,715,894
2.2 Assumed.....			
2.3 Ceded.....	12,581,697	1,992,333	11,923,507
2.4 Net.....	262,104,666	237,027,323	908,792,387
3. Loss adjustment expenses incurred.....	62,432,527	11,757,188	28,223,307
4. Other underwriting expenses incurred.....	16,083,246	25,130,487	54,647,670
5. Aggregate write-ins for underwriting deductions.....	0	0	0
6. Total underwriting deductions (Lines 2 through 5).....	340,620,439	273,914,998	991,663,364
7. Net income of protected cells.....			
8. Net underwriting gain (loss) (Line 1 minus Line 6 + Line 7).....	(245,775,800)	(192,200,317)	(619,575,225)
INVESTMENT INCOME			
9. Net investment income earned.....	55,937,406	59,269,603	264,925,962
10. Net realized capital gains (losses) less capital gains tax of \$.....0.....	(22,925,045)	(4,339,170)	(24,904,601)
11. Net investment gain (loss) (Lines 9 + 10).....	33,012,361	54,930,433	240,021,361
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.....	(59,322,475)	(45,986,028)	(379,411,331)
15. Total other income (Lines 12 through 14).....	(59,322,475)	(45,986,028)	(379,411,331)
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15).....	(272,085,914)	(183,255,912)	(758,965,195)
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).....	(272,085,914)	(183,255,912)	(758,965,195)
19. Federal and foreign income taxes incurred.....	(103,726,360)	50,000	76,830,083
20. Net income (Line 18 minus Line 19) (to Line 22).....	(168,359,554)	(183,305,912)	(835,795,278)
CAPITAL AND SURPLUS ACCOUNT			
21. Surplus as regards policyholders, December 31 prior year.....	495,293,439	1,026,920,181	1,026,920,181
22. Net income (from Line 20).....	(168,359,554)	(183,305,912)	(835,795,278)
23. Net transfers (to) from Protected Cell accounts.....			
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$.....0.....	130,076,194	(53,023,096)	(64,368,723)
25. Change in net unrealized foreign exchange capital gain (loss).....	(1,720,817)		1,094,438
26. Change in net deferred income tax.....			
27. Change in nonadmitted assets.....	(117,969,169)	37,068,692	25,550,125
28. Change in provision for reinsurance.....			1,080,000
29. Change in surplus notes.....			
30. Surplus (contributed to) withdrawn from protected cells.....			
31. Cumulative effect of changes in accounting principles.....			
32. Capital changes:			
32.1 Paid in.....			
32.2 Transferred from surplus (Stock Dividend).....			
32.3 Transferred to surplus.....			
33. Surplus adjustments:			
33.1 Paid in.....		104,722	(3,146,050)
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.....	(104,432,184)	(26,628,330)	343,958,746
38. Change in surplus as regards policyholders (Lines 22 through 37).....	(262,405,530)	(225,783,924)	(531,626,742)
39. Surplus as regards policyholders, as of statement date (Lines 21 plus 38).....	232,887,909	801,136,257	495,293,439
DETAILS OF WRITE-INS			
0501.			
0502.			
0503.			
0598. Summary of remaining write-ins for Line 5 from overflow page.....	0	0	0
0599. Totals (Lines 0501 thru 0503 plus 0598) (Line 5 above).....	0	0	0
1401. Other miscellaneous income.....	4,663,497	2,937,085	12,816,587
1402. Estimated provision for uncollectible intercompany loan with affiliate.....	25,035,289	(29,400,000)	(394,956,250)
1403. Change in liabilities allocated to Ambac Assurance Corp Segregated Account.....	593,735,885	7,337,096	581,674,665
1498. Summary of remaining write-ins for Line 14 from overflow page.....	(682,757,146)	(26,860,209)	(578,946,333)
1499. Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above).....	(59,322,475)	(45,986,028)	(379,411,331)
3701. Mandatory contingency reserve for adverse losses, net of tax.....	(27,897,949)	(23,902,884)	306,009,649
3702. Change in Surplus of Ambac Assurance Corporation Segregated Account excluding non-admitted assets.....	(755,039)	4,095,553	37,949,097
3703. Cumulative effect of prior period errors.....	(75,779,196)	(6,820,999)	
3798. Summary of remaining write-ins for Line 37 from overflow page.....	0	0	0
3799. Totals (Lines 3701 thru 3703 plus 3798) (Line 37 above).....	(104,432,184)	(26,628,330)	343,958,746

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.....	28,093,615	37,863,418	141,180,804
2. Net investment income.....	50,276,362	50,718,589	188,895,982
3. Miscellaneous income.....	4,663,497	2,937,085	12,816,587
4. Total (Lines 1 through 3).....	83,033,474	91,519,092	342,893,373
5. Benefit and loss related payments.....	(20,884,409)	(20,171,560)	(103,345,213)
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			
7. Commissions, expenses paid and aggregate write-ins for deductions.....	28,182,748	45,946,853	66,378,035
8. Dividends paid to policyholders.....			
9. Federal and foreign income taxes paid (recovered) net of \$.....0 tax on capital gains (losses).....	(3,290,000)		
10. Total (Lines 5 through 9).....	4,008,339	25,775,293	(36,967,178)
11. Net cash from operations (Line 4 minus Line 10).....	79,025,135	65,743,799	379,860,551
CASH FROM INVESTMENTS			
12. Proceeds from investments sold, matured or repaid:			
12.1 Bonds.....	190,799,242	145,398,617	974,022,422
12.2 Stocks.....			
12.3 Mortgage loans.....			
12.4 Real estate.....			
12.5 Other invested assets.....			2,113,559
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments.....	20,877	57,572	17,635
12.7 Miscellaneous proceeds.....	61,508,184	132,361,264	54,188,769
12.8 Total investment proceeds (Lines 12.1 to 12.7).....	252,328,303	277,817,453	1,030,342,385
13. Cost of investments acquired (long-term only):			
13.1 Bonds.....	190,191,695	241,979,056	824,667,541
13.2 Stocks.....			
13.3 Mortgage loans.....			
13.4 Real estate.....			
13.5 Other invested assets.....			141,980,484
13.6 Miscellaneous applications.....	16,327,059	16,730,514	139,387,099
13.7 Total investments acquired (Lines 13.1 to 13.6).....	206,518,754	258,709,570	1,106,035,124
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).....	45,809,549	19,107,883	(75,692,739)
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.....	(32,984,931)		(155,265,743)
16.4 Net deposits on deposit-type contracts and other insurance liabilities.....			
16.5 Dividends to stockholders.....			
16.6 Other cash provided (applied).....	899,194	706,604	1,101,156
17. Net cash from financing and miscellaneous sources (Lines 16.1 through 16.4 minus Line 16.5 plus Line 16.6).....	(32,085,737)	706,604	(154,164,588)
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).....	92,748,947	85,558,286	150,003,225
19. Cash, cash equivalents and short-term investments:			
19.1 Beginning of year.....	662,622,747	512,619,523	512,619,523
19.2 End of period (Line 18 plus Line 19.1).....	755,371,695	598,177,809	662,622,747
Note: Supplemental disclosures of cash flow information for non-cash transactions:			
20.0001 Reduction in Secured Note for capitalized interest	21,042,822	22,287,908	86,767,180
20.0002 Losses paid directly to third parties by Segregated Account; Settled via reduction of Secured Note.....	17,475,000	11,046,392	146,947,611
20.0003 Losses paid to third parties on behalf of Segregated Account; Settled via reduction of Secured Note.....			101,643,126
20.0004 Loss adjustment expenses paid on behalf of Segregated Account; Settled via reduction of Secured Note.....	3,508,407	5,564,363	32,102,647

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

a. Accounting Practices

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

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

The Wisconsin Insurance Commissioner has prescribed an accounting practice that differs from NAIC SAP. Paragraph 7 of Statement of Statutory Accounting Principles No. 60 "Financial Guaranty Insurance" ("SSAP 60") allows for a deduction from loss reserves for the time value of money by application of a discount rate equal to the average rate of return on the admitted assets of the financial guaranty insurer as of the date of the computation of the reserve. The discount rate shall be adjusted at the end of each calendar year. Additionally, in accordance with paragraph 7 of Statutory Accounting Principles No. 5 "Liabilities, Contingencies and Impairments of Assets - Revised", Ambac Assurance records probable losses on its subsidiaries for which its guarantees their obligations, using a discount rate equal to the average rate of return on its admitted assets. The Company's average rates of return on its admitted assets at March 31, 2012 and December 31, 2011 were 7.45%. The Wisconsin Insurance Commissioner has directed the Company to utilize a prescribed discount rate of 5.10% for the purpose of discounting both its loss reserves and its estimated impairment losses on subsidiary guarantees. Statutory surplus at March 31, 2012 and December 31, 2011 was lower by \$74,368,359 and \$98,225,234, respectively, than if the Company had reported such amounts in accordance with NAIC SAP. Net income for the three months ended March 31, 2012 was higher by \$23,856,875 and for the year ended December 31, 2011 was lower by \$62,991,752, than if the Company had reported such amounts in accordance with NAIC SAP.

The Wisconsin Insurance Commissioner has prescribed an additional accounting practice that differs from NAIC SAP. Paragraph 4 of Statement of Statutory Accounting Principles No. 41 "Surplus Notes" ("SSAP 41") states that proceeds received by the issuer of surplus notes must be in the form of cash or other admitted assets having readily determinable values and liquidity satisfactory to the commissioner of the state of domicile. Under statutory accounting principles, surplus notes issued in conjunction with commutations or the settlement of claims would be valued at zero upon issuance pursuant to paragraph 4, SSAP 41. The Wisconsin Insurance Commissioner has directed the Company to record surplus notes issued in settlement of liabilities at full par value upon issuance as in these instances the surplus notes do not represent a contribution of capital, but rather a distribution of value from the common and preferred shareholders of the Company. The surplus notes issued have a claim against surplus senior to the preferred and common shareholders. Statutory surplus and net income are not impacted as a result of the prescribed practice as it is a reclassification from unassigned funds to surplus notes.

The Wisconsin Insurance Commissioner has extended the preceding prescribed practice related to surplus notes to the evaluation of other-than-temporary impairments for Ambac Assurance guaranteed securities held in the investment portfolio. Paragraph 35 of Statement of Statutory Accounting Principles No. 43R "Loan-backed and Structured Securities" states that when an other-than-temporary impairment has occurred, the amount of the other-than-temporary impairment recognized as a realized loss shall equal the difference between the investment's amortized cost basis and the present value of cash flows expected to be collected, discounted at the loan-backed or structured security's effective interest rate. Under NAIC SAP, the present value of cash flows expected to be collected should include the fair value of surplus notes received from Ambac Assurance, as required under the Segregated Account Rehabilitation Plan (as defined below). The Wisconsin Insurance Commissioner has prescribed an accounting practice that differs from NAIC and has directed the Company to utilize par value rather than fair value of these surplus notes in this computation. Statutory surplus at March 31, 2012 and December 31, 2011 was greater by \$41,212,073 and \$84,343,657, respectively, and net income for the three months ended March 31, 2012 was lower by \$36,928,204 and for the year ended December 31, 2011 was greater by \$65,145,588, than if the present value of the cash flows expected to be collected included the surplus notes at fair value in accordance with NAIC SAP.

Wisconsin accounting practices for changes to contingency reserves differ from NAIC SAP. Under NAIC SAP, contributions to and releases from the contingency reserve are recorded via a direct charge or credit to surplus. Under section 3.08(7)(b) of the Wisconsin Administrative Code, contributions to and releases from the contingency reserve are to be recorded through underwriting income. The Company received permission of the Wisconsin Insurance Commissioner to record contributions to and releases from the contingency reserve and the related tax and loss bond impact, in accordance with NAIC SAP. Statutory surplus is the same using each of these accounting practices. Net income for the three months ended March 31, 2012 and for the year ended December 31, 2011 is greater by \$95,140,301 and lower by \$306,009,649, respectively, than if the Company had reported the contributions to the contingency reserve in accordance with the Wisconsin Administrative Code.

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

	March 31, 2012	December 31, 2011
Net Loss, Per Quarterly Statement	\$ (168,359,554)	\$ (835,795,278)
Effect of Wisconsin Permitted Practice	<u>(95,140,301)</u>	<u>306,009,649</u>
Net Loss, Wisconsin Basis	(263,499,855)	(529,785,629)
Effect of Wisconsin Prescribed Practices	13,071,329	(2,153,836)
Effect of Wisconsin Permitted Practice	<u>95,140,301</u>	<u>(306,009,649)</u>
Net Loss, NAIC SAP	<u>\$ (155,288,225)</u>	<u>\$ (837,949,114)</u>
Statutory Surplus, Wisconsin Basis	\$ 232,887,909	\$ 495,293,439
Effect of Wisconsin Prescribed Practices	33,156,286	13,881,577
Effect of Wisconsin Permitted Practice	-	-
Statutory Surplus, NAIC SAP	<u>\$ 266,044,195</u>	<u>\$ 509,175,016</u>

Note 2 - Accounting Changes and Corrections of Errors

During the quarter ended March 31, 2012, management discovered the following errors which impacted Net Income for the year ended December 31, 2011 and Policyholders' Surplus as of December 31, 2011, as more fully described below:

- An error in calculating the December 31, 2011 contingency reserves, which resulted in the overstatement of Policyholders' Surplus as of December 31, 2011 by \$67,242,352. There was no impact to the Company's net loss for the year ended December 31, 2011. The

NOTES TO FINANCIAL STATEMENTS

error was corrected in the Quarterly Statement for the period ended March 31, 2012, and was reported as a reduction to surplus of \$67,242,352.

- An error related to the use of incorrect data in calculating the loss reserves for certain RMBS transactions which resulted in: i.) the overstatement of losses incurred and the understatement of Net Income for the year ended December 31, 2011 by \$21,463,156, and ii.) the understatement of Policyholder's Surplus as of December 31, 2011 by \$21,463,156. The error was corrected in the Quarterly Statement for the period ended March 31, 2012, and was reported as an increase to surplus of \$21,463,156.
- An error relating to the under accrual of the Ambac Financial Group, Inc. Cash Grant (as more fully described in Note 10) which resulted in the overstatement of Net Income for the year ended December 31, 2011 and Policyholder's Surplus as of December 31, 2011 by \$30,000,000. The error was corrected in the Quarterly Statement for the period ended March 31, 2012, and was reported as a reduction to surplus of \$30,000,000.

The total impact of correcting these errors in the Quarterly Statement for the period ended March 31, 2012 was a reduction to surplus of \$75,779,196.

