



QUARTERLY STATEMENT

As of September 30, 2011
of the Condition and Affairs of the

Ambac Assurance Corporation Segregated Account,
in Rehabilitation

NAIC Group Code	1248 , 1248	NAIC Company Code	13763	Employer's ID Number	39-1135174
(Current Period) (Prior Period)					
Organized under the Laws of	Wisconsin	State of Domicile or Port of Entry	Wisconsin	Country of Domicile	United States of America
Incorporated/Organized	March 24, 2010	Commenced Business	March 24, 2010		
Statutory Home Office	c/o Dewitt Ross & Stevens S.C., 2 East Mifflin Street, Suite 600 Madison, WI 53703 (Street and Number) (City or Town, State and Zip Code)				
Main Administrative Office	One State Street Plaza New York, NY 10004 212-668-0340 (Street and Number) (City or Town, State and Zip Code) (Area Code) (Telephone Number)				
Mail Address	One State Street Plaza New York, NY 10004 (Street and Number or P. O. Box) (City or Town, State and Zip Code)				
Primary Location of Books and Records	One State Street Plaza New York, NY 10004 212-668-0340 (Street and Number) (City or Town, State and Zip Code) (Area Code) (Telephone Number)				
Internet Website Address	http://www.ambac.com				
Statutory Statement Contact	Stephen Michael Ksenak 212-668-0340 (Name) (Area Code) (Telephone Number) (Extension)				
	SKsenak@ambac.com 212-208-3558 (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 of Ambac Assurance Corporation

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

DIRECTORS OR TRUSTEES of Ambac Assurance Corporation

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

State of New York
County of New York

The reporting entity has no officers, directors or trustees. The persons listed above are officers and/or directors of Ambac Assurance Corporation. The officers of Ambac Assurance Corporation being duly sworn, each depose and say that they are the described officers of Ambac Assurance Corporation, and that this reporting entity has appointed Ambac Assurance Corporation as its manager, with the authority to prepare and attest to this financial statement, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy of the enclosed statement (except for formatting differences due to electronic filing). The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

(Signature)	(Signature)	(Signature)
Diana Newman Adams #	Stephen Michael Ksenak #	Robert Bryan Eisman
1. (Printed Name)	2. (Printed Name)	3. (Printed Name)
President (President & Chief Executive Officer), Ambac Assurance Corporation, in its capacity as manager of the Ambac Assurance Corporation Segregated Account	Secretary (Senior Managing Director & General Counsel), Ambac Assurance Corporation, in its capacity as manager of the Ambac Assurance Corporation Segregated Account	Senior Managing Director & Chief Accounting Officer, Ambac Assurance Corporation, in its capacity as manager of the Ambac Assurance Corporation Segregated Account
(Title)	(Title)	(Title)

Subscribed and sworn to before me	a. Is this an original filing?	Yes [X] No []
This 14th day of November, 2011	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
	1	2	3	December 31 Prior Year Net Admitted Assets
	Assets	Nonadmitted Assets	Net Admitted Assets (Cols. 1 - 2)	
1. Bonds.....			.0	
2. Stocks:				
2.1 Preferred stocks.....			.0	
2.2 Common stocks.....			.0	
3. Mortgage loans on real estate:				
3.1 First liens.....			.0	
3.2 Other than first liens.....			.0	
4. Real estate:				
4.1 Properties occupied by the company (less \$.0 encumbrances).....			.0	
4.2 Properties held for the production of income (less \$.0 encumbrances).....			.0	
4.3 Properties held for sale (less \$.0 encumbrances).....			.0	
5. Cash (\$.0), cash equivalents (\$.0) and short-term investments (\$.0).....			.0	
6. Contract loans (including \$.0 premium notes).....			.0	
7. Derivatives.....			.0	
8. Other invested assets.....	1,958,359,641	17,199,623	1,941,160,018	1,912,230,183
9. Receivables for securities.....			.0	
10. Securities lending reinvested collateral assets.....			.0	
11. Aggregate write-ins for invested assets.....	.0	.0	.0	.0
12. Subtotals, cash and invested assets (Lines 1 to 11).....	1,958,359,641	17,199,623	1,941,160,018	1,912,230,183
13. Title plants less \$.0 charged off (for Title insurers only).....			.0	
14. Investment income due and accrued.....	22,518,443		22,518,443	22,486,225
15. Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection.....			.0	
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$.0 earned but unbilled premiums).....			.0	
15.3 Accrued retrospective premiums.....			.0	
16. Reinsurance:				
16.1. Amounts recoverable from reinsurers.....			.0	
16.2 Funds held by or deposited with reinsured companies.....			.0	
16.3 Other amounts receivable under reinsurance contracts.....			.0	
17. Amounts receivable relating to uninsured plans.....			.0	
18.1 Current federal and foreign income tax recoverable and interest thereon.....			.0	
18.2 Net deferred tax asset.....			.0	
19. Guaranty funds receivable or on deposit.....			.0	
20. Electronic data processing equipment and software.....			.0	
21. Furniture and equipment, including health care delivery assets (\$.0).....			.0	
22. Net adjustment in assets and liabilities due to foreign exchange rates.....			.0	
23. Receivables from parent, subsidiaries and affiliates.....			.0	
24. Health care (\$.0) and other amounts receivable.....			.0	
25. Aggregate write-ins for other than invested assets.....	.0	.0	.0	.0
26. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 12 through 25).....	1,980,878,084	17,199,623	1,963,678,461	1,934,716,408
27. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			.0	
28. Total (Lines 26 and 27).....	1,980,878,084	17,199,623	1,963,678,461	1,934,716,408

DETAILS OF WRITE-INS

1101.....			.0	
1102.....			.0	
1103.....			.0	
1198. Summary of remaining write-ins for Line 11 from overflow page.....	.0	.0	.0	.0
1199. Totals (Lines 1101 thru 1103 plus 1198) (Line 11 above).....	.0	.0	.0	.0
2501.....			.0	
2502.....			.0	
2503.....			.0	
2598. Summary of remaining write-ins for Line 25 from overflow page.....	.0	.0	.0	.0
2599. Totals (Lines 2501 thru 2503 plus 2598) (Line 25 above).....	.0	.0	.0	.0