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

a. Loan-Backed Securities

- The Company consistently uses the retrospective method to revalue loan-backed securities using current prepayment assumptions. Prepayment assumptions for single class and multi-class loan-backed securities were obtained from publicly available resources. During 2012, there were no changes in the methodology utilized by the Company to revalue loan-backed securities.
- During 2012, the Company recognized other-than-temporary impairment losses ("OTTI losses") on certain loan-backed securities where the present value of cash flows expected to be collected were less than the amortized cost basis of the securities. For the loan-backed securities still held at March 31, 2012, the total amortized cost immediately prior to the recognition of OTTI losses, the OTTI losses recognized during the three months ended March 31, 2012, and the fair value of these securities at the time OTTI losses were recognized are as follows:

	Amortized Cost Basis – Immediately Prior to Recognition of OTTI Losses	OTTI Losses Recognized during three months ended March 31, 2011	Fair Value at the time OTTI Losses were recognized ⁽¹⁾
Aggregate of all loan-backed securities for which OTTI losses were recognized during 2012 that were classified as "Intent to Sell"	\$ -	\$ -	\$ -
Aggregate of all loan-backed securities for which OTTI losses were recognized during 2012 that were classified as "Intent & Ability to Hold to Maturity"	-	-	-
Aggregate of all loan-backed securities for which OTTI losses were recognized during 2012 due to the present value of cash flows expected to be collected were less than the amortized cost basis of the security	\$109,231,221	\$22,943,074	\$86,288,147

(1) Fair value of these loan-backed securities at March 31, 2012, based primarily on SVO prices, was \$60,257,374.

NOTES TO FINANCIAL STATEMENTS

- iii. During 2012, the Company recognized OTTI losses on certain loan-backed securities where the present value of cash flows expected to be collected were less than the amortized cost basis of the securities. For the loan-backed securities still held at March 31, 2012, the total amortized cost immediately prior to the recognition of OTTI losses, the OTTI losses recognized during the three months ended March 31, 2012, amortized cost after current period other-than-temporary impairment, and the fair value of these securities at the time OTTI losses were recognized are as follows:

CUSIP	Amortized cost before current period OTTI	Projected Cashflows	Recognized other-than-temporary impairment	Amortized cost after other-than-temporary impairment	Fair Value at 3/31/2012
12668RAC2	\$993,394	\$647,246	\$346,148	\$647,246	\$35,063
39538WEF1	790,821	724,110	66,711	724,110	63,352
45254TTF1	6,737,454	6,590,584	146,870	6,590,584	6,633,506
45661DAA4	9,649,422	9,459,000	190,422	9,459,000	7,937,908
45667HAB7	25,521,205	20,890,968	4,630,237	20,890,968	18,557,126
45667HAC5	18,903,806	11,184,032	7,719,774	11,184,032	215,967
46412RAB1	4,707,019	4,268,175	438,844	4,268,175	4,219,070
52525LAS9	35,931,115	27,076,071	8,855,044	27,076,071	16,915,204
65535VNL8	5,996,985	5,447,961	549,024	5,447,961	5,680,178
TOTAL	\$109,231,221	\$86,288,147	\$22,943,074	\$86,288,147	\$60,257,374

- iv. The following table shows all impaired securities (Fair Value is less than cost or Amortized cost) for which an other-than-temporary impairment has not been recognized in earnings by length of time that the individual securities have been in a continuous unrealized loss position at March 31, 2012:

	Unrealized Loss	Fair Value
Less than 12 months	\$59,262,148	\$260,153,198
Greater than 12 months	\$34,121,431	\$78,542,585

- v. Management has determined that the unrealized losses reflected in the table above are temporary in nature as of March 31, 2012 based upon (i) no unexpected principal and interest payment defaults on these securities; (ii) analysis of the creditworthiness of the issuer and financial guarantor, as applicable, and analysis of projected defaults on the underlying collateral; (iii) management has no intent to sell these investments in debt securities; and (iv) it is not more likely than not that Ambac Assurance will be required to sell these debt securities before the anticipated recovery of its amortized cost basis. The assessment under (iv) is based on a comparison of future available liquidity from the fixed income investment portfolio against the projected net cash outflow from operating activities and debt service. For purposes of this assessment, available liquidity from the fixed income investment portfolio is comprised of the fair value of securities for which management has asserted its intent to sell plus the scheduled maturities and interest payments from the remaining securities in the portfolio. To the extent that securities that management intends to sell are in an unrealized loss position, they would have already been considered other-than-temporarily impaired with the amortized cost written down to fair value. As of March 31, 2012, management has not asserted an intent to sell any securities from its portfolio. Because the above-described assessment indicates that future available liquidity exceeds projected net cash outflow, it is not more likely than not that we would be required to sell securities before the recovery of their amortized cost basis.

As of March 31, 2012, for securities that have indications of possible other-than-temporary impairment but which management does not intend to sell and will not more likely than not be required to sell, management compared the present value of cash flows expected to be collected to the amortized cost basis of the securities to assess whether the amortized cost will be recovered. Receipts were discounted at the effective interest rate implicit in the security at the date of acquisition or for debt securities that are beneficial interests in securitized financial assets, at a rate equal to the current yield used to accrete the beneficial interest. For floating rate securities, future cash flows and the discount rate used were both adjusted to reflect changes in the index rate applicable to each security as of the evaluation date. For RMBS securities that are insured by Ambac Assurance, future receipts take into account the par value of surplus notes issued as discussed in the prescribed practice from the Wisconsin Insurance Commissioner described above.

b. **Repurchase Agreements and/or Securities Lending Transactions**

In March 2012, Ambac Assurance entered into a repurchase agreement with the Segregated Account of Ambac Assurance (the "Segregated Account"), under which the Segregated Account loaned Ambac Assurance \$96,501,809. The repurchase agreement obligation matures on December 31, 2012, and accrues interest at a rate of 4.5% per annum. The securities pledged as collateral for this transaction include investment grade corporate and taxable municipal securities with a carrying value of \$101,484,101 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). See Note 9 for more information about the repurchase agreement, escrow account and related transactions. The maturity dates of the securities pledged as collateral extend past the maturity date of the reverse repurchase agreement.

Note 6 - Joint Ventures, Partnerships and Limited Liability Companies

No significant change from 2011 Notes to Financial Statements.

Note 7 - Investment Income

No significant change from 2011 Notes to Financial Statements.

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	\$ (103,726,360)
Change in deferred income tax (without tax on unrealized gains & losses)	-
Total income tax reported	\$ (103,726,360)
Income before taxes	\$ (272,085,914)
Expected income tax Expense at 35% statutory rate	35% \$ (95,230,070)
Increase (decrease) in actual tax reported resulting from:	
a. Tax Settlements from Everspan	(3,726,360)
b. Nondeductible expenses for meals, penalties & lobbying	17,500
c. Tax-exempt income	(4,755,904)
d. Net effect of income from subsidiaries	13,187,372
e. Change in valuation allowance adjustment	39,777,063
f. Change in inter-company uncollectible reserve	(8,762,351)
g. Additional tax effect of change in tax reserve	(65,000,000)
h. Contingency reserve	23,534,823
i. Other	(2,768,433)
Total income tax reported	\$ (103,726,360)

Included in the current federal income tax benefit of \$103,726,360 for the three months ended March 31, 2012 is a benefit of \$100,000,000 relating to the potential settlement with the Internal Revenue Service (described below in Note 14). The liability has been allocated to the Segregated Account as per the terms of the Escrow Agreement (as defined below). It is offset by a \$100,000,000 expense included in line 1405 of the Statement of Income (Change in liabilities Assumed from the Segregated Account) as this liability was ceded back to Ambac Assurance via the excess of loss reinsurance agreement with the Segregated Account. The net impact to both the Statement of Income and Ambac Assurance Statutory Surplus is 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 (the "Repurchase Collateral"). The Repurchase Collateral has an aggregate fair value of \$106,921,149 as of March 31, 2012. 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).

- e. Operating loss carryforward
- At March 31, 2012, the Company, had \$6,316,761,438 of unused operating loss carryforwards available to offset against future taxable income, which will begin expiring in 2029, and a capital loss carryforward of \$216,110,074 which will expire in 2014. The Company expects a substantial reduction in the unused operating loss carryforwards as a result of: i.) settlement the IRS Dispute (as defined in Note 10), and ii.) the emergence of Ambac Financial Group, Inc. from bankruptcy proceedings.
 - At March 31, 2012 there are no amounts available for recoupment in the event of future net losses.
 - The Company has no deposits admitted under Section 6603 of the Internal Revenue Code of 1986, as amended (the "Tax Code").
- f. Consolidated federal income tax return
- Pursuant to a written tax-sharing agreement ("TSA") approved by both the OCI and the Ambac Assurance's Board of Directors, Ambac Assurance is included in Ambac Financial Group, Inc.'s ("Ambac") consolidated Federal income tax return, which includes the following taxable entities (the "Ambac Consolidated Group"): Ambac, Ambac Assurance, Ambac (Bermuda) Limited ("ABL"), Ambac Capital Corporation ("ACC"), Ambac Investments Inc., Ambac Capital Funding, Inc. ("ACF"), Ambac Asset Funding Corporation, Ambac AII Corporation, Connie Lee Holdings Inc., and Everspan Financial Guarantee Corp. ("Everspan").

Amounts assessed/reimbursed under the TSA are based upon separate return and other calculations made as if Ambac Assurance had filed its own federal income tax return for each taxable period.

NOTES TO FINANCIAL STATEMENTS

2. Pursuant to the TSA, to the extent the Company generates taxable income after September 30, 2011, which is offset with the Company's net operating loss ("NOL") carryforward, it is obligated to make payments to Ambac in accordance with the following NOL Usage table:

NOL Usage Table

NOL Usage Tier	Allocated NOLs	Applicable Percentage
A	The first \$479,000	15%
B	The next \$1,057,000 after Tier A	40%
C	The next \$1,057,000 after Tier B	10%
D	The next \$1,057,000 after Tier C	15%

For the period from September 30, 2011 through March 31, 2012, the Company has generated taxable losses of approximately \$341,042,772. Future taxable income shall be offset against this amount prior to payments under the NOL Usage table above.

Until the Plan Settlement Closing Date (as defined below), any such payments are to be held in escrow.

In the event that the amount of NOLs allocated to Ambac Assurance pursuant to the TSA (the "Allocated NOL Amount") or the amount of AMT NOLs (as defined below) allocated to Ambac Assurance pursuant to the TSA (the "Allocated AMT NOL Amount") is less than \$3,650,000,000 (or the proportionate amount of AMT NOLs), the size of each usage tier will be reduced proportionally. Such proportionate reduction shall be applied separately to the Allocated NOL Amount and the Allocated AMT NOL Amount.

"AMT NOLs" is defined in the TSA to mean any NOL or NOLs as determined for purposes of the alternative minimum tax provisions of the Tax Code, including any adjustments or limitations provided pursuant to Sections 55 through 59 of the Tax Code.

Note 10 - Information Concerning Parent, Subsidiaries, Affiliates and Other Related Parties**2010, 2011 and Recent Events – Ambac and Ambac Assurance:****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 ("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 the 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 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.

NOTES TO FINANCIAL STATEMENTS

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 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.

Segregated Account

On March 24, 2010, Ambac Assurance acquiesced to the request of OCI to establish a segregated account pursuant to Wis. Stat. section 611.24(2). 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. Under Wisconsin insurance law, the Segregated Account is a separate insurer from Ambac Assurance for purposes of the Segregated Account Rehabilitation Proceedings. 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.

B. Transactions with Affiliates

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

As discussed in Note 10, the Company, Ambac, the Segregated Account, the Rehabilitator, OCI and the Creditors' Committee entered into certain transactions contemplated by the Mediation Agreement in the first quarter of 2012.

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.

NOTES TO FINANCIAL STATEMENTS

Note 14 – Contingencies

County of Alameda et al. v. Ambac Assurance Corporation et al. (Superior Court of the State of California, County of San Francisco, second amended complaint filed on or about August 23, 2011) (“Alameda Complaint”); Contra Costa County et al. v. Ambac Assurance Corporation et al. (Superior Court of the State of California, County of San Francisco, third amended complaint filed on or about October 21, 2011) (“Contra Costa Complaint”); The Olympic Club v. Ambac Assurance Corporation et al. (Superior Court of the State of California, County of San Francisco, fourth amended complaint filed on or about October 21, 2011) (“Olympic Club Complaint”). The Contra Costa Complaint is brought on behalf of five California municipal entities and the non-profit Jewish Community Center of San Francisco. The Alameda Complaint is brought on behalf of nineteen California municipal entities. The Olympic Club Complaint is brought on behalf of the non-profit Olympic Club. The three actions make similar allegations against Ambac Assurance, various other financial guarantee insurance companies and employees thereof (collectively with Ambac Assurance, the “Bond Insurer Defendants”), and, in the case of the Contra Costa Complaint and the Olympic Club Complaint, the major credit rating agencies (the “Rating Agencies”). The actions allege that (1) Ambac Assurance and the other Bond Insurer Defendants colluded with the Rating Agencies to perpetuate a “dual rating system” pursuant to which the Rating Agencies rated the debt obligations of municipal issuers differently from corporate debt obligations, thereby keeping municipal ratings artificially low relative to corporate ratings; (2) Ambac Assurance and the other Bond Insurer Defendants issued false and misleading financial statements which failed to disclose the extent of the insurers’ respective exposures to mortgage-backed securities and collateralized debt obligations; and (3) as a result of these actions, plaintiffs incurred higher interest costs and bond insurance premiums in respect of their respective bond issues. Ambac Financial Group was originally a defendant in each of these actions, but on November 22, 2010, Ambac Financial Group was dismissed without prejudice as a defendant by the plaintiffs in each of these actions. Ambac Assurance and the other Bond Insurer Defendants filed a demurrer seeking the dismissal of each of these complaints on September 17, 2010. The Superior Court of California sustained the demurrer in part, dismissing the causes of actions for breach of the covenant of good faith and fair dealing, negligence, negligent misrepresentation and unjust enrichment with prejudice and dismissing the claim for fraud without prejudice, allowing the Plaintiffs an opportunity to amend their complaints for that cause of action. The demurrers were otherwise overruled. Amended complaints were filed on August 23, 2011. (Further technical amendments to the Contra Costa Complaint and the Olympic Club Complaint were filed on October 21, 2011 to correct a non-substantive error.) Ambac Assurance and the other Bond Insurer Defendants filed a demurrer seeking dismissal of the current amended complaints on September 21, 2011, which was denied on October 20, 2011. (The October 20, 2011 denial applies to the Contra Costa Complaint and the Olympic Club Complaint, both of which were given a technical filing date of October 21, 2011). On December 2, 2011, Ambac Assurance and the other Bond Insurer Defendants filed a special motion to strike the current amended complaints under California’s Anti-SLAPP statute (Calif. Code of Civ. Proc. Section 425.16). A hearing on the motion was held on March 23, 2012. On May 1, 2012, the Court ruled that the complaints were governed by the Anti-SLAPP statute to the extent they alleged conspiracy to influence the rating agencies’ rating methodologies, but not to the extent that the complaints alleged false or misleading statements or nondisclosures. The case will now proceed to a determination whether the conspiracy branch of the complaint can proceed given the requirement of the Anti-SLAPP statute that plaintiff show a probability of success on the merits.

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

City of Phoenix v. Ambac Assurance Corporation et al. (United States District Court, District of Arizona, filed on or about March 11, 2010). This action is brought by the City of Phoenix against Ambac Assurance and other financial guarantee insurance companies. The complaint alleges that the defendants sought to perpetuate the Rating Agencies’ “dual rating system”, and that the perpetuation of the “dual rating system” enabled the defendants to unfairly discriminate against the City of Phoenix in the pricing of bond insurance premiums. Pursuant to the Court’s current Scheduling Order, fact discovery was scheduled to be completed by March 2, 2012, followed by expert discovery. Dispositive motions are due after the completion of expert discovery.

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

Ambac Assurance Corporation v. Adelanto Public Utility Authority (United States District Court, Southern District of New York, filed on June 1, 2009). Ambac Assurance commenced this action to recover \$4,524 from the defendant on account of Ambac Assurance’s payment under a swap termination surety bond. The defendant has counterclaimed (as amended on June 12, 2010), alleging breach of contract, breach of the covenant of good faith and fair dealing, violations of California insurance statutes, fraud and promissory estoppel. Defendant claims that, in connection with defendant’s purchase of a bond insurance policy with respect to its variable rate bond issue in September 2005, Ambac Assurance misrepresented the stability of its “AAA” financial strength ratings and subsequently breached an implied covenant by underwriting risky structured obligations that ultimately led to the loss of the “AAA” ratings. On November 14, 2011, the court dismissed the defendant’s amended counterclaim in its entirety upon the motion of Ambac Assurance, and discovery commenced in December 2011. Ambac Assurance intends to move for summary judgment on its claims against the defendant at the conclusion of discovery.

Gunn v. Ambac Assurance Corporation et al. (United States District Court, Southern District of New York, filed on or about July 26, 2011). This action is brought by *pro se* plaintiff La Mar Gunn against Ambac Assurance and EQCC Home Equity Loan Trust 1998-2 and EQCC Home Equity Loan Trust 1998-3 (the “EQCC Trusts”). Plaintiff attempts to challenge the validity of a foreclosure judgment rendered in Delaware state court by alleging that the defendants engaged in acts constituting fraud, malicious prosecution, civil conspiracy, and racketeering. Ambac Assurance believes the claims against it are without merit and intends to vigorously defend the case. Ambac Assurance filed a motion to dismiss on November 16, 2011. This motion was fully briefed and submitted on January 5, 2012, and a decision is expected later this year. Also, on November 15, 2011, Gunn filed another action against Ambac Assurance and the EQCC Trusts, captioned *Gunn v. Ambac Assurance, et al.* This action is pending in the Superior Court for the State of Delaware, New Castle County. The complaint also challenges the validity of the foreclosure judgment previously rendered against Gunn in Delaware state court and is styled as an “action of ejectment.” On January 23, 2012, Ambac

NOTES TO FINANCIAL STATEMENTS

Assurance moved to dismiss the Complaint. On March 21, 2012, the court dismissed the claims as to the EQCC Trusts. On April 12, 2012, a commissioner of the court dismissed the claims as to Ambac. Plaintiff may appeal.

Ambac Assurance and Ambac Credit Products, LLC have received notice of a threat of potential litigation for tortious interference with contract in connection with the commutation of a collateralized debt obligation in 2009. The Company believes the potential claim and allegations are without merit, and in the event the litigation is commenced, will make a motion to dismiss the claim. Ambac is entitled to indemnification from the commuting counterparty for all liabilities, damages, costs and expenses, including legal fees, which may be incurred in connection with the claim.

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 Segregated Account Rehabilitation Plan, with Findings of Fact and Conclusions of Law (the "Confirmation Order"). Notices of appeal from the Confirmation Order were filed by various parties, including policyholders. Such appeals are pending.

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 Internal Revenue Code of 1986, as amended (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 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 Note 9) 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 Note 9) (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

NOTES TO FINANCIAL STATEMENTS

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 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

No significant change from 2011 Notes to Financial Statements.

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

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

NOTES TO FINANCIAL STATEMENTS

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 instrument for which it is practicable to estimate that value:

Bonds and Other Unaffiliated Invested Assets

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

Other Affiliated Invested Assets

The fair value of other affiliated invested assets approximates carrying value.

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

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

Investment Income Due and Accrued

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

Liabilities Allocated to the Segregated Account

The fair value estimate represents a net asset to the Company and is the sum of the present values of future installment premiums, less, 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. The Company and the Segregated Account are a single corporate entity and the estimated fair value below does not include a credit valuation adjustment for the creditworthiness of the Segregated Account.

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 to the Segregated Account. The first limitation is the lack of observable pricing data points as a result of Ambac Assurance no longer writing new financial guarantee business. However, the primary insurance obligation is irrevocable and thus there is not an established active market for transferring such obligations. Variables which are not incorporated in our current fair value estimate of include: i.) the credit spreads of the underlying insured obligations, ii.) the underlying ratings of those insured obligations, and iii.) assumptions about current financial guarantee premium levels relative to the underlying insured obligations’ credit spreads.

Liabilities Allocated from the Segregated Account

The fair value estimate represents a net liability to the Company and is the excess of the estimated fair value of liabilities allocated to the Segregated Account over the sum of the estimated fair values of the Segregated Account’s other invested assets, and 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 principal balance of the \$2 billion secured note due in 2050 issued by Ambac Assurance to the Segregated Account (the “Secured Note”) and the total of all other liquid assets, subject to the minimum Ambac Assurance surplus of \$100,000,000. The Company considers Ambac Assurance and the Segregated Account to be a single corporate entity and the estimated fair value of the liabilities allocated from the Segregated Account does not include a credit valuation adjustment for the Segregated Account’s creditworthiness.

Borrowed Money and Interest Thereon

The fair value estimates of borrowed money and interest thereon approximates carrying value and do not reflect credit valuation adjustments for the Company’s creditworthiness pursuant to paragraph 14 of Statement of Statutory Accounting Principles No. 100 “Fair Value Measurements”.

Liability for Net Financial Guarantees Written

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

The fair value estimate of ceded reinsurance contracts is the sum of the present values of: (i) ceded unearned premium reserves (net of ceding commissions), (ii) reinsurance recoverables on expected losses (including the effect of expected subrogation recoveries) for both defaulted and non-defaulted policies, all partially offset by future installment premiums payable (net of related ceding commission).

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 for the direct and assumed

NOTES TO FINANCIAL STATEMENTS

contracts, while the estimated fair value of ceded reinsurance contracts factors in any adjustments related to the counterparty credit risk we have with reinsurers. 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 our financial guarantees. The first limitation is the lack of observable pricing data points as a result of Ambac no longer writing new financial guarantee business. Additionally, fair value concepts, as they relate to valuing liabilities, requires a company to consider the cost to completely transfer its obligation to another party of comparable credit worthiness. However, our primary insurance obligation is irrevocable and thus there is not an established active market for transferring such obligations. Variables which are not incorporated in our current fair value estimate of financial guarantees include: i.) a credit valuation adjustment for the Company's creditworthiness pursuant to paragraph 14 of Statement of Statutory Accounting Principles No. 100 "Fair Value Measurements", ii.) the credit spreads of the underlying insured obligations, iii.) the underlying ratings of those insured obligations, and iv.) assumptions about current financial guarantee premium levels relative to the underlying insured obligations' credit spreads.

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

	March 31, 2012	
	Carrying amount	Estimated fair value
Financial assets:		
Bonds	\$ 4,378,287,344	\$ 4,725,424,737
Short-term investments	723,529,702	723,535,038
Cash and cash equivalents	31,841,993	31,841,993
Other unaffiliated invested assets	8,181,739	6,665,506
Other affiliated invested assets	155,470,526	155,470,526
Intercompany loans with affiliates	470,317,540	470,275,540
Investment income due and accrued	36,922,766	36,922,766
Liabilities allocated to Segregated Account	6,801,814,600	8,485,020,271
Financial liabilities:		
Borrowed money and interest thereon	\$ 1,857,129,492	\$ 1,857,129,492
Liabilities allocated from Segregated Account	5,311,310,256	6,883,805,304
Liability for net financial guarantees written	5,436,085,654	7,170,837,234

- a. The following table sets forth Ambac Assurance's financial assets that were measured at fair value as of March 31, 2012 by level within the fair value hierarchy.

2012	Level 1	Level 2	Level 3	Total
<i>Financial assets:</i>				
Bonds				
Industrial and Miscellaneous				
Issuer Obligations	\$ -	\$ 2,256,744	\$ -	\$ 2,256,744
Residential Mortgage-Backed Securities	-	160,727,720	-	160,727,720
Total financial assets measured at fair value	\$ -	\$162,984,464	\$ -	\$162,984,464

For securities measured at fair value there were no transfers between Level 1 and Level 2 as of March 31, 2012.

- b. There are no financial instruments categorized within Level 3 of the fair value hierarchy as of March 31, 2012.
- c. Transfers between Levels are recognized at the beginning of each accounting period.
- d. The fair values of fixed income securities held by Ambac Assurance that are carried at fair value are based primarily on market prices received from the SVO, alternative pricing sources with reasonable levels of price transparency or from brokers. Such quotes generally consider a variety of factors, including recent trades of the same and similar securities. These quotes represent the only input to the reported fair value of Level 2 fixed income securities.
- e. There are no derivative assets and liabilities as of March 31, 2012.
- f. There are no classes of financial instruments where it isn't practicable to estimate the fair value as of March 31, 2012.

Note 21 - Other Items

The Board of Directors of Ambac Assurance, Ambac's principal operating subsidiary, has approved the exercise of all options to purchase surplus notes with an aggregate par amount of approximately \$940 million. The exercise of such options also requires the approval of OCI and the Rehabilitator of the Segregated Account. Ambac Assurance is seeking such approvals. There can be no assurance that such approvals will be obtained..

Note 22 - Events Subsequent

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

NOTES TO FINANCIAL STATEMENTS**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 62R, the allocation of insurance policies to the Segregated Account as well as the aggregate excess of loss reinsurance agreement has been recorded as retroactive reinsurance since these contracts were executed in connection with a court-ordered rehabilitation of the 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 Assumed from the Segregated Account	Net Liabilities allocated to the Segregated Account
Initial allocation and assumption of Assets/(Liabilities)	\$3,639,973,059	\$(1,639,973,059)	\$2,000,000,000
Changes in 2011 and prior	2,568,105,656	(2,967,596,644)	(399,490,988)
Changes in current year	593,735,884	(703,740,533)	(110,004,669)
Assets/(Liabilities) 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 Assumed from the Segregated Account	Impact to Surplus
Assets/(Liabilities) at March 31, 2012	\$6,801,814,599	\$(5,311,310,256)	n/a
Consideration Provided to the Segregated Account	(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.

The current and prior year settlements consist of the following:

	Current Year	Prior Years
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	74,692,859
	<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

Losses incurred of \$262,104,666 for the three months ended March 31, 2012 is primarily due to: i.) incurred losses of \$251,211,250 relating to on first lien residential mortgage backed credits that defaulted during 2012, ii.) incurred losses of \$10,485,000 resulting from the commutation of certain student loan credits during 2012, and iii) incurred losses of \$20,068,149 relating to public finance credits that defaulted in 2012, all offset by improvements in first lien residential mortgage backed credits that defaulted prior to 2012.

Loss adjustment expenses incurred of \$62,432,527 for the three months ended March 31, 2012 is primarily due an increase in loss adjustment expense reserves for certain residential mortgage backed credits.

March 31, 2012 loss reserves include \$3,162,429,827 of claims that have been presented and not paid by Ambac Assurance. Although Ambac Assurance has not paid any Segregated Account claims presented, its reinsurers have continued to pay Ambac Assurance for their portion of the presented claims. Accordingly the reinsurance amounts on unpaid claims are not included in loss reserves.

NOTES TO FINANCIAL STATEMENTS

Net case basis loss reserves at March 31, 2012 and December 31, 2011 were as follows:

	March 31, 2012	December 31, 2011	Change
Mortgage-Backed & Home Equity - First Lien	2,756,925,642	\$ 2,503,495,947	\$253,429,695
Mortgage-Backed & Home Equity - Second Lien	403,623,091	416,640,585	13,017,494
Mortgage-Backed & Home Equity – Other	176,620,050	228,464,025	(51,843,975)
Total Mortgage-Backed & Home Equity	3,337,168,763	3,148,600,557	188,568,226
Public Finance	44,280,242	(18,804,907)	63,085,149
Other	(29,106,542)	(29,388,301)	281,759
Total Loss Reserves	\$3,352,342,483	\$3,100,407,349	\$251,935,134
Total Losses Paid (Recovered) for the three months ended March 31, 2012			(11,293,624)
Correction of Prior Period Error			21,463,156
Total Losses Incurred for the three months ended March 31, 2012			\$262,104,666

Total net case basis reserves of \$3,352,342,483 at March 31, 2012 are net of \$2,629,134,445 of subrogation recoveries relating to representation and warranty breaches by RMBS transaction sponsors. In an effort to better understand the unprecedented levels of delinquencies and defaults, Ambac or its counsel engaged consultants with significant mortgage underwriting experience to review the underwriting documentation for mortgage loans underlying certain insured RMBS transactions. Transactions which exhibited exceptionally poor performance were chosen for further examination of the underwriting documentation supporting the underlying loans. Factors which Ambac believes to be indicative of poor performance include (i) high levels of early payment defaults, (ii) significant number of loan liquidations or charge-offs and resulting high level of losses, and (iii) rapid elimination of credit protections inherent in the transactions' structures. With respect to item (ii), "loan liquidations" refers to loans for which the servicer has liquidated the related collateral and the securitization has realized losses on the loan; "charge-offs" refers to loans which have been written off as uncollectible by the servicer, thereby generating no recoveries to the securitization, and may also refer to the unrecovered balance of liquidated loans. In either case, the servicer has taken actions as it has deemed viable to recover against the collateral, and the securitization has incurred losses to the extent such actions did not fully repay the borrower's obligations. Generally, the sponsor of the transaction provided representations and warranties with respect to the securitized loans, including representations with respect to the loan characteristics, the absence of fraud or other misconduct in the origination process, and attesting to the compliance of loans with the prevailing underwriting policies. Per the underlying transaction documents, the sponsor of the transaction is contractually obligated to repurchase, cure or substitute collateral for any loan that breaches the representations and warranties.

Subsequent to the forensic exercise of examining loan files to ascertain whether the loans conformed to the representations and warranties, we submit nonconforming loans to the sponsor for repurchase. To effect a repurchase, depending on the transaction, the sponsor is obligated to repurchase the loan (a) for loans which have not been liquidated or charged off, either at (i) the current unpaid principal balance of the loan, (ii) the current unpaid principal balance plus accrued unpaid interest, or (iii) the current unpaid principal balance plus accrued interest plus unreimbursed servicer advances/expenses and/or trustee expenses resulting from the breach of representations and warranties that trigger the repurchase, and (b) for a loan that has already been liquidated or charged-off, the amount of the realized loss (which in certain cases may exclude accrued unpaid interest). Notwithstanding the material breaches of representations and warranties, until the establishment of the Segregated Account and associated Segregated Account Rehabilitation Proceeding, Ambac continued to pay claims submitted under the financial guarantee insurance policies related to these securitizations and expects to resume paying such claims in accordance with the Segregated Account Rehabilitation Plan after such plan is effective or when otherwise permitted or required to do so by the Rehabilitator. In cases where loans are repurchased by a sponsor, the effect is typically to offset current period losses and then to increase the over-collateralization of the securitization, depending on the extent of loan repurchases and the structure of the securitization. Specifically, the repurchase price is paid by the sponsor to the securitization trust which holds the loan. The cash becomes an asset of the trust, replacing the loan that was repurchased by the sponsor. On a monthly basis the cash received related to loan repurchases by the sponsor is aggregated with cash collections from the underlying mortgages and applied in accordance with the trust indenture payment waterfall. This payment waterfall typically includes principal and interest payments to the note holders, various expenses of the trust and reimbursements to Ambac, as financial guarantor, for claim payments made in previous months. Notwithstanding the reimbursement of previous monthly claim payments, to the extent there continues to be insufficient cash in the waterfall in the current month to make scheduled principal and interest payments to the note holders, Ambac Assurance is required to make additional claim payments to cover this shortfall.