Ambac Assurance Corporation Segregated Account, in Rehabilitation

LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Statement Date	2 December 31 Prior Year
1. Losses (current accident year \$.....0).....		
2. Reinsurance payable on paid losses and loss adjustment expenses.....		
3. Loss adjustment expenses.....		
4. Commissions payable, contingent commissions and other similar charges.....		
5. Other expenses (excluding taxes, licenses and fees).....	1,256,082	3,063,250
6. Taxes, licenses and fees (excluding federal and foreign income taxes).....		
7.1 Current federal and foreign income taxes (including \$.....0 on realized capital gains (losses)).....		
7.2 Net deferred tax liability.....		
8. Borrowed money \$.....0 and interest thereon \$.....0.....		
9. Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$.....0 and including warranty reserves of \$.....0).....		
10. Advance premium.....		
11. Dividends declared and unpaid:		
11.1 Stockholders.....		
11.2 Policyholders.....		
12. Ceded reinsurance premiums payable (net of ceding commissions).....		
13. Funds held by company under reinsurance treaties.....		
14. Amounts withheld or retained by company for account of others.....		
15. Remittances and items not allocated.....		
16. Provision for reinsurance.....		
17. Net adjustments in assets and liabilities due to foreign exchange rates.....		
18. Drafts outstanding.....		
19. Payable to parent, subsidiaries and affiliates.....		
20. Derivatives.....		
21. Payable for securities.....		
22. Payable for securities lending.....		
23. Liability for amounts held under uninsured plans.....		
24. Capital notes \$.....0 and interest thereon \$.....0.....		
25. Aggregate write-ins for liabilities.....	1,873,167,447	1,881,474,063
26. Total liabilities excluding protected cell liabilities (Lines 1 through 25).....	1,874,423,529	1,884,537,313
27. Protected cell liabilities.....		
28. Total liabilities (Lines 26 and 27).....	1,874,423,529	1,884,537,313
29. Aggregate write-ins for special surplus funds.....	0	0
30. Common capital stock.....		
31. Preferred capital stock.....		
32. Aggregate write-ins for other than special surplus funds.....	0	0
33. Surplus notes.....	89,081,612	50,000,000
34. Gross paid in and contributed surplus.....		
35. Unassigned funds (surplus).....	173,320	179,095
36. Less treasury stock, at cost:		
36.10.000 shares common (value included in Line 30 \$.....0).....		
36.20.000 shares preferred (value included in Line 31 \$.....0).....		
37. Surplus as regards policyholders (Lines 29 to 35, less 36).....	89,254,932	50,179,095
38. Totals.....	1,963,678,461	1,934,716,408

DETAILS OF WRITE-INS		
2501. Liabilities allocated from Ambac Assurance Corporation.....	6,304,293,799	5,626,404,050
2502. Liabilities ceded to Ambac Assurance Corporation.....	(4,431,126,352)	(3,744,929,987)
2503.		
2598. Summary of remaining write-ins for Line 25 from overflow page.....	0	0
2599. Totals (Lines 2501 thru 2503 plus 2598) (Line 25 above).....	1,873,167,447	1,881,474,063
2901.		
2902.		
2903.		
2998. Summary of remaining write-ins for Line 29 from overflow page.....	0	0
2999. Totals (Lines 2901 thru 2903 plus 2998) (Line 29 above).....	0	0
3201.		
3202.		
3203.		
3298. Summary of remaining write-ins for Line 32 from overflow page.....	0	0
3299. Totals (Lines 3201 thru 3203 plus 3298) (Line 32 above).....	0	0

STATEMENT OF INCOME

	1 Current Year to Date	2 Prior Year to Date	3 Prior Year Ended December 31
UNDERWRITING INCOME			
1. Premiums earned:			
1.1 Direct..... (written \$.....0)			
1.2 Assumed..... (written \$.....0)			
1.3 Ceded..... (written \$.....0)			
1.4 Net..... (written \$.....0)			
DEDUCTIONS:			
2. Losses incurred (current accident year \$.....0):			
2.1 Direct.....			
2.2 Assumed.....			
2.3 Ceded.....			
2.4 Net.....			
3. Loss adjustment expenses incurred.....			
4. Other underwriting expenses incurred.....			
5. Aggregate write-ins for underwriting deductions.....			
6. Total underwriting deductions (Lines 2 through 5).....			
7. Net income of protected cells.....			
8. Net underwriting gain (loss) (Line 1 minus Line 6 + Line 7).....			
INVESTMENT INCOME			
9. Net investment income earned.....			
10. Net realized capital gains (losses) less capital gains tax of \$.....0.....			
11. Net investment gain (loss) (Lines 9 + 10).....			
OTHER INCOME			
12. Net gain or (loss) from agents' or premium balances charged off (amount recovered \$.....0 amount charged off \$.....0).....			
13. Finance and service charges not included in premiums.....			
14. Aggregate write-ins for miscellaneous income.....			
15. Total other income (Lines 12 through 14).....			
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15).....			
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).....			
19. Federal and foreign income taxes incurred.....			
20. Net income (Line 18 minus Line 19) (to Line 22).....			
CAPITAL AND SURPLUS ACCOUNT			
21. Surplus as regards policyholders, December 31 prior year.....			
22. Net income (from Line 20).....			
23. Net transfers (to) from Protected Cell accounts.....			
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$.....0.....			
25. Change in net unrealized foreign exchange capital gain (loss).....			
26. Change in net deferred income tax.....			
27. Change in nonadmitted assets.....			
28. Change in provision for reinsurance.....			
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.....			
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.....			
38. Change in surplus as regards policyholders (Lines 22 through 37).....			
39. Surplus as regards policyholders, as of statement date (Lines 21 plus 38).....			

DETAILS OF WRITE-INS			
0501.			
0502.			
0503.			
0598. Summary of remaining write-ins for Line 5 from overflow page.....			
0599. Totals (Lines 0501 thru 0503 plus 0598) (Line 5 above).....			
1401. Change in liabilities allocated from Ambac Assurance Corporation.....			
1402. Change in liabilities ceded to Ambac Assurance Corporation.....			
1403.			
1498. Summary of remaining write-ins for Line 14 from overflow page.....			
1499. Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above).....			
3701.			
3702.			
3703.			
3798. Summary of remaining write-ins for Line 37 from overflow page.....			
3799. Totals (Lines 3701 thru 3703 plus 3798) (Line 37 above).....			

CASH FLOW

	1 Current Year to Date	2 Prior Year To Date	3 Prior Year Ended December 31
CASH FROM OPERATIONS			
1. Premiums collected net of reinsurance.....			
2. Net investment income.....			
3. Miscellaneous income.....			
4. Total (Lines 1 through 3).....	0	0	0
5. Benefit and loss related payments.....			
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			
7. Commissions, expenses paid and aggregate write-ins for deductions.....	11,046,392	65,000,000	65,000,000
8. Dividends paid to policyholders.....			
9. Federal and foreign income taxes paid (recovered) net of \$.....0 tax on capital gains (losses).....			
10. Total (Lines 5 through 9).....	11,046,392	65,000,000	65,000,000
11. Net cash from operations (Line 4 minus Line 10).....	(11,046,392)	(65,000,000)	(65,000,000)
CASH FROM INVESTMENTS			
12. Proceeds from investments sold, matured or repaid:			
12.1 Bonds.....			
12.2 Stocks.....			
12.3 Mortgage loans.....			
12.4 Real estate.....			
12.5 Other invested assets.....	11,046,392	65,000,000	65,000,000
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments.....			
12.7 Miscellaneous proceeds.....			
12.8 Total investment proceeds (Lines 12.1 to 12.7).....	11,046,392	65,000,000	65,000,000
13. Cost of investments acquired (long-term only):			
13.1 Bonds.....			
13.2 Stocks.....			
13.3 Mortgage loans.....			
13.4 Real estate.....			
13.5 Other invested assets.....			
13.6 Miscellaneous applications.....			
13.7 Total investments acquired (Lines 13.1 to 13.6).....	0	0	0
14. Net increase (decrease) in contract loans and premium notes.....			
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14).....	11,046,392	65,000,000	65,000,000
CASH FROM FINANCING AND MISCELLANEOUS SOURCES			
16. Cash provided (applied):			
16.1 Surplus notes, capital notes.....			
16.2 Capital and paid in surplus, less treasury stock.....			
16.3 Borrowed funds.....			
16.4 Net deposits on deposit-type contracts and other insurance liabilities.....			
16.5 Dividends to stockholders.....			
16.6 Other cash provided (applied).....			
17. Net cash from financing and miscellaneous sources (Lines 16.1 through 16.4 minus Line 16.5 plus Line 16.6).....	0	0	0
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS			
18. Net change in cash, cash equivalents and short-term investments (Line 11 plus Line 15 plus Line 17).....	0	0	0
19. Cash, cash equivalents and short-term investments:			
19.1 Beginning of year.....	0		
19.2 End of period (Line 18 plus Line 19.1).....	0	0	0
Note: Supplemental disclosures of cash flow information for non-cash transactions:			
20.0001 Issuance of surplus notes in connection with the settlement of insurance liabilities.....	3,000,000	50,000,000	50,000,000
20.0002 Issuance of junior surplus notes in connection with the termination of One State Street Plaza office lease.....	36,081,612		

NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

a. Accounting Practices

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

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

The Wisconsin Insurance Commissioner has prescribed an accounting practice that differs from NAIC SAP. Paragraph 4 of Statement of Statutory Accounting Principles No. 41 “Surplus Notes” (“SSAP 41”) states that proceeds received by the issuer of surplus notes must be in the form of cash or other admitted assets having readily determinable values and liquidity satisfactory to the commissioner of the state of domicile. Under statutory accounting principles, as generally applied, surplus notes issued in conjunction with commutations or the settlement of claims would be valued at zero upon issuance pursuant to paragraph 4, SSAP 41. The Wisconsin Insurance Commissioner has directed the Company to record surplus notes issued in settlement of liabilities at full par value upon issuance, as in these instances the surplus notes do not represent a contribution of capital, but rather a distribution of value from the common and preferred shareholders of the Company. The surplus notes issued have a claim against surplus senior to common shareholders. Statutory surplus is not impacted as a result of the prescribed practice as it is a reclassification from unassigned funds to surplus notes. Net income for the nine months ended September 30, 2011 and for the year ended December 31, 2010 is lower by \$39,081,612 and \$50,000,000 respectively than if the Company had recorded the issuance of surplus notes in accordance with NAIC SAP.

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

	<u>September 30,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>
Net Income, Wisconsin basis	\$ -	\$ -
Effect of Wisconsin Prescribed Practice:	39,081,612	50,000,000
Effect of Wisconsin Permitted Practice:	-	-
Net Income, NAIC SAP	<u>\$ 39,081,612</u>	<u>\$ 50,000,000</u>
Statutory Surplus, Wisconsin basis	\$ 89,254,932	\$ 50,179,095
Effect of Wisconsin Prescribed Practice:	-	-
Effect of Wisconsin Permitted Practice:	-	-
Statutory Surplus, NAIC SAP	<u>\$ 89,254,932</u>	<u>\$ 50,179,095</u>

The Segregated Account may issue Segregated Account Surplus Notes in connection with the commutation of various insurance policies and settlement of liabilities allocated to the Segregated Account. In addition, the Segregated Account may issue Segregated Account Junior Surplus Notes in connection with the settlement of other liabilities.

As more fully discussed in Note 23 below, pursuant to an aggregate excess of loss reinsurance agreement provided by Ambac Assurance Corporation (“Ambac Assurance”), Ambac Assurance has agreed to pay any cash interest payment and cash principal repayment under any Segregated Account Surplus Notes or Segregated Account Junior Surplus Notes. For the nine months ended September 30, 2011 the Segregated Account issued: i.) \$3,000,000 of Segregated Account Surplus Notes, in connection with the settlement of liabilities allocated to the Segregated Account, and ii.) \$36,081,612 of Segregated Account Junior Surplus Notes in connection with a settlement agreement (the “Settlement Agreement”) to terminate Ambac Financial Group, Inc’s (“Ambac”) existing headquarters office lease with One State Street, LLC (“OSS”). Accordingly, as of and for the nine months ended September 30, 2011, the Segregated Account ceded \$39,081,612 of expenses pursuant to the aggregate excess of loss reinsurance agreement and recorded a contra-liability of and \$89,081,612, respectively.

Note 2 - Accounting Changes and Corrections of Errors

No significant change from 2010 Notes to Financial Statements.

Note 3 - Business Combinations and Goodwill

No significant change from 2010 Notes to Financial Statements.

Note 4 - Discontinued Operations

No significant change from 2010 Notes to Financial Statements.

Note 5 - Investments

No significant change from 2010 Notes to Financial Statements.

Note 6 - Joint Ventures, Partnerships and Limited Liability Companies

No significant change from 2010 Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

Note 7 – Investment Income

No significant change from 2010 Notes to Financial Statements.

Note 8 – Derivative Instruments

No significant change from 2010 Notes to Financial Statements.

Note 9 – Income Taxes

The Company’s net income, although ordinarily of the character that would subject the Company to tax expense, is included within Ambac Assurance’s operations and thereby taxed through Ambac Assurance due to the manner in which the Company was established.

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’s consolidated Federal income tax return, which includes the following taxable entities (the “Ambac Consolidated Group”): Ambac, Ambac Assurance, Ambac (Bermuda) Limited, Ambac Capital Corporation, Ambac Investments Inc., Ambac Capital Funding, Inc., Ambac Asset Funding Corporation, Ambac All Corporation, Connie Lee Holdings Inc., and Everspan Financial Guarantee Corp. (“Everspan”).

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

Note 10 - Information Concerning Parent, Subsidiaries, Affiliates and Other Related Parties

2011 Overview for Ambac and Ambac Assurance:

Chapter 11 Reorganization

On November 8, 2010, Ambac filed a voluntary petition for relief (the “Bankruptcy Filing”) under Chapter 11 of the United States Bankruptcy Code (“Bankruptcy Code”) in the United States Bankruptcy Court for the Southern District of New York (“Bankruptcy Court”). Ambac will continue to operate in the ordinary course of business as “debtor-in-possession” under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and the orders of the Bankruptcy Court.

As required by the Bankruptcy Code, on November 17, 2010, the United States Trustee appointed a statutory committee of creditors (“Creditors’ Committee”). The Creditors’ Committee and its legal representatives have a right to be heard on all matters that come before the Bankruptcy Court with respect to Ambac. There can be no assurance that the Creditors’ Committee will support Ambac’s positions on matters to be presented to the Bankruptcy Court, including any plan of reorganization. Disagreements between Ambac and the Creditors’ Committee could prolong the court proceedings, negatively impact Ambac’s ability to operate, and delay Ambac’s emergence from bankruptcy.

Ambac, as debtor and debtor-in-possession, filed a Plan of Reorganization on July 6, 2011, a First Amended Plan of Reorganization on September 21, 2011, and a Second Amended Plan of Reorganization on September 30, 2011 (such Second Amended Plan of Reorganization, as it may be further amended, the “Reorganization Plan”). Simultaneously with the filing of the Second Amended Plan of Reorganization, on September 30, 2011, Ambac also filed with the Bankruptcy Court that certain Second Amended Disclosure Statement of Ambac Financial Group, Inc. (the “Disclosure Statement”).

Under the Reorganization Plan, Ambac’s debt holders and other creditors will receive all of the equity in the reorganized company. Additionally, the Reorganization Plan sets forth the revised capital structure of a newly reorganized Ambac and provides for corporate governance subsequent to emergence from bankruptcy. The Reorganization Plan also reflects a resolution of certain issues (the “Amended Plan Settlement”) among Ambac, the statutory committee of creditors appointed by the United States Trustee on November 17, 2010 (the “Creditors’ Committee”), Ambac Assurance, the Segregated Account Segregated Account and OCI (as regulator of Ambac Assurance and as Rehabilitator of the Segregated Account) related to (i) the net operating losses (“NOLs”) of the Ambac Consolidated Group, (ii) certain tax refunds received in respect thereof (the “Tax Refunds”) and (iii) the sharing of expenses between Ambac and Ambac Assurance.

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

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

NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

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

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

Going Concern Matters

The Company's financial statements as of and for the period ending September 30, 2011 are prepared assuming the Company continues as a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. As noted below, the Rehabilitator is considering substantial amendments to the rehabilitation plan and/or the initiation of rehabilitation proceedings with respect to Ambac Assurance. As a result of this uncertainty, there is substantial doubt about the ability the Company to continue as a going concern. The statutory basis financial statements do not include any adjustment that might result from its inability to continue as a going concern.

Segregated Account

On March 24, 2010, Ambac Assurance established the Segregated Account. Under Wisconsin insurance law, the Segregated Account is a separate insurer from Ambac Assurance for purposes of the Segregated Account Rehabilitation Proceedings (as defined and described below). The purpose of the Segregated Account is to segregate certain segments of Ambac Assurance's liabilities. The Segregated Account is operated in accordance with a Plan of Operation (the "Plan of Operation") and certain operative documents relating thereto (which include the Secured Note, the Reinsurance Agreement, the Management Services Agreement and the Cooperation Agreement). These operative documents provide that the Segregated Account will act exclusively through the rehabilitator. Pursuant to the Plan of Operation for the Segregated Account, Ambac Assurance has allocated to the Segregated Account (1) certain policies insuring or relating to credit default swaps; (2) residential mortgage-backed securities ("RMBS") policies; (3) certain Student Loan Policies; and (4) other policies insuring obligations with substantial projected impairments or relating to transactions which have contractual triggers based upon Ambac Assurance's financial condition or the commencement of rehabilitation, which triggers are potentially damaging (collectively, the "Segregated Account Policies"). The policies described in (4) above include (a) certain types of securitizations, including commercial asset-backed transactions, consumer asset-backed transactions and other types of structured transactions; (b) the policies relating to Las Vegas Monorail Company; (c) policies relating to debt securities purchased by, and the debt securities issued by, Juneau Investments, LLC and Aleutian Investments, LLC, which are both finance companies owned by Ambac Assurance; (d) policies relating to leveraged lease transactions; and (e) policies relating to interest rate, basis, and/or currency swap or other swap transactions. Claims on Segregated Account Policies remain subject to a payment moratorium until the Segregated Account Rehabilitation Plan (as defined below) becomes effective. Insurance claims presented during the moratorium of \$2,446,192,028 for policies allocated to the Segregated Account have not yet been paid. Net par exposure as of September 30, 2011 for policies allocated to the Segregated Account is \$39,066,211,657. Ambac Assurance also allocated the following to the Segregated Account: (i) all remediation claims, defenses, offsets, and/or credits (except with respect to recoveries arising from remediation efforts or reimbursement or collection rights), if any, in respect of the Segregated Account Policies, (ii) Ambac Assurance's disputed contingent liability under the subsequently settled long-term lease with One State Street, LLC ("OSS"), and its contingent liability (as guarantor), if any, under the subsequently terminated Ambac Assurance UK Limited ("Ambac UK") lease with British Land, (iii) Ambac Assurance's limited liability interests in Ambac Credit Products, LLC ("ACP"), Ambac Conduit Funding LLC, Aleutian Investments, LLC ("Aleutian") and Juneau Investments, LLC ("Juneau") and (iv) all of Ambac Assurance's liabilities as reinsurer under reinsurance agreements (except for reinsurance assumed from Everspan). Effective November 7, 2010, the Plan of Operation for the Segregated Account was amended for the purpose of allocating to the Segregated Account (i) any and all liabilities (including contingent liabilities) it has or may have, now or in the future, to Ambac, or any successor to Ambac, in regard to, or respecting, tax refunds and/or the July 18, 1991 Tax Sharing Agreement, as amended (other than any liability to Ambac pertaining to any possible misallocation of up to \$38,486,000 of tax refunds received by Ambac Assurance in September 2009 and February 2010), (ii) any and all liabilities (including contingent liabilities) it has or may have, now or in the future, to the IRS and/or the United States Department of the Treasury (the "U.S. Treasury") in regard to, or in respect of, taxes imposed under the Internal Revenue Code of 1986, as amended (the "Federal Taxes"), for taxable periods ending on or prior to December 31, 2009 and, (iii) to the extent not described in clause (ii), any and all liabilities (including contingent liabilities) Ambac Assurance has or may have, now or in the future, to the IRS and/or the U.S. Treasury in regard to, or respect of, any Federal Tax refunds that were received prior to November 7, 2010 by Ambac Assurance, Ambac or their affiliates (each of clauses (i), (ii) and (iii), the "Allocated Disputed Contingent Liabilities"). In addition, on November 8, 2010, the rehabilitation court issued an order for temporary supplemental injunctive relief (the "State Court Injunction") enjoining Ambac, any successor-in-interest, any state court receiver of Ambac, all persons purporting to be creditors of Ambac, the IRS and all other federal and state governmental entities from commencing or prosecuting any actions, claims, lawsuits or other formal legal proceedings relating to the Allocated Disputed Contingent Liabilities.

NOTES TO FINANCIAL STATEMENTS

Policy obligations not allocated to the Segregated Account remain in the General Account, and such policies in the General Account are not subject to and, therefore, will not be directly impacted by the Segregated Account Rehabilitation Plan (as defined below). Ambac Assurance is not, itself, in rehabilitation proceedings.

On October 8, 2010, the rehabilitator filed a plan of rehabilitation for the Segregated Account (the “Segregated Account Rehabilitation Plan”) in the Dane County Circuit Court in Wisconsin (the “Rehabilitation Court”). The Rehabilitation Court confirmed the Segregated Account Rehabilitation Plan on January 24, 2011. The effective date of the Segregated Account Rehabilitation Plan will be determined by the rehabilitator. The Segregated Account Rehabilitation Plan also makes permanent the injunctions issued by the Rehabilitation Court on March 24, 2010.

The confirmed Segregated Account Rehabilitation Plan provides that holders of permitted policy claims will receive 25% of their permitted claims in cash and 75% in surplus notes issued by the Segregated Account. The issuance of surplus notes by both Ambac Assurance, and by the Segregated Account as contemplated by the current Segregated Account Rehabilitation Plan, could subject Ambac Assurance to the risk of deconsolidation from Ambac for tax purposes, which may also result in a Section 382 limitation with respect to Ambac Assurance’s NOLs or an attribution of NOLs to Ambac, or could subject Ambac Assurance to the risk of recognizing significant cancellation of indebtedness income (“CODI”). Any of these consequences would likely have a material adverse effect on the financial condition of Ambac Assurance and the Segregated Account. As such, the rehabilitator is considering substantial amendments to the Segregated Account Rehabilitation Plan and/or the initiation of rehabilitation proceedings with respect to Ambac Assurance. Such amendments to the Segregated Account Rehabilitation Plan (and, presumably, any rehabilitation plan with respect to Ambac Assurance) could include the elimination of the issuance of surplus notes by the Segregated Account and/or the imposition of transfer restrictions on any surplus notes issued by the Segregated Account.