While the obligation by sponsors to repurchase loans with material breaches is clear, generally the sponsors have not yet honored those obligations. Ambac's approach to resolving these disputes has included negotiating with individual sponsors at the transaction level and in some cases at the individual loan level and has resulted in the repurchase of some loans. Ambac has utilized the results of the above described loan file examinations to make demands for loan repurchases from sponsors or their successors and, in certain instances, as a part of the basis for litigation filings. Ambac has initiated and will continue to initiate lawsuits seeking compliance with the repurchase obligations in the securitization documents. Ambac estimates that it will take approximately three years from the initiation of litigation with the sponsor to ultimate resolution. These future subrogation cash flows are discounted at the OCI prescribed discount rate of 5.1%.

Ambac has performed the above-mentioned, detailed examinations on a variety of second-lien and first-lien transactions that have experienced exceptionally poor performance. However, the loan file examinations and related estimated recoveries we have reviewed and recorded to date have been limited to only those transactions whose sponsors (or their successors) are subsidiaries of large financial institutions, all of which carry an investment grade rating from at least one nationally recognized rating agency. A total of eight sponsors represent the 32 transactions which have been reviewed as of March 31, 2012. While our contractual recourse is generally to the sponsor/subsidiary, rather than to the financial institutional parent, each of these financial institutions has significant financial resources and an ongoing interest in mortgage finance, and we therefore believe that the financial institution/parent would not seek to disclaim financial responsibility for these obligations if the sponsor/subsidiary is unable to honor its contractual obligations or pay a judgment that we may obtain in litigation. Additionally, in the case of successor institutions, we are not aware of any provisions that explicitly preclude or limit the successors' ability to honor the obligations of the original sponsor. In fact, certain successor financial institutions have made significant payments to certain claimants to settle breaches of representations and warranties perpetrated by sponsors that have been acquired by such financial institutions. As a result, we did not make any significant adjustments to our estimated subrogation recoveries with respect to the credit risk of these sponsors or their successors. We believe that focusing our loan remediation efforts on large financial institutions first will provide the greatest economic benefit to Ambac. Ambac retains the right to review other RMBS transactions for representations and warranties breaches. Since a significant number of other second-lien and first-lien transactions are also experiencing poor performance, management is considering expanding the scope of this effort.

Note 26 - Intercompany Pooling Arrangements

No significant change from 2011 Notes to Financial Statements.

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 Accident 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 Reserves

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.

Note 36 - Financial Guaranty Insurance

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

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

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

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

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

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

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

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

Credits that are fully current and monetary default or claims-payment are not anticipated. The payor's or issuer's financial condition may be deteriorating or the credits may lack adequate collateral. A structured financing may also evidence weakness in its fundamental credit quality as evidenced by its under-performance relative to its modeled projections at underwriting, issues related to the servicer's ability to perform, or questions

NOTES TO FINANCIAL STATEMENTS

about the structural integrity of the transaction. While these credits may still retain an investment grade rating, they usually have experienced or are vulnerable to a ratings downgrade. Further investigation is required to dimension and correct any deficiencies. A complete legal review of documents may be required. An action plan should be developed with triggers for future classification changes upward or downward.

CLASS II – “Substandard Requiring Intervention”

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

CLASS III – “Doubtful with Clear Potential for Loss”

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

CLASS IV – “Imminent Default or Defaulted”

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

CLASS V – “Fully Reserved”

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

Below is the losses and loss adjustment expense roll-forward, net of subrogation recoverable and reinsurance for the period ended March 31, 2012:

		Three Months Ended March 31, 2012
Losses and Loss Adjustment Expenses at December 31, 2011, net of subrogation recoverable and net of reinsurance		\$ 3,226,326,821
Change in losses and loss adjustment expenses reserves due to:		
Credits added:		
Establishment of new loss reserves, gross of subrogation and net of reinsurance	\$547,559,209	
Net claim and loss adjustment expense payments, net of reinsurance	(17,291,275)	
Establishment of subrogation recoveries, net of reinsurance	(265,794,810)	
Total Current Year		264,473,124
Existing credits:		
Change in previously established loss reserves, gross of subrogation and net of reinsurance	340,807	
Net claim and loss adjustment expense recoveries, net of reinsurance	25,067,492	
Change in subrogation recoveries, net of reinsurance	20,969,168	
Total Prior Year		46,377,467
Net change in losses and loss adjustment expenses reserves		310,850,591
Loss and Loss Adjustment Expenses at March 31, 2012 *		\$ 3,537,177,412

* Includes \$3,162,429,827, of claims that have been presented and not paid as of March 31, 2012.

Below are the insured financial obligations at the period ended December 31, 2011:

	IV	V	Total
Number of Policies	160	1	161
Remaining weighted-average contract period (in years)	11	9	11
Gross insured contractual payments outstanding:			
Principal	\$14,535,555,417	\$46,704	\$14,535,602,121
Interest	4,871,330,272	22,009	4,871,352,282
Total	<u>\$19,406,885,690</u>	<u>\$68,713</u>	<u>\$ 19,406,954,403</u>
Gross claim liability	\$7,460,078,072	\$68,713	\$7,460,145,785
Less:			
Gross potential recoveries	(3,539,350,254)	-	(3,539,350,254)
Discount	(375,905,231)	(16,199)	(375,921,429)
Claim liability reported in the balance sheet	<u>3,544,822,587</u>	<u>\$52,514</u>	<u>\$ 3,544,875,102</u>
Gross unearned premium revenue	<u>\$14,354,783</u>	\$ -	<u>\$14,354,783</u>
Reinsurance recoverables reported in the balance sheet	<u>\$7,697,690</u>	\$ -	<u>\$7,697,690</u>

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES - GENERAL

- 1.1 Did the reporting entity experience any material transactions requiring the filing of Disclosure of Material Transactions with the State of Domicile, as required by the Model Act? Yes No
- 1.2 If yes, has the report been filed with the domiciliary state? Yes No
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes No
- 2.2 If yes, date of change:
3. Have there been any substantial changes in the organizational chart since the prior quarter end? Yes No
If yes, complete the Schedule Y-Part 1 - Organizational chart.
- 4.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes No

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

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

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

- 6.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/2011.....
- 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. 12/31/2006.....
- 6.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). 8/31/2007.....
- 6.4 By what department or departments?
Wisconsin

- 6.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with Departments? Yes No N/A
- 6.6 Have all of the recommendations within the latest financial examination report been complied with? Yes No N/A
- 7.1 Has this reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? Yes No

7.2 If yes, give full information:

- 8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? Yes No
- 8.2 If response to 8.1 is yes, please identify the name of the bank holding company.

- 8.3 Is the company affiliated with one or more banks, thrifts or securities firms? Yes No
- 8.4 If the response to 8.3 is yes, please provide below the names and location (city and state of the main office) of any affiliates regulated by a federal regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the 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

10.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: \$.....0

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

11.2 If yes, give full and complete information relating thereto:
The Company loaned securities with a carrying value of \$292,075,379 to Ambac Financial Services, LLC pursuant to a revolving credit facility approved by the Wisconsin Insurance Commissioner. There is no collateral for the loan.

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

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

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

14.2 If yes, please complete the following:

	1 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.....	\$197,485,463	\$307,813,553
14.24 Short-Term Investments.....	\$0	\$0
14.25 Mortgage Loans on Real Estate.....	\$0	\$0
14.26 All Other.....	\$142,208,155	\$155,470,526
14.27 Total Investment in Parent, Subsidiaries and Affiliates (Subtotal Lines 14.21 to 14.26).....	\$339,693,618	\$463,284,079
14.28 Total Investment in Parent included in Lines 14.21 to 14.26 above.....	\$0	\$0

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

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

16. Excluding items in Schedule E-Part 3-Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 1, III - General Examination Considerations, F. Outsourcing of Critical Functions, Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook? Yes No

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

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

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

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

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

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

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

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

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

PART 1 - INVESTMENT

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 [X] No []

4.2 If yes, complete the following schedule:

1 Line of Business	2 Maximum Interest	3 Disc. Rate	Total Discount				Discount Taken During Period			
			4 Unpaid Losses	5 Unpaid LAE	6 IBNR	7 Total	8 Unpaid Losses	9 Unpaid LAE	10 IBNR	11 Total
Financial Guaranty	.....	.....	..370,434,823	.....	.....	..370,434,823	...(81,361,150)	.....	.....	...(81,361,150)
Total.....	.....XXX.....	.....XXX.....	..370,434,823	.....0	.....0	..370,434,823	...(81,361,150)	.....0	.....0	...(81,361,150)

5. Operating Percentages:

5.1 A&H loss percent _____ 0.0 %

5.2 A&H cost containment percent _____ 0.0 %

5.3 A&H expense percent excluding cost containment expenses _____ 0.0 %

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

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

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

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

SCHEDULE F - CEDED REINSURANCE

Showing All New Reinsurers - Current Year to Date

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

NONE

SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN

Current Year to Date - Allocated by States and Territories

States, Etc.	1 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	L	59,478	149,847				
2. Alaska.....AK	L						
3. Arizona.....AZ	L	9,420	9,738				
4. Arkansas.....AR	L		31,414				
5. California.....CA	L	2,309,301	2,689,613	5,823,670	(1,183,755)	1,103,460,182	777,408,449
6. Colorado.....CO	L	607,888	609,367				
7. Connecticut.....CT	L	122,929	123,673				
8. Delaware.....DE	L	1,090,325	1,902,486	(134,330)			
9. District of Columbia.....DC	L						
10. Florida.....FL	L	104,176	146,168			(32,716,268)	(19,682,185)
11. Georgia.....GA	L	102,800	102,520				
12. Hawaii.....HI	L	296,520	510,884				
13. Idaho.....ID	L	21	58				
14. Illinois.....IL	L	1,105,290	1,826,726	(2,995,816)	(2,937,119)	334,923,410	979,189
15. Indiana.....IN	L	13,473	16,239				
16. Iowa.....IA	L	7,860	14,171				
17. Kansas.....KS	L	127,929	128,212				
18. Kentucky.....KY	L	81,486	81,634				
19. Louisiana.....LA	L	141,605	142,809				
20. Maine.....ME	L			(295,300)			
21. Maryland.....MD	L	455,191	489,722	(144,713)	(293,181)	402,493,255	351,236,704
22. Massachusetts.....MA	L	1,908,467	2,564,715	(2,207,255)	(1,773,704)	321,214,654	112,443,686
23. Michigan.....MI	L	28,021					
24. Minnesota.....MN	L	3,486,891	3,731,829	(1,983,915)	(3,322,266)	399,669,219	307,135,510
25. Mississippi.....MS	L						
26. Missouri.....MO	L	2,271,437	1,503,646				
27. Montana.....MT	L	121,395	242,790				
28. Nebraska.....NE	L						
29. Nevada.....NV	L	40,477	41,138	(15,455)		63,042,238	225,561,180
30. New Hampshire.....NH	L	598	943				
31. New Jersey.....NJ	L	131,215	132,419	6,222,511	5,255,256	6,204,640	(6,731,875)
32. New Mexico.....NM	L	78,258	89,628				
33. New York.....NY	L	12,542,035	22,265,985	(10,314,318)	(13,472,278)	769,314,571	887,143,340
34. North Carolina.....NC	L	402,242	411,764				
35. North Dakota.....ND	L						
36. Ohio.....OH	L	91,738	316,988				
37. Oklahoma.....OK	L						
38. Oregon.....OR	L	5,378	5,487				
39. Pennsylvania.....PA	L	231,914	234,680	4,279,544	(950,391)	(13,729,368)	(24,208,461)
40. Rhode Island.....RI	L						
41. South Carolina.....SC	L	153,212	233,777				
42. South Dakota.....SD	L						
43. Tennessee.....TN	L						
44. Texas.....TX	L	1,080,097	1,113,560				
45. Utah.....UT	L		4,866				
46. Vermont.....VT	L						
47. Virginia.....VA	L	136,924	137,090				
48. Washington.....WA	L	190,179	191,778				
49. West Virginia.....WV	L	8	75,000				
50. Wisconsin.....WI	L						
51. Wyoming.....WY	L						
52. American Samoa.....AS	N						
53. Guam.....GU	L						
54. Puerto Rico.....PR	L		5,225				
55. US Virgin Islands.....VI	L						
56. Northern Mariana Islands.....MP	N						
57. Canada.....CN	N						
58. Aggregate Other Alien.....OT	XXX	1,053,911	1,300,091	0	0	0	0
59. Totals.....(a)	54	30,590,089	43,578,680	(1,765,377)	(18,677,438)	3,353,876,533	2,611,285,537

DETAILS OF WRITE-INS

5801. Cayman Islands.....XXX	253,582	284,028					
5802. Australia.....XXX	773,824	991,295					
5803. New Zealand.....XXX	26,505	24,768					
5898. Summary of remaining write-ins for Line 58 from overflow page.....XXX	0	0	0	0	0	0	0
5899. Totals (Lines 5801 thru 5803 + Line 5898) (Line 58 above).....XXX	1,053,911	1,300,091	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**

PART 1 - LOSS EXPERIENCE

Lines of Business	Current Year to Date			4 Prior Year to Date Direct Loss Percentage
	1 Direct Premiums Earned	2 Direct Losses Incurred	3 Direct Loss Percentage	
1. Fire.....			0.0	
2. Allied lines.....			0.0	
3. Farmowners multiple peril.....			0.0	
4. Homeowners multiple peril.....			0.0	
5. Commercial multiple peril.....			0.0	
6. Mortgage guaranty.....			0.0	
8. Ocean marine.....			0.0	
9. Inland marine.....			0.0	
10. Financial guaranty.....	98,758,086	274,686,363	278.1	279.2
11.1. Medical professional liability - occurrence.....			0.0	
11.2. Medical professional liability - claims-made.....			0.0	
12. Earthquake.....			0.0	
13. Group accident and health.....			0.0	
14. Credit accident and health.....			0.0	
15. Other accident and health.....			0.0	
16. Workers' compensation.....			0.0	
17.1 Other liability-occurrence.....			0.0	
17.2 Other liability-claims made.....			0.0	
17.3 Excess workers' compensation.....			0.0	
18.1 Products liability-occurrence.....			0.0	
18.2 Products liability-claims made.....			0.0	
19.1, 19.2 Private passenger auto liability.....			0.0	
19.3, 19.4 Commercial auto liability.....			0.0	
21. Auto physical damage.....			0.0	
22. Aircraft (all perils).....			0.0	
23. Fidelity.....			0.0	
24. Surety.....	813,510		0.0	
26. Burglary and theft.....			0.0	
27. Boiler and machinery.....			0.0	
28. Credit.....			0.0	
29. International.....			0.0	
30. Warranty.....			0.0	
31. Reinsurance-nonproportional assumed property.....	XXX	XXX	XXX	XXX
32. Reinsurance-nonproportional assumed liability.....	XXX	XXX	XXX	XXX
33. Reinsurance-nonproportional assumed financial lines.....	XXX	XXX	XXX	XXX
34. Aggregate write-ins for other lines of business.....	0	0	0.0	
35. Totals.....	99,571,596	274,686,363	275.9	275.4
DETAILS OF WRITE-INS				
3401.....			0.0	
3402.....			0.0	
3403.....			0.0	
3498. Sum. of remaining write-ins for Line 34 from overflow page.....	0	0	0.0	XXX
3499. Totals (Lines 3401 thru 3403 plus 3498) (Line 34).....	0	0	0.0	