In March 2011, the Segregated Account issued Segregated Account Surplus Notes with a par value of \$3,000,000 in connection with the commutation of insurance policies allocated to the Segregated Account. At September 30, 2011, the Segregated Account had outstanding Segregated Account Surplus Notes in an aggregate par amount of \$53,000,000 that have a scheduled maturity of June 7, 2020. Interest on the Segregated Account Surplus Notes is payable annually in June at the rate of 5.1% on the unpaid principal balance outstanding. All payments of principal and interest on the Segregated Account Surplus Notes are subject to the prior approval of the OCI. If the OCI does not approve the payment of principal or interest on the Segregated Account Surplus Notes, such interest will accrue and compound annually until paid. The Segregated Account Surplus Notes were issued pursuant to a fiscal agency agreement entered into with The Bank of New York Mellon, as fiscal agent. To the extent that interest payments are deferred for more than five years, a portion of the deferred interest may not be a tax deduction until paid or may be disallowed under the applicable high yield debt obligation provisions of the Code.

In May 2011, the Segregated Account issued Segregated Account Junior Surplus Notes with a par value of \$36,081,612 in connection with a Settlement Agreement (the “Settlement Agreement”) to terminate Ambac’s existing headquarters office lease with OSS. The Junior Surplus Notes have a scheduled maturity of June 7, 2020. Interest on the Segregated Account Junior Surplus Notes is payable annually in June at the rate of 5.1% on the unpaid principal balance outstanding. No payment of interest on or principal of the junior surplus notes may be made until all existing and future indebtedness of the Segregated Account, inclusive of Segregated Account Surplus Notes, policy claims and claims having statutory priority have been paid in full. All payments of principal and interest on the Segregated Account Surplus Notes are subject to the prior approval of the OCI. If the OCI does not approve the payment of principal or interest on the Segregated Account Surplus Notes, such interest will accrue and compound annually until paid. The Settlement Agreement settled all claims among Ambac, Ambac Assurance, the Segregated Account of Ambac Assurance Corporation and OSS relating to the terminated lease. Additionally, Ambac Assurance entered into a new lease (the “New AAC Lease”) with OSS for an initial term commencing on May 19, 2011 through December 31, 2015. The New AAC Lease provides for the rental of a reduced amount of space at Ambac’s current location, One State Street Plaza. The Settlement Agreement also provides that OSS will have an allowed general unsecured claim in Ambac’s bankruptcy case for approximately \$14,000,000 (the “AFG Payment”). The AFG Payment will be made by Ambac in the same form as payment is made to Ambac’s other creditors.

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

Note 11- Debt

No significant change from 2010 Notes to Financial Statements.

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

No significant change from 2010 Notes to Financial Statements.

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

Date Issued	Interest Rate	Par Value (Face Amount of the Note)	Carrying Value of Note	Principal and/or Interest Paid Current Year	Total Principal and/or Interest Paid	Unapproved Principal and/or Interest	Date of Maturity
July 19, 2010	5.1%	\$50,000,000	\$50,000,000	\$0	\$0	\$2,252,500	June 7, 2020
March 14, 2011	5.1%	\$3,000,000	\$3,000,000	\$0	\$0	\$35,275	June 7, 2020
May 19, 2011	5.1%	\$36,081,612	\$36,081,612	\$0	\$0	\$92,008	June 7, 2020
Total		\$89,081,612	\$89,081,612	\$0	\$0	\$2,379,783	

(1) Junior Surplus Notes

The interest of \$2,379,783 will accrue and compound annually until paid.

Note 14 – Contingencies

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

NOTES TO FINANCIAL STATEMENTS

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

Ambac Assurance's CDS portfolio experienced significant losses. The majority of these CDS contracts are on a "pay as you go" basis, and we believe that they are properly characterized as notional principal contracts for U.S. federal income tax purposes. Generally, losses on notional principal contracts are ordinary losses. However, the federal income tax treatment of credit default swaps is an unsettled area of the tax law. In 2010, the Internal Revenue Service opened an examination into certain issues related to Ambac Assurance's tax accounting methods with respect to such CDS contracts and Ambac Assurance's related characterization of such losses as ordinary losses. As discussed above, Ambac Assurance believes these contracts are properly characterized as notional principal contracts. However, on May 4, 2011, as a result of its examination, the IRS issued to Ambac Notices of Proposed Adjustment asserting that these contracts should be characterized as capital assets or as generating capital losses. On June 3, 2011, Ambac notified the IRS that it disagreed with the proposed adjustments. On May 4, 2011 the IRS filed a proof of claim in the Bankruptcy Court in the amount of \$807,244,000 relating to the tax treatment of the CDS contracts (the "IRS Claim"). Ambac filed its opposition to the proof of claim on June 14, 2011. The IRS has until December 6, 2011 to file a response to Ambac's opposition to the IRS Claim. If the IRS is successful in its claim, Ambac Assurance would be subject to both a substantial reduction in its net operating loss carryforwards and would suffer a material assessment for federal income taxes up to an estimated amount of \$807,244,000. On November 9, 2010, Ambac filed and served a complaint against the IRS for a declaratory judgment relating to the tax refunds, which resulted from the losses on the CDS portfolio. On the same date, Ambac and the IRS agreed to a stipulation on the record that provides that the IRS would give notice at least 5 business days prior to taking any action against Ambac's nondebtor subsidiaries in the consolidated tax group that would violate the State Court Injunction, whether or not in effect. The stipulation permits the status quo to be maintained from November 9, 2010 until a hearing on the preliminary injunction under Bankruptcy Code section 105(a) barring assessment and collection of the 2003 through 2008 tax refunds by the IRS against Ambac's nondebtor subsidiaries in the consolidated tax group. On January 14, 2011, the IRS filed its Answer and opposition to Ambac's Motion for Temporary Restraining Order and Preliminary Injunction. As of this date, no hearing on such Motion has been scheduled. On January 13, 2011, the IRS filed a motion in the United States District Court for the Southern District of New York ("USDC SDNY") to withdraw the adversary proceeding from the Bankruptcy Court to the USDC SDNY. Ambac has opposed such motion and no hearing on the motion has been scheduled. On February 1, 2011, Ambac filed a motion with the Bankruptcy Court for Pretrial Conference and for Authorization to Implement Alternative Dispute Resolution Procedures. The Bankruptcy Court on March 2, 2011 ordered the process of non-binding mediation to begin on or about May 1, 2011. Mediation was held in New York on July 6, 7 and 8, 2011. Mediation continued in New York on September 8 and 9, and October 18 and 20, 2011. The Bankruptcy Court also approved a scheduling order which, pursuant to further stipulation of the parties, requires all discovery in the adversary proceeding to be completed by November 2, 2011; dispositive motions to be filed by November 4, 2011, and trial to be scheduled, thereafter, pursuant to further order of the Court. On October 12, 2011, Ambac filed a motion for an order (a) determining that the IRS Claim shall be estimated pursuant to Bankruptcy Code section 502(c), and (b) setting procedures and a hearing date for such estimation inclusive of the determination pursuant to Bankruptcy Code section 505(a) of, among other things, (i) the appropriate method to account for Ambac's losses on its post-2004 CDS contracts and (ii) whether an ownership change, within the meaning of section 382 of the Internal Revenue Code, with respect to Ambac Assurance or a deconsolidation event occurred during the 2010 taxable year as a result of the Bank Settlement or for any other reason [Docket No. 362] (the "IRS Claim Estimation Motion"). The IRS Claim Estimation Motion is scheduled for hearing on December 13, 2011. If the IRS Claim Estimation Motion is granted, a hearing on estimation and determination of tax issues will be held on January 19, 2012, or as soon thereafter as the Bankruptcy Court can hear the matter.