PART 2 - DIRECT PREMIUMS WRITTEN

Lines of Business	1	2	3
	Current Quarter	Current Year to Date	Prior Year Year to Date
1. Fire.....			
2. Allied lines.....			
3. Farmowners multiple peril.....			
4. Homeowners multiple peril.....			
5. Commercial multiple peril.....			
6. Mortgage guaranty.....			
8. Ocean marine.....			
9. Inland marine.....			
10. Financial guaranty.....	30,576,682	30,576,682	43,558,900
11.1. Medical professional liability - occurrence.....			
11.2. Medical professional liability - claims made.....			
12. Earthquake.....			
13. Group accident and health.....			
14. Credit accident and health.....			
15. Other accident and health.....			
16. Workers' compensation.....			
17.1 Other liability-occurrence.....			
17.2 Other liability-claims made.....			
17.3 Excess workers' compensation.....			
18.1 Products liability-occurrence.....			
18.2 Products liability-claims made.....			
19.1 19.2 Private passenger auto liability.....			
19.3 19.4 Commercial auto liability.....			
21. Auto physical damage.....			
22. Aircraft (all perils).....			
23. Fidelity.....			
24. Surety.....	13,407	13,407	19,780
26. Burglary and theft.....			
27. Boiler and machinery.....			
28. Credit.....			
29. International.....			
30. Warranty.....			
31. Reinsurance-nonproportional assumed property.....	XXX	XXX	XXX
32. Reinsurance-nonproportional assumed liability.....	XXX	XXX	XXX
33. Reinsurance-nonproportional assumed financial lines.....	XXX	XXX	XXX
34. Aggregate write-ins for other lines of business.....	0	0	0
35. Totals.....	30,590,089	30,590,089	43,578,680
DETAILS OF WRITE-INS			
3401.....			
3402.....			
3403.....			
3498. Sum. of remaining write-ins for Line 34 from overflow page.....	0	0	0
3499. Totals (Lines 3401 thru 3403 plus 3498) (Line 34).....	0	0	0

PART 3 (000 omitted)

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES SCHEDULE

	1	2	3	4	5	6	7	8	9	10	11	12	13
Years in Which Losses Occurred	Prior Year-End Known Case Loss and LAE Reserves	Prior Year-End IBNR Loss and LAE Reserves	Total Prior Year-End Loss and LAE Reserves (Cols. 1 + 2)	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.....	1,301,552		1,301,552	(32,064)		(32,064)	1,340,287			1,340,287	6,671	0	6,671
2. 2010.....	1,452,532		1,452,532	6,480		6,480	1,368,354			1,368,354	(77,698)	0	(77,698)
3. Subtotals 2010 + Prior.....	2,754,084	0	2,754,084	(25,584)	0	(25,584)	2,708,641	0	0	2,708,641	(71,027)	0	(71,027)
4. 2011.....	472,242		472,242	(420)		(420)	550,954			550,954	78,292	0	78,292
5. Subtotals 2011 + Prior.....	3,226,326	0	3,226,326	(26,004)	0	(26,004)	3,259,595	0	0	3,259,595	7,265	0	7,265
6. 2012.....	XXX	XXX	XXX	XXX	18,227	18,227	XXX	277,582		277,582	XXX	XXX	XXX
7. Totals.....	3,226,326	0	3,226,326	(26,004)	18,227	(7,777)	3,259,595	277,582	0	3,537,177	7,265	0	7,265
8. Prior Year-End's Surplus As Regards Policyholders	495,293										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
											1.0.2 %	2.0.0 %	3.0.2 %
													Col. 13, Line 7 Line 8
													4.1.5 %

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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:



Overflow Page for Write-Ins

Additional Write-ins for Liabilities:

	1 Current Statement Date	2 December 31, Prior Year
2504. Liabilities allocated to Ambac Assurance Corporation Segregated Account.....	(6,801,814,599)	(6,208,078,715)
2505. Liabilities assumed from Ambac Assurance Corporation Segregated Account.....	5,311,310,256	4,607,569,703
2506. Liabilities of Ambac Assurance Corporation Segregated Account.....	1,592,572,569	1,602,170,412
2597. Summary of remaining write-ins for Line 25.....	102,068,226	1,661,400

Additional Write-ins for Statement of Income:

	1 Current Year to Date	2 Prior Year to Date	3 Prior Year Ended December 31
1404. Settlements of liabilities allocated to Ambac Assurance Corp Segregated Account.....	20,983,407	19,610,754	283,693,384
1405. Change in liabilities assumed from Ambac Assurance Corp Segregated Account.....	(703,740,553)	(46,470,963)	(862,639,717)
1497. Summary of remaining write-ins for Line 14.....	(682,757,146)	(26,860,209)	(578,946,333)

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.....	154,297,163	15,901,820
2. Cost of acquired:		
2.1 Actual cost at time of acquisition.....		142,080,484
2.2 Additional investment made after acquisition.....		109,437
3. Capitalized deferred interest and other.....		
4. Accrual of discount.....		
5. Unrealized valuation increase (decrease).....	9,130,440	(1,539,023)
6. Total gain (loss) on disposals.....		(3,528)
7. Deduct amounts received on disposals.....		2,213,559
8. Deduct amortization of premium and depreciation.....		
9. Total foreign exchange change in book/adjusted carrying value.....	246,049	(38,468)
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).....	163,673,652	154,297,163
12. Deduct total nonadmitted amounts.....	21,387	4,153,318
13. Statement value at end of current period (Line 11 minus Line 12).....	163,652,265	150,143,845

SCHEDULE D - VERIFICATION

Bonds and Stocks

	1 Year to Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value of bonds and stocks, December 31 of prior year.....	4,556,547,629	4,714,671,598
2. Cost of bonds and stocks acquired.....	190,191,695	824,672,310
3. Accrual of discount.....	44,229,246	192,925,685
4. Unrealized valuation increase (decrease).....	120,945,741	(63,037,709)
5. Total gain (loss) on disposals.....	18,029	18,133,128
6. Deduct consideration for bonds and stocks disposed of.....	190,799,242	1,058,295,114
7. Deduct amortization of premium.....	10,101,384	30,603,339
8. Total foreign exchange change in book/adjusted carrying value.....	(1,987,743)	1,146,310
9. Deduct current year's other than temporary impairment recognized.....	22,943,074	43,065,240
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9).....	4,686,100,897	4,556,547,629
11. Deduct total nonadmitted amounts.....	108,871,009	158,274
12. Statement value at end of current period (Line 10 minus Line 11).....	4,577,229,888	4,556,389,355

SCHEDULE D - PART 1B

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

	1	2	3	4	5	6	7	8
	Book/Adjusted Carrying Value Beginning of Current Quarter	Acquisitions During Current Quarter	Dispositions During Current Quarter	Non-Trading Activity During Current Quarter	Book/Adjusted Carrying Value End of First Quarter	Book/Adjusted Carrying Value End of Second Quarter	Book/Adjusted Carrying Value End of Third Quarter	Book/Adjusted Carrying Value December 31 Prior Year
BONDS								
1. Class 1 (a).....	4,334,172,879	782,042,337	763,302,952	(1,076,330)	4,351,835,934			4,334,172,879
2. Class 2 (a).....	502,296,008	5,789,196	4,343,714	6,728,311	510,469,801			502,296,008
3. Class 3 (a).....	6,726,014	831,113	1,043,434	(1,344,909)	5,168,784			6,726,014
4. Class 4 (a).....	656,845	2,272,020		4,644,457	7,573,322			656,845
5. Class 5 (a).....	44,310,762		7,237,080	1,200,911	38,274,593			44,310,762
6. Class 6 (a).....	132,276,632	54,462,296	7,927,449	9,683,133	188,494,612			132,276,632
7. Total Bonds.....	5,020,439,140	845,396,962	783,854,629	19,835,573	5,101,817,046	0	0	5,020,439,140
PREFERRED STOCK								
8. Class 1.....								
9. Class 2.....								
10. Class 3.....								
11. Class 4.....								
12. Class 5.....								
13. Class 6.....								
14. Total Preferred Stock.....	0	0	0	0	0	0	0	0
15. Total Bonds and Preferred Stock.....	5,020,439,140	845,396,962	783,854,629	19,835,573	5,101,817,046	0	0	5,020,439,140

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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 \$.....357,135,959; 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.....	723,529,702	XXX	723,516,140	197,384	703

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.....	661,376,974	510,261,013
2. Cost of short-term investments acquired.....	655,205,267	3,226,794,586
3. Accrual of discount.....		
4. Unrealized valuation increase (decrease).....		
5. Total gain (loss) on disposals.....		31,039
6. Deduct consideration received on disposals.....	593,073,416	3,075,696,260
7. Deduct amortization of premium.....		
8. Total foreign exchange change in book/adjusted carrying value.....	20,877	(13,404)
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).....	723,529,702	661,376,974
11. Deduct total nonadmitted amounts.....		
12. Statement value at end of current period (Line 10 minus Line 11).....	723,529,702	661,376,974

**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**

**Sch. BA-Pt 2
NONE**

**Sch. BA-Pt 3
NONE**

SCHEDULE D - PART 3

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

1 CUSIP Identification	2 Description	3 Foreign	4 Date Acquired	5 Name of Vendor	6 Number of Shares of Stock	7 Actual Cost	8 Par Value	9 Paid for Accrued Interest and Dividends	10 NAIC Designation or Market Indicator (a)
Bonds - U.S. Government									
912828 SB 7	US Treasury bill Notes 0.250% 01/31/14		02/13/2012	Goldman Sachs		44,998,828	45,000,000	2,679	1
0599999	Total - Bonds - U.S. Government					44,998,828	45,000,000	2,679	XXX
Bonds - U.S. Special Revenue and Special Assessment									
79766D DA 4	San Francisco Calif Cit 5.000% 05/01/27		03/07/2012	Tax Free Exchange		3,683,493	3,950,000	69,125	2FE
79766D DB 2	San Francisco Calif Cit 5.000% 05/01/27		03/07/2012	Tax Free Exchange		2,191,445	2,350,000	41,125	1FE
3199999	Total - Bonds - U.S. Special Revenue & Special Assessments					5,874,938	6,300,000	110,250	XXX
Bonds - Industrial and Miscellaneous									
02006A AA 5	Ally Auto Receivable Tr 0.314% 03/15/13		03/07/2012	Bank of America		20,000,000	20,000,000		1FE
03064U AA 8	Americredit Automobile 0.447% 02/08/13		01/31/2012	Barclay's Bank		5,000,000	5,000,000		1FE
126684 AC 3	Countrywide Asset-Backe 5.658% 03/25/34		03/29/2012	Various		36,371,353	39,004,132	95,439	6FM
126684 AF 6	Countrywide Asset-Backe 5.657% 03/25/34		03/26/2012	Tejas Securities Group Inc		646,797	697,355	3,068	1FM
23242E AB 5	Countrywide Asset-Backe 5.884% 01/25/37		03/29/2012	Banc of Manhattan Capital		129,211	138,937	45	6FE
29273R AQ 2	Energy Transfer Partner 5.200% 02/01/22		01/09/2012	JP Morgan		598,548	600,000		2FE
34529V AA 0	Ford Credit Auto Lease 0.358% 03/15/13		02/29/2012	Bank of America		5,000,000	5,000,000		1FE
36162N AA 5	GE Equipment Transporta 0.389% 03/22/13		03/14/2012	Credit Suisse France		5,500,000	5,500,000		1FE
39153V BA 1	Great America Leasing 0.512% 04/15/13		03/22/2012	Wells Fargo		2,000,000	2,000,000		1FE
41161P YV 9	Harborview Mortgage Loa 0.502% 01/19/37		03/30/2012	FHLMC		7,899,999	16,772,002		6FE
43813U AA 8	Honda Auto Receivables 0.413% 03/15/13		02/14/2012	Bank of America		15,000,000	15,000,000		1FE
44890G AA 3	Hyundai Auto Receivable 0.300% 03/15/13		02/29/2012	JPM Chase		5,000,000	5,000,000		1FE
45255R AA 5	Impac Secured Assets Co 0.412% 11/25/36		03/29/2012	RW Baird		2,759,223	4,300,786	394	6FE
45661D AA 4	Indymac Residential Ass 0.391% 06/28/36		03/28/2012	Guggenheim Capital Markets		6,512,141	12,272,585	667	6FE
459745 GM 1	Intl Lease Finance PRPL 4.875% 04/01/15		03/14/2012	JP Morgan		2,272,020	2,280,000		4
65475U AA 0	Nissan Auto Reviebales 0.359% 03/15/13		02/15/2012	JPM Chase		5,500,000	5,500,000		1FE
76110W MX 1	Residential Asset 6.084% 06/25/32		03/30/2012	Banc of Manhattan Capital		790,369	938,124	476	6FE
78442F EM 6	SLM Corp Finance consum 6.000% 01/25/17		01/24/2012	Deutsche Bank		831,113	840,000		3FE
80281A AA 7	Santender Drive Auto 0.544% 01/15/13		01/11/2012	Citigroup Global Markets		15,000,000	15,000,000		1FE
03938L AW 4	Arcelormittal Steel 4.500% 02/25/17	F	03/27/2012	RBC Capital Markets		1,507,155	1,500,000	6,000	2FE
92887C AA 6	Volvo Financial Equipme 0.353% 03/15/13	F	03/07/2012	JPM Chase		1,000,000	1,000,000		1FE
3899999	Total - Bonds - Industrial & Miscellaneous					139,317,929	158,343,921	106,089	XXX
8399997	Total - Bonds - Part 3					190,191,695	209,643,921	219,018	XXX
8399999	Total - Bonds					190,191,695	209,643,921	219,018	XXX
9999999	Total - Bonds, Preferred and Common Stocks					190,191,695	XXX	219,018	XXX

QE04

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

SCHEDULE D - PART 4

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

1 CUSIP Identification	2 Description	3 F o r e i g n	4 Disposal Date	5 Name of Purchaser	6 Number of Shares of Stock	7 Consideration	8 Par Value	9 Actual Cost	10 Prior Year Book/ Adjusted Carrying Value	Change in Book/Adjusted Carrying Value					16 Book/ Adjusted Carrying Value At Disposal Date	17 Foreign Exchange Gain (Loss) on Disposal	18 Realized Gain (Loss) on Disposal	19 Total Gain (Loss) on Disposal	20 Bond Interest/ Stock Dividends Received During Year	21 Stated Contractual Maturity Date	22 NAIC Desig- nation or Market Indicator (a)
										11 Unrealized Valuation Increase/ (Decrease)	12 Current Year's (Amortization)/ Accretion	13 Current Year's Other Than Temporary Impairment Recognized	14 Total Change in B./A.C.V. (11+12-13)	15 Total Foreign Exchange Change in B./A.C.V.							
Bonds - U.S. Government																					
36213C	YP 9		03/01/2012	Paydown		12,817	12,817	13,288	13,247		(430)		(430)		12,817		0	102	11/15/2035	1	
36241K	VV 7		03/01/2012	Paydown		63,671	63,671	65,969	65,795		(2,124)		(2,124)		63,671		0	531	10/15/2038	1	
36241K	YZ 5		03/01/2012	Paydown		52,678	52,678	54,579	54,437		(1,759)		(1,759)		52,678		0	457	01/15/2039	1	
912828	GK 0		02/29/2012	Maturity		20,000,000	20,000,000	21,882,813	20,079,392		(79,392)		(79,392)		20,000,000		0	462,500	02/29/2012	1	
0599999	Total - Bonds - U.S. Government					20,129,166	20,129,166	22,016,649	20,212,871	0	(83,705)	0	(83,705)	0	20,129,166	0	0	463,590	XXX	XXX	
Bonds - U.S. Political Subdivisions of States, Territories and Possessions																					
259597	GA 4		02/01/2012	Call	100,000	7,635,000	7,635,000	7,430,397	7,619,180		15,820		15,820		7,635,000		0	190,875	02/01/2022	1FE	
259597	GC 0		02/01/2012	Call	100,000	3,725,000	3,725,000	3,625,177	3,632,862		748		748		3,633,611		91,389	91,389	93,125	02/01/2022	1FE
463813	MP 7		02/15/2012	Redemption	100,000	60,000	60,000	56,495	56,889		15		15		56,904		3,096	3,096	1,500	02/15/2031	1FE
540261	FW 9		02/01/2012	Call	101,000	8,080,000	8,000,000	7,954,320	7,958,798		506		506		7,959,304		120,696	120,696	200,000	08/01/2026	1FE
542433	FA 0		03/27/2012	Call	101,000	11,342,300	11,230,000	11,267,621	11,237,176		(4,062)		(4,062)		11,233,115		109,185	109,185	368,094	08/01/2012	1FE
2499999	Total - Bonds - U.S. Political Subdivisions of States, Territories & Possessions					30,842,300	30,650,000	30,334,010	30,504,905	0	13,027	0	13,027	0	30,517,934	0	324,366	324,366	853,594	XXX	XXX
Bonds - U.S. Special Revenue and Special Assessment																					
31283H	5A 9		03/01/2012	Paydown		10,510	10,510	11,064	11,017		(507)		(507)		10,510		0	114	10/01/2034	1	
31283H	N2 7		03/01/2012	Paydown		131	131	138	138		(7)		(7)		131		0	1	08/01/2031	1	
3128H7	H3 9		03/01/2012	Paydown		2,820	2,820	2,962	2,920		(100)		(100)		2,820		0	28	09/01/2018	1	
3128KF	BD 1		03/01/2012	Paydown		22,954	22,954	23,911	23,836		(883)		(883)		22,954		0	338	09/01/2036	1	
3128NC	SZ 3		03/01/2012	Paydown		14,893	14,893	14,858	14,858		35		35		14,893		0	74	08/01/2035	1	
31292H	VU 5		03/01/2012	Paydown		33,118	33,118	34,008	33,947		(828)		(828)		33,118		0	291	04/01/2033	1	
31295W	D7 0		03/01/2012	Paydown		4,144	4,144	4,311	4,209		(65)		(65)		4,144		0	65	05/01/2020	1	
31295W	GF 9		03/01/2012	Paydown		535	535	557	544		(9)		(9)		535		0	7	09/01/2020	1	
31295W	PP 7		03/01/2012	Paydown		419	419	436	423		(4)		(4)		419		0	7	09/01/2016	1	
312962	5K 5		03/01/2012	Paydown		32,153	32,153	33,118	32,834		(680)		(680)		32,153		0	244	11/01/2018	1	
31296P	EM 0		03/01/2012	Paydown		33,143	33,143	34,178	34,077		(934)		(934)		33,143		0	291	10/01/2033	1	
312971	H9 8		03/01/2012	Paydown		15,764	15,764	16,343	16,198		(434)		(434)		15,764		0	101	05/01/2020	1	
31297M	H2 7		03/01/2012	Paydown		833,672	833,672	862,850	861,667		(27,995)		(27,995)		833,672		0	7,918	04/01/2035	1	
31297T	6K 4		03/01/2012	Paydown		7,743	7,743	7,974	7,953		(211)		(211)		7,743		0	93	10/01/2035	1	
3133TD	JS 6		03/01/2012	Paydown		138,595	138,595	139,569	138,595		0		0		138,595		0	1,436	04/15/2013	1	
3133TG	U4 9		03/01/2012	Paydown		13,598	13,598	14,057	13,999		(401)		(401)		13,598		0	134	11/15/2028	1	
3133TS	BS 1		03/01/2012	Paydown		58,648	58,648	62,936	61,715		(3,067)		(3,067)		58,648		0	518	03/15/2031	1	
31362T	GE 7		03/01/2012	Paydown		661	661	623	645		16		16		661		0	9	07/01/2019	1	
31365D	JV 8		03/01/2012	Paydown		90	90	92	91		(1)		(1)		90		0	1	09/01/2022	1	
31371J	6T 6		03/01/2012	Paydown		20,345	20,345	19,928	20,095		250		250		20,345		0	189	08/01/2016	1	
31371K	EJ 6		03/01/2012	Paydown		19,447	19,447	19,163	19,274		174		174		19,447		0	173	10/01/2016	1	
31371L	A6 6		03/01/2012	Paydown		220,604	220,604	218,863	218,989		1,615		1,615		220,604		0	1,977	08/01/2033	1	

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SCHEDULE D - PART 4

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

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value					16	17	18	19	20	21	22	
										11	12	13	14	15								
CUSIP Identification	Description	For i g n	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/ Adjusted Carrying Value	Unrealized Valuation Increase/ (Decrease)	Current Year's (Amortization)/ Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11+12-13)	Total Foreign Exchange Change in B./A.C.V.	Book/ Adjusted Carrying Value At Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/ Stock Dividends Received During Year	Stated Contractual Maturity Date	NAIC Designation or Market Indicator (a)	
31384W	BA 7 FNCI # 535633 5.500% 12/01/14.....		03/01/2012	Paydown.....		21,069	21,069	20,761	20,930		139		139		21,069			0	191	12/01/2014	1.....	
31385J	CH 9 FNCI #545572 6.000% 04/01/17.....		03/01/2012	Paydown.....		27,262	27,262	27,349	27,254		8		8		27,262			0	284	04/01/2017	1.....	
31387K	V5 9 FNMA 15 YR 586636 6.000% 06/01/16.....		03/01/2012	Paydown.....		1,040	1,040	1,030	1,034		7		7		1,040			0	10	06/01/2016	1.....	
31387K	V8 3 FNMA #586639 6.000% 06/01/16.....		03/01/2012	Paydown.....		14,032	14,032	13,892	13,943		90		90		14,032			0	91	06/01/2016	1.....	
31387N	YL 5 FNMA 589415 5.500% 07/01/16.....		03/01/2012	Paydown.....		4,493	4,493	4,408	4,465		28		28		4,493			0	50	07/01/2016	1.....	
31389H	HL 5 Fannie Mae # 625835 6.000% 01/01/17.....		03/01/2012	Paydown.....		24,811	24,811	24,846	24,804		6		6		24,811			0	146	01/01/2017	1.....	
31392J	AD 1 Fannie Mae Series 2003- 7.500% 07/25/42.....		03/01/2012	Paydown.....		571	571	607	606		(35)		(35)		571			0	7	07/25/2042	1.....	
31392J	YH 6 Fannie Mae Series 2003- 7.500% 08/25/42.....		03/01/2012	Paydown.....		154	154	164	164		(10)		(10)		154			0	2	08/25/2042	1.....	
31401H	PU 0 Fannie Mae FN #708835 5.000% 06/01/18.....		03/01/2012	Paydown.....		17,488	17,488	18,177	17,960		(472)		(472)		17,488			0	133	06/01/2018	1.....	
31401H	SE 3 Fannie Mae 708917 6.000% 06/01/33.....		03/01/2012	Paydown.....		26,595	26,595	27,971	27,516		(920)		(920)		26,595			0	381	06/01/2033	1.....	
31401J	ND 6 Fannie Mae FN 709688 5.500% 06/01/33.....		03/01/2012	Paydown.....		278,531	278,531	278,627	277,769		763		763		278,531			0	2,615	06/01/2033	1.....	
31401W	GV 5 Fannie Mae 720312 4.500% 06/01/18.....		03/01/2012	Paydown.....		654,902	654,902	655,619	654,360		543		543		654,902			0	4,948	06/01/2018	1.....	
31401W	KH 1 Fannie Mae FN 720396 5.000% 07/01/18.....		03/01/2012	Paydown.....		698,621	698,621	709,319	702,824		(4,203)		(4,203)		698,621			0	5,158	07/01/2018	1.....	
31402C	4H 2 FNCL 725424 5.500% 04/01/34.....		03/01/2012	Paydown.....		661,794	661,794	665,413	663,487		(1,693)		(1,693)		661,794			0	5,925	04/01/2034	1.....	
31402C	XE 7 FNCL 725277 4.500% 03/01/19.....		03/01/2012	Paydown.....		499,484	499,484	504,166	501,266		(1,782)		(1,782)		499,484			0	3,405	03/01/2019	1.....	
31402J	SW 8 FNCL 730533 5.000% 08/01/33.....		03/01/2012	Paydown.....		441,590	441,590	443,682	442,652		(1,061)		(1,061)		441,590			0	3,679	08/01/2033	1.....	
31403N	UF 2 Fannie Mae 753982 5.500% 12/01/33.....		03/01/2012	Paydown.....		263,059	263,059	272,348	272,018		(8,959)		(8,959)		263,059			0	2,317	12/01/2033	1.....	
31403U	MG 3 Fannie Mae FN #758259 6.000% 12/01/33.....		03/01/2012	Paydown.....		1,481	1,481	1,547	1,541		(60)		(60)		1,481			0	15	12/01/2033	1.....	
31404F	JZ 7 Fannie Mae 767180 4.500% 02/01/19.....		03/01/2012	Paydown.....		1,748,367	1,748,367	1,764,758	1,754,671		(6,304)		(6,304)		1,748,367			0	12,355	02/01/2019	1.....	
31404K	SG 8 Fannie Mae FN #771019 5.000% 04/01/34.....		03/01/2012	Paydown.....		27,396	27,396	28,256	28,170		(775)		(775)		27,396			0	239	04/01/2034	1.....	
31405A	KB 8 Fannie Mae FN #783390 6.500% 09/01/34.....		03/01/2012	Paydown.....		353	353	371	369		(17)		(17)		353			0	5	09/01/2034	1.....	
31407M	MT 9 FNCL FN #834770 6.500% 07/01/35.....		03/01/2012	Paydown.....		4,238	4,238	4,454	4,436		(198)		(198)		4,238			0	46	07/01/2035	1.....	
31409W	W8 0 Fannie Mae FN #880971 5.500% 10/01/21.....		03/01/2012	Paydown.....		2,442	2,442	2,540	2,518		(76)		(76)		2,442			0	16	10/01/2021	1.....	
36297A	3U 5 GNMA #706511 5.000% 01/01/39.....		03/01/2012	Paydown.....		60,299	60,299	62,485	62,370		(2,071)		(2,071)		60,299			0	448	01/01/2039	1.....	
373541	TN 1 Georgia Mun Elec Auth P 6.600% 01/01/18.....		01/01/2012	Redemption	100.0000	5,000	5,000	4,994	4,998				0		4,998		2	2	165	01/01/2018	2FE.....	
64468T	JW 8 New Hampshire St Hsg Fi 6.000% 07/01/16.....		01/01/2012	Redemption	100.0000	55,000	55,000	55,000	55,000				0		55,000			0	1,650	07/01/2016	1FE.....	
650034	RT 0 New York St Urban Dev C 5.500% 01/01/13.....		01/01/2012	Redemption	100.0000	720,000	720,000	746,107	722,773				0		722,773		(2,773)	(2,773)	19,800	01/01/2013	1FE.....	
658203	PH 1 North Carolina Muni Pwr 5.500% 01/01/13.....		01/01/2012	Redemption	100.0000	3,335,000	3,335,000	3,395,522	3,361,382				0		3,361,382		(26,382)	(26,382)	91,713	01/01/2013	1.....	
67756Q	HJ 9 Ohio St Hsg Fin Agy 4.700% 09/01/17.....		03/01/2012	Redemption	100.0000	455,000	455,000	438,784	443,034		334		334		443,368		11,634	11,634	10,693	09/01/2017	1FE.....	
681793	US 2 Omaha Pub Pwr Dist NE E 7.625% 02/01/12.....		02/01/2012	Maturity.....		725,000	725,000	709,485	724,738		262		262		725,000			0	27,641	02/01/2012	1.....	
79765A	XL 5 San Francisco Californi 5.000% 05/01/27.....		03/07/2012	Tax Free Exchange.....		5,874,938	6,300,000	5,830,524	5,871,664		3,275		3,275		5,874,938			0	110,250	05/01/2027	1FE.....	
91755C	KY 4 Utah St Mun Fin Corp Lo 0.000% 03/01/12.....		03/01/2012	Maturity.....		7,150,000	7,150,000	2,633,488	7,078,040		71,960		71,960		7,150,000			0		03/01/2012	1FE.....	
929836	AP 9 Waco Tex Health Facs De 5.270% 02/01/16.....		02/01/2012	Redemption	100.0000	1,695,000	1,695,000	1,695,000	1,695,000				0		1,695,000			0	44,663	02/01/2016	2FE.....	
3199999	Total - Bonds - U.S. Special Revenue & Assessment.....						26,978,997	27,404,059	22,563,633	26,981,780		0		14,743		26,996,518		(17,519)	(17,519)	363,050XXX...XXX...