The IRS has also sought to assert legal rights against Ambac Assurance, as joint and several obligor in respect of any assessment for federal income taxes against the consolidated Ambac tax group. On December 8, 2010, the IRS removed the Wisconsin rehabilitation proceeding involving the Segregated Account to the United States District Court for the Western District of Wisconsin (the "District Court"). On December 17, 2010, the IRS filed a motion in the District Court to dissolve the supplemental injunction that had been entered by the Rehabilitation Court on November 8, 2010 to prevent certain actions by the IRS that could have an adverse effect on the financial position of the Segregated Account. The Commissioner moved to remand the proceeding back to the Rehabilitation Court, and on January 14, 2011, that motion was granted by the District Court, which found that it lacked subject matter jurisdiction. The IRS has appealed this decision to the United States Court of Appeals for the Seventh Circuit. On February 9, 2011, the IRS filed a complaint and a motion for a preliminary injunction in the District Court seeking, inter alia, to enjoin enforcement of the injunction issued by the Rehabilitation Court and the Confirmation Order against the IRS. The District Court dismissed the suit for lack of subject matter jurisdiction on February 18, 2011, and the IRS filed a notice of appeal on February 22, 2011. On August 22, 2011 the Seventh Circuit granted a motion by the IRS to consolidate the two appeals. Briefing on the consolidated appeal will conclude on December 12, 2011.

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

- Ambac Assurance Corporation v. EMC Mortgage LLC (formerly known as EMC Mortgage Corporation), J.P. Morgan Securities, Inc. (formerly known as Bear, Stearns & Co. Inc.), and JP Morgan Chase Bank, N.A. (Supreme Court of the State of New York, County of New York, filed February 17, 2011). This case is the continuation of a case that was originally filed on November 5, 2008 in the U.S. District Court for the Southern District of New York but that was dismissed from federal court after Ambac Assurance was granted leave to amend its complaint to add certain new claims (but not others) and a new party, which deprived the federal court of jurisdiction over the litigation. After the decision by the federal judge, dated February 8, 2011, Ambac Assurance re-filed the suit in New York state court on February 17, 2011. On July 18, 2011, Ambac Assurance filed a First Amended Complaint in its state-court litigation. In its state-court action, Ambac Assurance asserts claims for breach of contract, indemnification and reimbursement against EMC, as well as claims of fraudulent conduct by EMC and J. P. Morgan Securities Inc. In its First Amended Complaint, Ambac Assurance asserts an additional claim for breach of contract against EMC and a claim for successor liability against a new defendant, JP Morgan Chase Bank, N.A. The Defendants filed their answer to the First Amended Complaint on August 30, 2011, and the parties are currently engaged in discovery.
- Ambac Assurance Corporation and the Segregated Account of Ambac Assurance Corporation v. DLJ Mortgage Capital, Inc. and Credit Suisse Securities (USA) LLC (Supreme Court of the State of New York, County of New York, filed on January 12, 2010). Ambac Assurance alleged breach of contract, fraudulent inducement, breach of implied duty of good faith and fair dealing, indemnification, reimbursement and requested the repurchase of loans that breach representations and warranties as required under the contracts, as well as damages. On July 8, 2010, the defendants moved to dismiss the complaint. Ambac Assurance opposed the motion and the Court held oral argument on October 12, 2010. In a decision dated April 7, 2011, the Court granted the defendants’ motion in part dismissing only Ambac Assurance’s cause of action for fraudulent inducement and striking Ambac Assurance’s claim for consequential damages and jury demand. The Court otherwise denied the defendants’ motion. On April 25, 2011, Ambac Assurance filed a notice of appeal of that decision and on May 6, 2011, the defendants filed a notice of cross-appeal. On May 9, 2011, Ambac Assurance filed a motion for leave to reargue the Court’s April 7 decision. Supplemental briefing on the motion to reargue was completed on August 29, 2011. In a decision dated October 7, 2011, the Court granted the motion to reargue and reinstated Ambac Assurance’s cause of action for fraudulent inducement.
- Ambac Assurance Corporation and The Segregated Account of Ambac Assurance Corporation v. Countrywide Securities Corp., Countrywide Financial Corp. (a.k.a. Bank of America Home Loans) and Bank of America Corp. (Supreme Court of the State of New York, County of New York, filed on September 28, 2010). Ambac Assurance filed an Amended Complaint on September 8, 2011. Ambac Assurance has alleged breach of contract, fraudulent inducement, indemnification and reimbursement, breach of representations and warranties and has requested the repurchase of loans that breach representations and warranties as required under the contracts as well as damages and has asserted a successor liability claim against Bank of America. Discovery is ongoing.

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

Note 15 – Leases

In connection with the establishment of the Segregated Account, Ambac Assurance allocated its disputed contingent liability, if any, under the long-term lease with OSS and its contingent liability (as guarantor), if any, under the Ambac UK lease with British Land. This lease was terminated without any cost to the Segregated Account.

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

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

In connection with the establishment of the Segregated Account, financial guarantee insurance policies were allocated to the Segregated Account. Financial guarantee insurance policies guarantee payment, when due, of principal and interest on the guaranteed obligation. Total gross principal and interest on exposures allocated to the Segregated Account, at September 30, 2011 was \$59,896,959,379. An excess of loss reinsurance agreement with Ambac Assurance as provided by the Plan of Operation provides protection to the allocated exposures.

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

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

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

No significant change from 2010 Notes to Financial Statements.

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

No significant change from 2010 Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

Note 20 – Fair Value Measurements

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

Other Invested Assets

The fair value of other invested assets approximates carrying value.

Investment Income Due and Accrued

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

Liabilities/ Assets for Liabilities Allocated from/ ceded to Ambac Assurance

The fair value estimates of liabilities/ assets for liabilities allocated from/ ceded to Ambac Assurance approximates their related carrying values.

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

	September 30, 2011	
	<u>Carrying amount</u>	<u>Estimated fair value</u>
Financial assets:		
Other invested assets	\$ 1,941,160,018	\$ 1,941,160,018
Investment income due and accrued	22,518,443	22,518,443
Liabilities ceded to Ambac Assurance	4,431,126,352	4,431,126,352
Financial liabilities:		
Liabilities allocated from Ambac Assurance	\$ 6,304,293,799	\$ 6,304,293,799

The Segregated Account has no assets or liabilities carried at fair value at September 30, 2011.

Note 21 - Other Items

No significant change from 2010 Notes to Financial Statements.

Note 22 - Events Subsequent

Pursuant to SSAP 9, Subsequent Events, the date through which subsequent events have been evaluated was November 14, 2011 for the nine months ended September 30, 2011, the same date on which the Segregated Account's statements are issued.