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Bonds - Industrial and Miscellaneous

02660T	FV 0	American Home Mortgage	0.502% 09/25/35.....	03/26/2012	Paydown.....		8,557	8,557	8,557	8,557					8,557			0	8	09/25/2035	1FM.....
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SCHEDULE D - PART 4

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

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value					16	17	18	19	20	21	22
										11	12	13	14	15							
CUSIP Identification	Description	For eig n	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/ Adjusted Carrying Value	Unrealized Valuation Increase/ (Decrease)	Current Year's (Amortization)/ Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11+12-13)	Total Foreign Exchange Change in B./A.C.V.	Book/ Adjusted Carrying Value At Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/ Stock Dividends Received During Year	Stated Contractual Maturity Date	NAIC Designation or Market Indicator (a)
026935 AR 7	American Home Mortgage 0.942% 09/25/27		03/26/2012	Paydown		470,028	470,028	470,028	147,988	322,040			322,040		470,028			0	777	09/25/2027	1FM
03064P AA 9	Americredit Automobile 0.277% 07/09/12		01/09/2012	Paydown		1,574,355	1,574,355	1,574,355	1,574,355				0		1,574,355			0	387	07/09/2012	1FE
03064U AA 8	Americredit Automobile 0.447% 02/08/13		03/08/2012	Paydown		707,809	707,809	707,809					0		707,809			0	255	02/08/2013	1FE
05573W AA 3	BMW Vehicle Owner Trust 0.306% 09/25/12		03/26/2012	Paydown		3,936,669	3,936,669	3,936,669	3,936,669				0		3,936,669			0	1,987	09/25/2012	1FE
07386H XN 6	Bear Stearns Alt- A Tru 0.762% 11/25/35		03/26/2012	Paydown		171,130	171,130	86,435	64,060		107,070		107,070		171,130			0	191	11/25/2035	1FM
07401W AA 7	Bear Stearns Second Lie 0.622% 01/25/37		03/26/2012	Paydown		1,434,492	1,434,492	685,866	675,748		758,744		758,744		1,434,492			0	1,492	01/25/2037	6FM
07401W AA 7	Bear Stearns Second Lie 0.622% 01/25/37		03/26/2012	Paydown		25,263	25,263	15,284	15,525		9,738		9,738		25,263			0	26	01/25/2037	6FM
07401W AP 4	Bear Stearns Second Lie 0.682% 08/25/37		03/26/2012	Paydown		1,322,044	1,322,044	1,186,534	948,963	225,710	147,371		373,081		1,322,044			0	1,681	08/25/2037	6FM
07401W BA 6	Bear Stearns Second Lie 0.682% 08/25/37		03/26/2012	Paydown		870,876	870,876	559,923	553,149		317,727		317,727		870,876			0	933	08/25/2037	6FM
07401W BA 6	Bear Stearns Second Lie 0.682% 08/25/37		03/26/2012	Paydown		56,772	56,772	38,037	37,868		18,904		18,904		56,772			0	61	08/25/2037	6FM
12623C AA 3	CNH Equipment Trust Ser 0.384% 10/12/12		03/15/2012	Paydown		8,156,841	8,156,841	8,156,841	8,156,841				0		8,156,841			0	5,045	10/12/2012	1FE
12666T AB 2	Countrywide Asset-Backe 6.017% 09/25/46		03/01/2012	Paydown		294,290	294,290	252,806	261,257		33,033		33,033		294,290			0	2,997	09/25/2046	1FM
12666T AC 0	Countrywide Asset-Backe 6.050% 09/25/46		03/01/2012	Paydown		124,134	124,134	59,134	65,595		58,539		58,539		124,134			0	1,333	09/25/2046	1FM
12666T AD 8	Countrywide Asset-Backe 6.300% 09/25/46		03/01/2012	Paydown		72,902	72,902	25,969	28,322		44,581		44,581		72,902			0	815	09/25/2046	1FM
12666T AF 3	Countrywide Asset-Backe 6.150% 09/25/46		03/01/2012	Paydown		317,267	317,267	164,211	164,211		153,057		153,057		317,267			0	3,399	09/25/2046	1FM
126673 KN 1	Countrywide Home Equity 0.522% 02/15/34		03/15/2012	Paydown		128,155	128,155	80,737	81,777		46,378		46,378		128,155			0	100	02/15/2034	1FM
126673 TP 7	Countrywide Home Equity 0.482% 02/15/30		03/15/2012	Paydown		9,267	9,267	4,090	4,449		4,818		4,818		9,267			0	8	02/15/2030	1FM
126684 AB 5	Countrywide Asset-Backe 5.519% 03/25/34		03/01/2012	Paydown		1,675,890	1,675,890	1,494,600	1,601,457		74,432		74,432		1,675,890			0	15,983	03/25/2034	1FM
126684 AC 3	Countrywide Asset-Backe 5.658% 03/25/34		03/01/2012	Paydown		162,165	162,165	91,083	98,668		63,497		63,497		162,165			0	1,567	03/25/2034	1FM
126684 AD 1	Countrywide Asset-Backe 5.799% 03/25/34		03/01/2012	Paydown		15,011	15,011	4,139	3,869		11,142		11,142		15,011			0	149	03/25/2034	1FM
126684 AE 9	Countrywide Asset-Backe 5.962% 11/25/36		03/01/2012	Paydown		150,114	150,114	48,240	45,333		104,780		104,780		150,114			0	1,528	11/25/2036	1FM
126684 AF 6	Countrywide Asset-Backe 5.657% 03/25/34		03/01/2012	Paydown		394,876	394,876	213,664	227,972		166,904		166,904		394,876			0	3,849	03/25/2034	1FM
126685 AK 2	Countrywide Home Equity 0.482% 12/15/35		03/15/2012	Paydown		444,392	444,392	201,050	214,633		229,759		229,759		444,392			0	429	12/15/2035	1FM
126685 CS 3	Countrywide Home Equity 0.412% 05/15/36		03/15/2012	Paydown		157,920	157,920	51,526	53,271		104,649		104,649		157,920			0	121	05/15/2036	1FM
126685 CZ 7	Countrywide Asset-Backe 5.549% 08/25/21		03/01/2012	Paydown		1,408,751	1,408,751	1,078,422	1,121,288		287,462		287,462		1,408,751			0	13,477	08/25/2021	1FM
126685 DA 1	Countrywide Asset-Backe 5.597% 08/25/21		03/01/2012	Paydown		40,527	40,527	14,002	14,205		26,322		26,322		40,527			0	405	08/25/2021	1FM
126685 DC 7	Countrywide Asset-Backe 5.597% 08/25/21		03/01/2012	Paydown		540,954	540,954	335,533	352,856		188,098		188,098		540,954			0	5,327	08/25/2021	1FM
126685 DJ 2	Countrywide Home Equity 0.422% 05/15/36		03/15/2012	Paydown		2,147,341	2,147,341	924,470	906,507		1,240,834		1,240,834		2,147,341			0	1,681	05/15/2036	1FM
12668A SY 2	Countrywide Alternative 0.512% 08/25/35		03/26/2012	Paydown		440,761	440,761	206,124	153,720		287,041		287,041		440,761			0	454	08/25/2035	1FM
12668B RC 9	Countrywide Alternative 0.442% 02/25/36		03/26/2012	Paydown		855,852	1,276,146	431,861	310,254		545,598		545,598		855,852			0	1,095	02/25/2036	1FM
12668R AC 2	Countrywide Alternative 0.432% 02/20/47		03/20/2012	Paydown		971,683	971,683	493,354	38,614	585,113	347,956		933,069		971,683			0	819	02/20/2047	1FM
15132C AE 2	Aesop Funding II LILC 0.442% 05/20/13		03/20/2012	Paydown		15,000,000	15,000,000	14,779,892	14,844,412		155,588		155,588		15,000,000			0	12,270	05/20/2013	1FE
16165Y AA 0	Chaseflex Trust Series 0.392% 08/25/37		03/25/2012	Paydown		339,026	747,378	359,304	177,691		161,335		161,335		339,026			0	537	08/25/2037	1FM
21075W DR 3	Contimortgage Home Equi 6.880% 01/15/28		03/01/2012	Paydown		49,250	49,250	48,679	46,009	5,051	(1,810)		3,241		49,250			0	569	01/15/2028	1FM
23242E AC 3	Countrywide Asset-Backe 5.944% 01/25/37		03/01/2012	Paydown		112,478	112,478	66,851	66,851		45,627		45,627		112,478			0	983	01/25/2037	1FM
23242Y AH 8	Countrywide Home Equity 0.542% 02/15/34		03/15/2012	Paydown		446,669	446,669	204,351	213,553		233,116		233,116		446,669			0	400	02/15/2034	1FM

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SCHEDULE D - PART 4

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

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value					16	17	18	19	20	21	22
										11	12	13	14	15							
CUSIP Identification	Description	For eig n	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/ Adjusted Carrying Value	Unrealized Valuation Increase/ (Decrease)	Current Year's (Amortization)/ Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11+12-13)	Total Foreign Exchange Change in B./A.C.V.	Book/ Adjusted Carrying Value At Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/ Stock Dividends Received During Year	Stated Contractual Maturity Date	NAIC Designation or Market Indicator (a)
23242Y	BM	6	03/15/2012	Countrywide Home Equity 0.482% 12/15/35	Paydown	1,745,036	1,745,036	1,012,121	774,185	282,295	688,556		970,851		1,745,036			0	1,613	12/15/2035	1FM
23243N	AE	8	03/01/2012	Countrywide Asset-Backe 5.661% 07/25/34	Paydown	5,544,327	5,544,327	6,020,231	5,793,379		(249,052)		(249,052)		5,544,327			0	53,846	07/25/2034	5FM
23243N	AF	5	03/01/2012	Countrywide Asset-Backe 5.804% 07/25/34	Paydown	48,386	48,386	20,308	22,518		25,868		25,868		48,386			0	510	07/25/2034	1FM
23243N	AG	3	03/01/2012	Countrywide Asset-Backe 5.932% 07/25/34	Paydown	324,233	324,233	90,324	87,649		236,584		236,584		324,233			0	3,490	07/25/2034	1FM
23243N	AH	1	03/01/2012	Countrywide Asset-Backe 6.236% 08/25/38	Paydown	237,228	237,228	81,708	79,896		157,331		157,331		237,228			0	2,685	08/25/2038	1FM
23336J	AA	3	03/15/2012	DT Auto Owner Trust Ser 0.960% 01/15/14	Paydown	1,823,437	1,823,437	1,823,392	1,823,410		27		27		1,823,437			0	2,831	01/15/2014	1FE
25152D	AB	0	03/27/2012	Deutsche Alt-A Securiti 0.741% 01/27/37	Paydown	1,851,281	1,851,281	746,298	758,202		1,093,079		1,093,079		1,851,281			0	2,439	01/27/2037	6FE
32029H	AB	8	03/26/2012	First Franklin Mtg Loan 0.392% 06/25/27	Paydown	144,158	144,158	52,653	63,804		79,372		80,354		144,158			0	89	06/25/2027	6FM
32029H	AC	6	03/26/2012	First Franklin Mtg Loan 0.462% 06/25/27	Paydown	183,011	183,011	75,034	82,629		12,932		87,450		183,011			0	131	06/25/2027	6FM
34529V	AA	0	03/15/2012	Ford Credit Auto Lease 0.358% 03/15/13	Paydown	504,023	504,023	504,023					0		504,023			0	50	03/15/2013	1FE
36161H	AB	7	01/14/2012	GE Equipment Midtictet 0.610% 01/14/13	Paydown	250,661	250,661	250,661	250,661				0		250,661			0	127	01/14/2013	1FE
361856	EH	6	03/26/2012	GMAC Mortgage Corporati 0.482% 02/25/36	Paydown	767,229	767,229	286,745	282,188		485,041		485,041		767,229			0	671	02/25/2036	1FM
361856	EK	9	03/26/2012	GMAC Mortgage Corporati 0.502% 02/25/36	Paydown	1,463,612	1,463,612	665,747	666,407		797,205		797,205		1,463,612			0	1,330	02/25/2036	1FM
36185T	AA	5	03/10/2012	Fort Lewis Comm 04/37 @ 7.120% 04/10/37	Paydown	236,729	236,729	234,720	234,874		1,855		1,855		236,729			0	2,815	04/10/2037	1FE
36186E	AA	7	03/10/2012	GMAC Commercial Mortgag 6.240% 10/10/41	Paydown	197,391	197,391	165,738	168,011		29,381		29,381		197,391			0	2,057	10/10/2041	1
36186T	AA	4	03/10/2012	GMAC Commercial Mortgag 6.045% 11/10/40	Paydown	73,866	73,866	60,895	61,804		12,062		12,062		73,866			0	746	11/10/2040	2FE
362334	GT	5	03/26/2012	GSAA Home Equity Trust 0.512% 03/25/36	Paydown	2,671,367	2,671,367	391,011	557,299		2,114,068		2,114,068		2,671,367			0	2,589	03/25/2036	1FM
362381	AC	9	03/26/2012	GSAA Home Equity Trust 0.492% 08/25/36	Paydown	1,971,452	1,971,452	640,585	593,503		1,377,949		1,377,949		1,971,452			0	1,777	08/25/2036	1FM
36298Y	AC	4	03/26/2012	GSAA Home Equity Trust 0.492% 09/25/36	Paydown	900,646	900,646	305,769	264,362		636,284		636,284		900,646			0	793	09/25/2036	1FM
36830H	AB	8	03/21/2012	GE Equipment Small Tick 0.880% 08/21/13	Paydown	4,372,253	4,372,253	4,371,853	4,371,931		322		322		4,372,253			0	27,233	08/21/2013	1FE
38011N	AA	4	03/10/2012	GMAC Commercial Mortgag 7.152% 08/10/36	Paydown	211,802	211,802	209,725	209,891		1,911		1,911		211,802			0	2,530	08/10/2036	1
38011W	AA	4	03/10/2012	Fort Meade - GMAC 2002- 6.845% 05/10/37	Paydown	326,175	326,175	305,512	306,764		19,411		19,411		326,175			0	3,729	05/10/2037	1
39153V	AV	6	03/15/2012	Great America Leasing 1.050% 03/15/13	Paydown	4,295,688	4,295,688	4,295,556	4,295,609		78		78		4,295,688			0	7,507	03/15/2013	1FE
395385	AQ	0	03/26/2012	Greenpoint Home Equity 0.702% 07/25/29	Paydown	27,126	27,126	20,118	20,410		6,716		6,716		27,126			0	32	07/25/2029	1FM
395385	AZ	0	03/15/2012	Greenpoint Home Equity 0.802% 08/15/30	Paydown	6,972	6,972	4,348	4,506		2,466		2,466		6,972			0	10	08/15/2030	1FM
39538W	CZ	9	03/15/2012	Greenpoint Mortgage Fun 0.422% 09/15/30	Paydown	121,528	121,528	60,177	38,686		34,602		48,240		121,528			0	96	09/15/2030	1FM
39538W	EF	1	03/26/2012	Greenpoint Mortgage Fun 0.512% 11/25/46	Paydown	267,037	267,037	185,807	21,862		187,922		57,253		267,037			0	213	11/25/2046	1FM
39538W	EL	8	03/26/2012	Greenpoint Mortgage Fun 0.512% 11/25/46	Paydown	41,885	41,885	15,812	8,060		12,314		21,511		41,885			0	31	11/25/2046	1FM
422777	AP	7	03/05/2012	Hedged Mutual Fund Fee 0.483% 08/05/13	Paydown	684,771	684,771	684,771	684,771				0		684,771			0	610	08/05/2013	3FE
422777	AQ	5	03/05/2012	Hedged Mutual Fund Fee 0.443% 12/04/13	Paydown	358,663	358,663	358,663	303,163		55,500		55,500		358,663			0	294	12/04/2013	3FE
43709R	AA	2	01/25/2012	Indymac Seconds Asset 0.402% 02/25/37	Paydown	5,885	5,885	2,616	2,560		379		2,946		5,885			0	2	02/25/2037	6FM
43710A	BB	3	03/26/2012	Home Equity Mortgage Tr 0.412% 05/25/37	Paydown	144,151	144,151	77,515	55,794		21,601		66,756		144,151			0	111	05/25/2037	1FM
43813U	AA	8	03/15/2012	Honda Auto Receivables 0.413% 03/15/13	Paydown	1,735,458	1,735,458	1,735,458					0		1,735,458			0	418	03/15/2013	1FE
45254N	MA	2	03/26/2012	Impac CMB Trust Series 0.762% 03/25/35	Paydown	129,603	129,603	197,197	78,433		79,662		49,941		129,603			0	240	03/25/2035	1FM
45254N	QG	5	03/26/2012	Impac CMB Trust Series 0.742% 10/25/35	Paydown	410,820	410,820	186,141	203,923		206,897		206,897		410,820			0	541	10/25/2035	1FM
45254T	TF	1	03/26/2012	Impac Secured Assets Co 0.492% 03/25/36	Paydown	325,561	325,561	140,205	146,810		178,751		178,751		325,561			0	292	03/25/2036	1FM

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SCHEDULE D - PART 4

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

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value					16	17	18	19	20	21	22
										11	12	13	14	15							
CUSIP Identification	Description	For eig n	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/ Adjusted Carrying Value	Unrealized Valuation Increase/ (Decrease)	Current Year's (Amortization)/ Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11+12-13)	Total Foreign Exchange Change in B./A.C.V.	Book/ Adjusted Carrying Value At Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/ Stocks Received During Year	Stated Contractual Maturity Date	NAIC Designation or Market Indicator (a)
45255R	AA 5		03/26/2012	Impac Secured Assets Co 0.412% 11/25/36.....	Paydown.....	355,538	355,538	203,545	186,344	23,349	145,844		169,193		355,537			0	248	11/25/2036	6FE.....
45257B	AD 2		03/26/2012	Impac Secured Assets Co 0.502% 01/25/37.....	Paydown.....		411,902	41,935	44,880		(44,880)		(44,880)					0	365	01/25/2037	1FM.....
45257E	AC 8		03/26/2012	Impac Secured Assets Co 0.512% 10/25/36.....	Paydown.....	1,470,223	1,670,214	592,684	487,908		982,314		982,314		1,470,222			0	1,597	10/25/2036	1FM.....
456606	LM 2		01/25/2012	Indymac Loan Trust Seri 0.412% 04/25/14.....	Paydown.....	28,080	28,080	15,093	15,725	1,637	10,718		12,355		28,080			0	10	04/25/2014	6Z.....
45661A	AC 6		03/28/2012	Indymac Home Equity Loa 0.361% 09/28/36.....	Paydown.....	137,569	137,569	91,310	91,310		46,259		46,259		137,569			0	62	09/28/2036	1FM.....
45661D	AA 4		03/28/2012	Indymac Residential Ass 0.391% 06/28/36.....	Paydown.....	480,493	480,493	258,399	197,028	70,457	213,008		283,465		480,493			0	386	06/28/2036	6FE.....
45667H	AB 7		01/25/2012	Indymac Loan Trust Seri 0.412% 04/25/15.....	Paydown.....	1,279,111	1,279,111	976,778	1,010,498	135,870	132,744		268,614		1,279,111			0	478	04/25/2015	5FE.....
45670E	AA 1		03/26/2012	Indymac IMSC Mortgage L 0.392% 03/25/47.....	Paydown.....	564,567	2,253,531	643,518	606,467		(41,900)		(41,900)		564,567			0	1,488	03/25/2047	1FM.....
45670E	AB 9		03/26/2012	Indymac IMSC Mortgage L 0.492% 03/25/47.....	Paydown.....	535,495	2,137,487	470,247	342,951		192,544		192,544		535,495			0	1,737	03/25/2047	1FM.....
45670E	AC 7		03/26/2012	Indymac IMSC Mortgage L 0.602% 03/25/47.....	Paydown.....	338,839	1,352,514	175,827	58,929		279,910		279,910		338,839			0	1,326	03/25/2047	1FM.....
464125	AC 7		03/01/2012	Irwin Home Equity Serie 5.830% 12/25/37.....	Paydown.....	820,782	820,782	494,385	517,478		303,304		303,304		820,782			0	7,844	12/25/2037	1FM.....
464126	CG 4		03/26/2012	Irwin Home Equity Serie 0.882% 05/25/33.....	Paydown.....	87,972	87,972	38,164	41,164		46,808		46,808		87,972			0	139	05/25/2033	1FM.....
46412A	AE 2		03/01/2012	Irwin Home Equity Serie 5.800% 06/25/37.....	Paydown.....	182,497	182,497	108,316	118,574		63,923		63,923		182,497			0	1,696	06/25/2037	1FM.....
46412R	AB 1		03/26/2012	Irwin Home Equity Serie 0.392% 08/25/37.....	Paydown.....	798,465	798,465	593,155	678,784		119,681		119,681		798,465			0	574	08/25/2037	1FM.....
466247	QH 9		03/01/2012	JP Morgan Series 2005-A 2.812% 06/25/35.....	Paydown.....	505,346	505,346	476,920	488,309		17,037		17,037		505,346			0	1,853	06/25/2035	1FM.....
466275	AA 2		03/25/2012	JP Morgan Alternative L 0.522% 04/25/47.....	Paydown.....	1,324,894	1,324,894	710,854	722,738		602,156		602,156		1,324,894			0	1,142	04/25/2047	1FM.....
493268	BJ 4		02/27/2012	Keycorp Student Loan T 0.891% 08/27/31.....	Paydown.....	862,032	862,032	862,032	862,032				0		862,032			0	1,974	08/27/2031	2FE.....
52523Y	AC 8		03/26/2012	Lehman XS Trust Series 0.492% 12/25/36.....	Paydown.....		125,931	14,490	15,559		(15,559)		(15,559)					0	72	12/25/2036	1FM.....
52524P	AG 7		03/26/2012	Lehman XS Trust Series 0.402% 05/25/37.....	Paydown.....	1,467,496	1,467,496	943,385	963,298		504,198		504,198		1,467,496			0	1,099	05/25/2037	1FM.....
52524P	AH 5		03/01/2012	Lehman XS Trust Series 5.780% 05/25/37.....	Paydown.....	102,723	102,723	41,891	45,720		57,003		57,003		102,723			0	868	05/25/2037	1FM.....
52525L	AS 9		03/26/2012	Lehman XS Trust Series 0.642% 07/25/47.....	Paydown.....	2,317,788	2,317,788	979,006	1,023,843		1,293,945		1,293,945		2,317,788			0	2,172	07/25/2047	1FM.....
55352R	AA 6		03/26/2012	MSCC HELOC Trust Series 0.342% 12/25/31.....	Paydown.....	437,750	437,750	329,407	336,781		100,969		100,969		437,750			0	270	12/25/2031	1FM.....
61915R	AK 2		03/25/2012	Mortgageit Trust Series 0.542% 08/25/35.....	Paydown.....	313,371	313,371	313,371	313,371				0		313,371			0	256	08/25/2035	1FM.....
65475U	AA 0		03/15/2012	Nissan Auto Reviebales 0.359% 03/15/13.....	Paydown.....	638,158	638,158	638,158	638,158				0		638,158			0	140	03/15/2013	1FE.....
65535V	MJ 4		03/26/2012	Nomura Asset Acceptance 0.502% 07/25/35.....	Paydown.....	568,496	568,496	506,048	257,082	248,966	62,448		311,414		568,496			0	412	07/25/2035	1FM.....
65535V	NL 8		03/26/2012	Nomura Asset Acceptance 0.532% 08/25/35.....	Paydown.....	163,879	163,879	74,989	70,448		93,431		93,431		163,879			0	205	08/25/2035	1FM.....
65535V	PV 4		03/26/2012	Nomura Asset Acceptance 0.512% 10/25/35.....	Paydown.....	280,441	280,441	152,787	137,052		143,389		143,389		280,441			0	287	10/25/2035	1FM.....
65537U	AC 2		03/26/2012	Nomura Asset Acceptance 0.562% 07/25/37.....	Paydown.....	358,218	358,218	219,409	135,375	84,700	138,143		222,843		358,218			0	414	07/25/2037	6FE.....
65537U	AD 0		03/26/2012	Nomura Asset Acceptance 0.472% 07/25/37.....	Paydown.....	811,339	811,339	488,832	368,031	122,038	321,270		443,308		811,339			0	797	07/25/2037	6FE.....
71531P	AA 1		03/01/2012	Pershing Road 0.888% 09/01/26.....	Redemption 100.0000.....	897,816	897,816	897,816	897,816				0		897,816			0	2,104	09/01/2026	1.....
760985	4A 6		03/01/2012	Residential Asset Mortg 5.750% 05/25/34.....	Paydown.....	74,161	74,161	39,920	40,831		33,330		33,330		74,161			0	830	05/25/2034	1FM.....
760985	SU 6		03/26/2012	Residential Asset Mortg 0.922% 03/25/33.....	Paydown.....	50,118	50,118	33,094	34,604		15,514		15,514		50,118			0	66	03/25/2033	1FM.....
76110W	RT 5		03/26/2012	Residential Asset 0.822% 06/25/33.....	Paydown.....	24,408	24,408	12,570	12,760		11,649		11,649		24,408			0	29	06/25/2033	1FM.....
76110W	XW 1		03/26/2012	Residential Asset 1.002% 05/25/34.....	Paydown.....	63,274	63,274	30,382	31,898		31,376		31,376		63,274			0	158	05/25/2034	1FM.....
785778	ND 9		03/26/2012	Saco I Trust Series 200 0.762% 06/25/36.....	Paydown.....	387,435	387,435	237,559	172,428	65,146	149,862		215,008		387,435			0	548	06/25/2036	1FM.....
785778	ND 9		03/26/2012	Saco I Trust Series 200 0.762% 06/25/36.....	Paydown.....	21,282	21,282	10,002	9,472	597	11,213		11,810		21,282			0	30	06/25/2036	1FM.....

QE05.4

SCHEDULE D - PART 4

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

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value					16	17	18	19	20	21	22
										11	12	13	14	15							
CUSIP Identification	Description	For e i g n	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/ Adjusted Carrying Value	Unrealized Valuation Increase/ (Decrease)	Current Year's (Amortization)/ Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11+12-13)	Total Foreign Exchange Change in B./A.C.V.	Book/ Adjusted Carrying Value At Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/ Stock Dividends Received During Year	Stated Contractual Maturity Date	NAIC Designation or Market Indicator (a)
785778 PF 2	Saco I Trust Series 200 0.642% 03/25/37		03/26/2012	Paydown		269,129	269,129	161,622	136,166	25,058	107,904		132,962		269,129			0	330	03/25/2037	1FM
785778 PF 2	Saco I Trust Series 200 0.642% 03/25/37		03/26/2012	Paydown		507,217	507,217	336,666	256,626	80,679	169,913		250,592		507,217			0	622	03/25/2037	1FM
785778 PG 0	Saco I Trust Series 200 0.642% 07/25/36		03/26/2012	Paydown		1,045,481	1,045,481	562,123	554,869		490,611		490,611		1,045,481			0	1,373	07/25/2036	1FM
785813 AA 4	Saco I Trust Series 200 0.382% 06/25/36		03/26/2012	Paydown		390,772	390,772	208,178	205,811		184,960		184,960		390,772			0	259	06/25/2036	5FM
785813 AA 4	Saco I Trust Series 200 0.382% 06/25/36		03/26/2012	Paydown		22,870	22,870	12,236	12,374		10,496		10,496		22,870			0	15	06/25/2036	5FM
80281A AA 7	Santander Drive Auto 0.544% 01/15/13		03/15/2012	Paydown		4,930,574	4,930,574	4,930,574					0		4,930,574			0	3,128	01/15/2013	1FE
841238 AB 4	Southbridge Assoc MA 7.590% 02/01/22		02/01/2012	Redemption	100.0000	600,000	600,000	673,434	663,630		(334)		(334)		663,296		(63,296)	(63,296)	22,770	02/01/2022	2FE
881561 W9 1	Terwin Mortgage Trust 4.500% 10/25/40		03/01/2012	Paydown		6,145	6,145	1,121	1,232		4,913		4,913		6,145			0	44	10/25/2040	1FM
92867F AA 3	Volkswagen Auto Lease T 0.461% 11/20/12		03/20/2012	Paydown		3,514,669	3,514,669	3,514,669	3,514,669				0		3,514,669			0	2,540	11/20/2012	1FE
19035R AL 3	Coast Investment Grade 1.237% 07/30/17	F...	01/30/2012	Paydown		2,554,904	2,554,904	2,560,685	2,557,704		(2,800)		(2,800)		2,554,904			0	11,534	07/30/2017	1FE
26835P AC 4	EDP Finance BV 4.900% 10/01/19	F...	02/07/2012	RBC Dain Rauscher		819,000	1,050,000	1,043,280	1,044,444		78		78		1,044,522		(225,522)	(225,522)	18,436	10/01/2019	2FE
3899999.	Total - Bonds - Industrial & Miscellaneous					112,848,779	119,018,474	91,941,969	80,820,693	2,604,938	21,195,941	0	23,800,879	0	113,137,595	0	(288,818)	(288,818)	302,343	XXX	XXX
8399997.	Total - Bonds - Part 4					190,799,242	197,201,699	166,856,261	158,520,249	2,604,938	21,140,006	0	23,744,944	0	190,781,213	0	18,029	18,029	1,982,577	XXX	XXX
8399999.	Total - Bonds					190,799,242	197,201,699	166,856,261	158,520,249	2,604,938	21,140,006	0	23,744,944	0	190,781,213	0	18,029	18,029	1,982,577	XXX	XXX
9999999.	Total - Bonds, Preferred and Common Stocks					190,799,242	XXX	166,856,261	158,520,249	2,604,938	21,140,006	0	23,744,944	0	190,781,213	0	18,029	18,029	1,982,577	XXX	XXX

QE05.5

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

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

**Sch. DB-Pt 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**

NONE

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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	
Open Depositories								
Bank of New York.....	New York, New York.....		4		1,147,490	101,691	387,230	XXX..
Citibank, N.A.....	London, England.....		792		717,396	1,004,081	863,089	XXX..
Citibank, N.A.....	New York, New York.....				106,762	214,386	91,674	XXX..
BNS Time Deposit CD 6/11/12.....	Charlotte Amalie, USVI.....	SD.....	1.700		500,000	500,000	500,000	XXX..
Bank of New York.....	New York, New York.....	O.....					30,000,000	XXX..
0199999. Total Open Depositories.....	...XXX.....	...XXX.....	796	6,427	2,471,648	1,820,158	31,841,993	XXX..
0399999. Total Cash on Deposit.....	...XXX.....	...XXX.....	796	6,427	2,471,648	1,820,158	31,841,993	XXX..
0599999. Total Cash.....	...XXX.....	...XXX.....	796	6,427	2,471,648	1,820,158	31,841,993	XXX..

SCHEDULE E - PART 2 - CASH EQUIVALENTS

Show Investments Owned End of Current Quarter

1 Description	2 Code	3 Date Acquired	4 Rate of Interest	5 Maturity Date	6 Book/Adjusted Carrying Value	7 Amount of Interest Due & Accrued	8 Amount Received During Year
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NONE

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