Note 23 - Reinsurance

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

Pursuant to SSAP 62, the allocation of insurance policies to the Segregated Account as well as the Reinsurance Agreement has been recorded as retroactive reinsurance since these contracts were executed in connection with a court-ordered rehabilitation of the Ambac Assurance 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:

	<u>Liabilities allocated to the Segregated Account</u>	<u>Liabilities Ceded to Ambac Assurance</u>	<u>Net Liabilities allocated to the Segregated Account</u>
Initial allocation and assumption of (Liabilities)/Assets	\$ (3,639,973,059)	\$ 1,639,973,059	\$ (2,000,000,000)
Prior Year Changes	(1,986,430,991)	2,104,956,928	118,525,937
Current Year Changes	(677,889,749)	686,196,365	8,306,616
(Liabilities)/Assets At September 30 , 2011	\$ (6,304,293,799)	\$ 4,431,126,352	\$ (1,873,167,447)

	<u>Liabilities allocated to the Segregated Account</u>	<u>Liabilities Ceded to Ambac Assurance</u>	<u>Net Increase (Decrease) to Surplus</u>
(Liabilities)/Assets as of September30, 2011	\$ (6,304,293,799)	\$ 4,431,126,352	\$ (1,873,167,447)
Consideration Received from Ambac Assurance	2,000,000,000	-	2,000,000,000
Prior Year Settlements	(157,589,859)	-	(157,589,859)
Current Year Settlements	(28,024,273)	-	(28,024,273)
Surplus Impact as of September 30, 2011	\$ (4,489,907,931)	\$4,431,126,352	\$ (58,781,579)

NOTES TO FINANCIAL STATEMENTS

Ambac Assurance incurred ever-to-date operating expenses of \$28,145,060 related to the Segregated Account as such amounts have not yet been approved as a settlement under the terms of the Secured Note by the Rehabilitator. As a result of the coverage provided to the Segregated Account by the Reinsurance Agreement between Ambac Assurance and the Segregated Account, the non approval does not have an impact on the net income for the nine months ended September 30, 2011 or to Surplus as of September 30, 2011.

Note 24 - Retrospectively Rated Contracts & Contracts Subject to Redetermination

No significant change from 2010 Notes to Financial Statements.

Note 25 - Change in Incurred Losses and Loss Adjustment Expenses

No significant change from 2010 Notes to Financial Statements.

Note 26 - Intercompany Pooling Arrangements

No significant change from 2010 Notes to Financial Statements.

Note 27 - Structured Settlements

No significant change from 2010 Notes to Financial Statements.

Note 28 - Health Care Receivables

No significant change from 2010 Notes to Financial Statements.

Note 29 - Participating Policies and Health Policies

No significant change from 2010 Notes to Financial Statements.

Note 30 - Premium Deficiency Reserves

No significant change from 2010 Notes to Financial Statements.

Note 31 - High Deductibles

No significant change from 2010 Notes to Financial Statements.

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

No significant change from 2010 Notes to Financial Statements.

Note 33 - Asbestos/Environmental Reserve

No significant change from 2010 Notes to Financial Statements.

Note 34 - Subscriber Savings Accounts

No significant change from 2010 Notes to Financial Statements.

Note 35 - Multiple Peril Crop Insurance

No significant change from 2010 Notes to Financial Statements.

Note 36 - Financial Guaranty Insurance

No significant change from 2010 Notes to Financial Statements.

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

GENERAL

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

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 [X]

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 [X]
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 [X]

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	2	3
Name of Entity	NAIC Company Code	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 [X] 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.

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

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

6.4 By what department or departments?

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 [X]

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

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 [X]

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 [X]

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 [X]

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

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

- (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:
The reporting entity does not have any senior officers.

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

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

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

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

GENERAL

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

FINANCIAL

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

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

INVESTMENT

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

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

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

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

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

14.2 If yes, please complete the following:

	1	2
	Prior Year-End	Current Quarter
	Book/Adjusted Carrying Value	Book/Adjusted Carrying Value
14.21 Bonds.....	\$0	\$0
14.22 Preferred Stock.....	\$0	\$0
14.23 Common Stock.....	\$0	\$0
14.24 Short-Term Investments.....	\$0	\$0
14.25 Mortgage Loans on Real Estate.....	\$0	\$0
14.26 All Other.....	\$1,930,001,237	\$1,958,359,641
14.27 Total Investment in Parent, Subsidiaries and Affiliates (Subtotal Lines 14.21 to 14.26).....	\$1,930,001,237	\$1,958,359,641
14.28 Total Investment in Parent included in Lines 14.21 to 14.26 above.....	\$0	\$0

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

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

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

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

1	2
Name of Custodian(s)	Custodian Address

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

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

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

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

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

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

1	2	3
Central Registration Depository	Name(s)	Address

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:

Ambac Assurance Corporation Segregated Account, in Rehabilitation
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?
If yes, attach an explanation.

Yes [] No [] N/A [X]

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?
If yes, attach an explanation.

Yes [] No [X]

3.1

Have any of the reporting entity's primary reinsurance contracts been canceled?

Yes [] No [X]

3.2

If yes, give full and complete information thereto:

4.1

Are any of the liabilities for unpaid losses and loss adjustment expenses other than certain workers' compensation liabilities tabular reserves (see Annual Statement Instructions pertaining to disclosure of discounting for definition of "tabular reserves,") discounted at a rate of interest greater than zero?

Yes [] No [X]

4.2

If yes, complete the following schedule:

1	2	3	Total Discount				Discount Taken During Period			
Line of Business	Maximum Interest	Disc. Rate	4 Unpaid Losses	5 Unpaid LAE	6 IBNR	7 Total	8 Unpaid Losses	9 Unpaid LAE	10 IBNR	11 Total
00
Total.....	...XXX...	...XXX.....00000000

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	.N						
2. Alaska.....	AK	.N						
3. Arizona.....	AZ	.N						
4. Arkansas.....	AR	.N						
5. California.....	CA	.N						
6. Colorado.....	CO	.N						
7. Connecticut.....	CT	.N						
8. Delaware.....	DE	.N						
9. District of Columbia.....	DC	.N						
10. Florida.....	FL	.N						
11. Georgia.....	GA	.N						
12. Hawaii.....	HI	.N						
13. Idaho.....	ID	.N						
14. Illinois.....	IL	.N						
15. Indiana.....	IN	.N						
16. Iowa.....	IA	.N						
17. Kansas.....	KS	.N						
18. Kentucky.....	KY	.N						
19. Louisiana.....	LA	.N						
20. Maine.....	ME	.N						
21. Maryland.....	MD	.N						
22. Massachusetts.....	MA	.N						
23. Michigan.....	MI	.N						
24. Minnesota.....	MN	.N						
25. Mississippi.....	MS	.N						
26. Missouri.....	MO	.N						
27. Montana.....	MT	.N						
28. Nebraska.....	NE	.N						
29. Nevada.....	NV	.N						
30. New Hampshire.....	NH	.N						
31. New Jersey.....	NJ	.N						
32. New Mexico.....	NM	.N						
33. New York.....	NY	.N						
34. North Carolina.....	NC	.N						
35. North Dakota.....	ND	.N						
36. Ohio.....	OH	.N						
37. Oklahoma.....	OK	.N						
38. Oregon.....	OR	.N						
39. Pennsylvania.....	PA	.N						
40. Rhode Island.....	RI	.N						
41. South Carolina.....	SC	.N						
42. South Dakota.....	SD	.N						
43. Tennessee.....	TN	.N						
44. Texas.....	TX	.N						
45. Utah.....	UT	.N						
46. Vermont.....	VT	.N						
47. Virginia.....	VA	.N						
48. Washington.....	WA	.N						
49. West Virginia.....	WV	.N						
50. Wisconsin.....	WI	.L						
51. Wyoming.....	WY	.N						
52. American Samoa.....	AS	.N						
53. Guam.....	GU	.N						
54. Puerto Rico.....	PR	.N						
55. US Virgin Islands.....	VI	.N						
56. Northern Mariana Islands.....	MP	.N						
57. Canada.....	CN	.N						
58. Aggregate Other Alien.....	OT	.XXX000000
59. Totals.....	(a).....1	000000

DETAILS OF WRITE-INS

5801.XXX						
5802.XXX						
5803.XXX						
5898. Summary of remaining write-ins for Line 58 from overflow page...XXX.....000000
5899. Totals (Lines 5801 thru 5803 + Line 5898) (Line 58 above).....XXX.....000000

(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

Pt 1
NONE

Pt 2
NONE

Q11, Q12

Ambac Assurance Corporation Segregated Account, in Rehabilitation

PART 3 (000 omitted)

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES SCHEDULE

	1	2	3	4	5	6	7	8	9	10	11	12	13
Years in Which Losses Occurred	Prior Year-End Known Case Loss and LAE Reserves	Prior Year-End IBNR Loss and LAE Reserves	Total Prior Year-End Loss and LAE Reserves (Cols. 1 + 2)	2011 Loss and LAE Payments on Claims Reported as of Prior Year-End	2011 Loss and LAE Payments on Claims Unreported as of Prior Year-End	Total 2011 Loss and LAE Payments (Cols. 4 + 5)	Q.S. Date Known Case Loss and LAE Reserves on Claims Reported and Open as of Prior Year-End	Q.S. Date Known Case Loss and LAE Reserves on Claims Reported or Reopened Subsequent to Prior Year-End	Q.S. Date IBNR Loss and LAE Reserves	Total Q.S. Loss and LAE Reserves (Cols. 7 + 8 + 9)	Prior Year-End Known Case Loss and LAE Reserves Developed (Savings)/Deficiency (Cols. 4 + 7 minus Col. 1)	Prior Year-End IBNR Loss and LAE Reserves Developed (Savings)/Deficiency (Cols. 5 + 8 + 9 minus Col. 2)	Prior Year-End Total Loss and LAE Reserve Developed (Savings)/Deficiency (Cols. 11 + 12)
1. 2008 + Prior.....		0		0			0000
2. 2009.....		0		0			0000
3. Subtotals 2009 + Prior.....0000000000000
4. 2010.....		0		0			0000
5. Subtotals 2010 + Prior.....0000000000000
6. 2011.....XXX.....XXX.....XXX.....XXX.....	0XXX.....		0XXX.....XXX.....XXX.....
7. Totals.....0000000000000
8. Prior Year- End's Surplus As Regards Policyholders50,179										Col. 11, Line 7 As % of Col. 1, Line 7	Col. 12, Line 7 As % of Col. 2, Line 7	Col. 13, Line 7 As % of Col. 3, Line 7
											1.0.0 %	2.0.0 %	3.0.0 %
											Col. 13, Line 7 Line 8		
											4.0.0 %		

Q13

Ambac Assurance Corporation Segregated Account, in Rehabilitation

SUPPLEMENTAL EXHIBITS AND SCHEDULES INTERROGATORIES

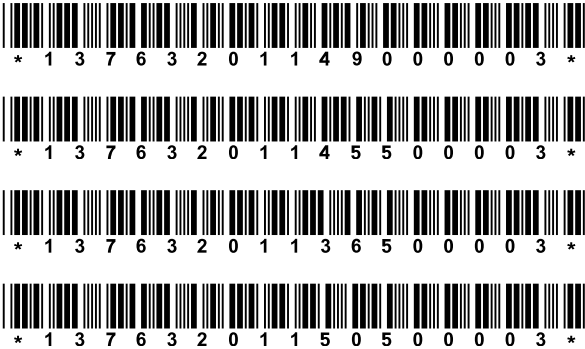
The following supplemental reports are required to be filed as part of your statement filing. However, in the event that your company does not transact the type of business for which the special report must be filed, your response of NO to the specific interrogatory will be accepted in lieu of filing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

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

Explanation:

1.
2.
3.
4.

Bar Code:



**Ambac Assurance Corporation Segregated Account, in Rehabilitation
Overflow Page for Write-Ins**

NONE

Ambac Assurance Corporation Segregated Account, in Rehabilitation
SCHEDULE A - VERIFICATION

Real Estate

	1	2
	Year to Date	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	2
	Year to Date	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	2
	Year to Date	Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year.....	1,930,001,237	
2. Cost of acquired:		
2.1 Actual cost at time of acquisition.....		2,000,000,000
2.2 Additional investment made after acquisition.....		
3. Capitalized deferred interest and other.....	64,853,737	46,448,114
4. Accrual of discount.....		
5. Unrealized valuation increase (decrease).....	(577,206)	17,950,149
6. Total gain (loss) on disposals.....		
7. Deduct amounts received on disposals.....	35,918,127	134,397,026
8. Deduct amortization of premium and depreciation.....		
9. Total foreign exchange change in book/adjusted carrying value.....		
10. Deduct current year's other than temporary impairment recognized.....		
11. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5+6-7-8+9-10).....	1,958,359,641	1,930,001,237
12. Deduct total nonadmitted amounts.....	17,199,623	17,771,054
13. Statement value at end of current period (Line 11 minus Line 12).....	1,941,160,018	1,912,230,183

SCHEDULE D - VERIFICATION

Bonds and Stocks

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

Sch. D-Pt 1B
NONE

Sch. DA-Pt 1
NONE

Sch. DA-Verification
NONE

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

Ambac Assurance Corporation Segregated Account, in Rehabilitation

SCHEDULE BA - PART 2

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

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

NONE

SCHEDULE BA - PART 3

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

1 CUSIP Identification	2 Name or Description	Location		5 Name of Purchaser or Nature of Disposal	6 Date Originally Acquired	7 Disposal Date	8 Book/Adjusted Carrying Value Less Encumbrances, Prior Year	Changes in Book/Adjusted Carrying Value						15 Book/Adjusted Carrying Value Less Encumbrances on Disposal	16 Consideration	17 Foreign Exchange Gain (Loss) on Disposal	18 Realized Gain (Loss) on Disposal	19 Total Gain (Loss) on Disposal	20 Investment Income
		3	4					9 Unrealized Valuation Increase (Decrease)	10 Current Year's (Depreciation) or (Amortization)/ Accretion	11 Current Year's Other Than Temporary Impairment Recognized	12 Capitalized Deferred Interest and Other	13 Total Change in B./A.C.V (9+10-11+12)	14 Total Foreign Exchange Change in B./A.C.V.						
		City	State																

Collateral Loans - Affiliated

	Secured Note Due from Ambac Assurance Corporation	New York.....	NY...	Ambac Assurance Corporation.....	03/24/2010	09/30/2011	...1,912,051,08821,646,04521,646,0451,940,986,6994,830,2920
2499999	Total - Collateral Loans - Affiliated.....						...1,912,051,08800021,646,04521,646,0450	...1,940,986,6994,830,2920000
4099999	Subtotal - Affiliated.....						...1,912,051,08800021,646,04521,646,0450	...1,940,986,6994,830,2920000
4199999	Totals.....						...1,912,051,08800021,646,04521,646,0450	...1,940,986,6994,830,2920000

QE03

Sch. D-Pt 3
NONE

Sch. D-Pt 4
NONE

Sch. DB-Pt A-Sn 1
NONE

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

Sch. DB-Pt B-Sn 1
NONE

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

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

Sch. DB-Pt D
NONE

Sch. DL-Pt. 1
NONE

Sch. DL-Pt. 2
NONE

Sch. E-Pt 1-Cash
NONE

Sch. E-Pt 2-Cash Equivalents
NONE