

QUARTERLY STATEMENT

OF THE

Ambac Assurance Corporation

Of

Madison

in the state of WI

to the Insurance Department

of the State of

For the Period Ended

June 30, 2010

2010



QUARTERLY STATEMENT

As of June 30, 2010
of the Condition and Affairs of the

Ambac Assurance Corporation

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

OFFICERS

Name	Title	Name	Title
1. David William Wallis	President & Chief Executive Officer	2. Michael Anthony Callen	Executive Chairman
3. Kevin John Doyle	Senior Vice President & General Counsel	4. David Trick	Senior Managing Director & Chief Financial Officer
5. Robert Bryan Eisman	Senior Managing Director and Chief Accounting Officer	6. Diana Adams	Senior Managing Director

DIRECTORS OR TRUSTEES

Michael Anthony Callen	Jill Marie Considine	Philip Nicholas Duff	Thomas Charles Theobald
Laura Simone Unger	Henry Daniel George Wallace	Paul DeRosa	David William Wallis

State of New York
County of New York

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

_____ (Signature) David William Wallis	_____ (Signature) Kevin John Doyle	_____ (Signature) Robert Bryan Eisman
1. (Printed Name) President (President & Chief Executive Officer)	2. (Printed Name) Secretary (Senior Vice President & General Counsel)	3. (Printed Name) Senior Managing Director & Chief Accounting Officer
_____ (Title)	_____ (Title)	_____ (Title)

Subscribed and sworn to before me
This _____ day of _____

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

ASSETS

	Current Statement Date			4 December 31 Prior Year Net Admitted Assets
	1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	
1. Bonds.....	4,259,774,647		4,259,774,647	6,195,482,761
2. Stocks:				
2.1 Preferred stocks.....			0	
2.2 Common stocks.....	511,056,509	157,682	510,898,827	341,318,196
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 (\$.....8,814,735), cash equivalents (\$.....0) and short-term investments (\$.....303,935,998).....	312,750,733		312,750,733	625,356,082
6. Contract loans (including \$.....0 premium notes).....			0	
7. Derivatives.....			0	
8. Other invested assets.....	14,777,304	6,860,997	7,916,307	8,931,318
9. Receivables for securities.....	13,737,047	3,539,747	10,197,300	2,249,882
10. Aggregate write-ins for invested assets.....	789,634,000	0	789,634,000	835,917,909
11. Subtotals, cash and invested assets (Lines 1 to 10).....	5,901,730,240	10,558,426	5,891,171,814	8,009,256,148
12. Title plants less \$.....0 charged off (for Title insurers only).....			0	
13. Investment income due and accrued.....	40,434,742		40,434,742	58,539,489
14. Premiums and considerations:				
14.1 Uncollected premiums and agents' balances in the course of collection.....	21,537,190	428,803	21,108,387	400,640
14.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$.....0 earned but unbilled premiums).....	33,193,446	20,504	33,172,942	29,981,495
14.3 Accrued retrospective premiums.....			0	
15. Reinsurance:				
15.1 Amounts recoverable from reinsurers.....	212,338,896		212,338,896	2,663,451
15.2 Funds held by or deposited with reinsured companies.....			0	
15.3 Other amounts receivable under reinsurance contracts.....			0	20,723
16. Amounts receivable relating to uninsured plans.....			0	
17.1 Current federal and foreign income tax recoverable and interest thereon.....			0	425,820,805
17.2 Net deferred tax asset.....			0	
18. Guaranty funds receivable or on deposit.....			0	
19. Electronic data processing equipment and software.....	1,547,880	1,547,880	0	
20. Furniture and equipment, including health care delivery assets (\$.....0).....	10,389,008	10,389,008	0	
21. Net adjustment in assets and liabilities due to foreign exchange rates.....			0	
22. Receivables from parent, subsidiaries and affiliates.....	5,761,879		5,761,879	6,734,056
23. Health care (\$.....0) and other amounts receivable.....			0	
24. Aggregate write-ins for other than invested assets.....	944,232	849,609	94,623	94,623
25. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 11 through 24).....	6,227,877,513	23,794,230	6,204,083,283	8,533,511,430
26. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....	2,025,835,697	20,345,427	2,005,490,270	
27. Total (Lines 25 and 26).....	8,253,713,210	44,139,657	8,209,573,553	8,533,511,430

DETAILS OF WRITE-INS

1001 Inter-company loans with affiliates.....	595,533,000		595,533,000	654,237,909
1002 Secured Inter-company loans with affiliates.....	194,101,000		194,101,000	181,680,000
1003.....			0	
1098. Summary of remaining write-ins for Line 10 from overflow page.....	0	0	0	0
1099. Totals (Lines 1001 thru 1003 plus 1098) (Line 10 above).....	789,634,000	0	789,634,000	835,917,909
2401. Other assets.....	944,232	849,609	94,623	94,623
2402.....			0	
2403.....			0	
2498. Summary of remaining write-ins for Line 24 from overflow page.....	0	0	0	0
2499. Totals (Lines 2401 thru 2403 plus 2498) (Line 24 above).....	944,232	849,609	94,623	94,623

LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Statement Date	2 December 31 Prior Year
1. Losses (current accident year \$.....423,810,352).....	1,822,177,588	1,104,542,208
2. Reinsurance payable on paid losses and loss adjustment expenses.....		
3. Loss adjustment expenses.....	200,190,171	32,441,773
4. Commissions payable, contingent commissions and other similar charges.....		
5. Other expenses (excluding taxes, licenses and fees).....	23,440,634	32,451,009
6. Taxes, licenses and fees (excluding federal and foreign income taxes).....	3,047,233	2,044,931
7.1 Current federal and foreign income taxes (including \$.....0 on realized capital gains (losses)).....	18,219,917	
7.2 Net deferred tax liability.....		
8. Borrowed money \$.....1,982,884,800 and interest thereon \$.....22,345,824.....	2,005,230,624	
9. Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$.....147,962,343 and including warranty reserves of \$.....0).....	2,210,715,318	2,364,518,832
10. Advance premium.....	1,393,654	1,393,654
11. Dividends declared and unpaid:		
11.1 Stockholders.....		
11.2 Policyholders.....		
12. Ceded reinsurance premiums payable (net of ceding commissions).....	10,265,462	1,462,356
13. Funds held by company under reinsurance treaties.....		
14. Amounts withheld or retained by company for account of others.....	1,753,152	1,540,025
15. Remittances and items not allocated.....		
16. Provision for reinsurance.....	4,364,000	4,364,000
17. Net adjustments in assets and liabilities due to foreign exchange rates.....		
18. Drafts outstanding.....		
19. Payable to parent, subsidiaries and affiliates.....	3,869,812	6,500,235
20. Derivatives.....		
21. Payable for securities.....	21,984,223	2,070,174
22. Liability for amounts held under uninsured plans.....		
23. Capital notes \$.....0 and interest thereon \$.....0.....		
24. Aggregate write-ins for liabilities.....	383,200,922	4,178,313,548
25. Total liabilities excluding protected cell liabilities (Lines 1 through 24).....	6,709,852,710	7,731,642,745
26. Protected cell liabilities.....		
27. Total liabilities (Lines 25 and 26).....	6,709,852,710	7,731,642,745
28. Aggregate write-ins for special surplus funds.....	0	0
29. Common capital stock.....	82,000,000	82,000,000
30. Preferred capital stock.....	26,411,000	26,411,000
31. Aggregate write-ins for other than special surplus funds.....	0	0
32. Surplus notes.....	2,000,000,000	
33. Gross paid in and contributed surplus.....	3,552,188,562	3,526,088,310
34. Unassigned funds (surplus).....	(4,160,878,719)	(2,832,630,625)
35. Less treasury stock, at cost:		
35.1 .....0.000 shares common (value included in Line 29 \$.....0).....		
35.2 .....0.000 shares preferred (value included in Line 30 \$.....0).....		
36. Surplus as regards policyholders (Lines 28 to 34, less 35).....	1,499,720,843	801,868,685
37. Totals.....	8,209,573,553	8,533,511,430

DETAILS OF WRITE-INS

2401. Mandatory contingency reserve for adverse losses.....	380,471,379	336,056,097
2402. Estimated impairment losses on subsidiary guarantees and commitments.....		3,841,324,296
2403. Deferred gain on purchase/sale of securities with subsidiary.....	1,452,949	730,387
2498. Summary of remaining write-ins for Line 24 from overflow page.....	1,276,594	202,768
2499. Totals (Lines 2401 thru 2403 plus 2498) (Line 24 above).....	383,200,922	4,178,313,548
2801.		
2802.		
2803.		
2898. Summary of remaining write-ins for Line 28 from overflow page.....	0	0
2899. Totals (Lines 2801 thru 2803 plus 2898) (Line 28 above).....	0	0
3101.		
3102.		
3103.		
3198. Summary of remaining write-ins for Line 31 from overflow page.....	0	0
3199. Totals (Lines 3101 thru 3103 plus 3198) (Line 31 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 \$.....137,293,649).....	290,640,960	372,930,765	718,278,906
1.2 Assumed..... (written \$.....42,454,144).....	48,703,642	113,039,494	175,963,981
1.3 Ceded..... (written \$.....14,918,177).....	20,711,472	64,365,623	97,870,984
1.4 Net..... (written \$.....164,829,616).....	318,633,130	421,604,636	796,371,903
DEDUCTIONS:			
2. Losses incurred (current accident year \$..... 434,679,077):			
2.1 Direct.....	884,077,995	959,176,887	1,393,916,170
2.2 Assumed.....	45,065,015	46,699,260	25,726,658
2.3 Ceded.....	14,694,272	44,591,757	21,531,710
2.4 Net.....	914,448,738	961,284,390	1,398,111,118
3. Loss adjustment expenses incurred.....	185,924,441	21,298,579	110,587,255
4. Other underwriting expenses incurred.....	79,505,047	64,501,834	113,274,449
5. Aggregate write-ins for underwriting deductions.....	0	0	(348,390,963)
6. Total underwriting deductions (Lines 2 through 5).....	1,179,878,226	1,047,084,803	1,273,581,859
7. Net income of protected cells.....			
8. Net underwriting gain (loss) (Line 1 minus Line 6 + Line 7).....	(861,245,096)	(625,480,167)	(477,209,956)
INVESTMENT INCOME			
9. Net investment income earned.....	157,521,956	196,180,191	467,509,271
10. Net realized capital gains (losses) less capital gains tax of \$..... 0.....	(763,898,912)	(2,781,383,153)	(3,026,926,294)
11. Net investment gain (loss) (Lines 9 + 10).....	(606,376,956)	(2,585,202,962)	(2,559,417,023)
OTHER INCOME			
12. Net gain or (loss) from agents' or premium balances charged off (amount recovered \$.....0 amount charged off \$.....0).....	0		
13. Finance and service charges not included in premiums.....			
14. Aggregate write-ins for miscellaneous income.....	(2,528,204)	119,370,461	73,494,090
15. Total other income (Lines 12 through 14).....	(2,528,204)	119,370,461	73,494,090
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15).....	(1,470,150,256)	(3,091,312,668)	(2,963,132,889)
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).....	(1,470,150,256)	(3,091,312,668)	(2,963,132,889)
19. Federal and foreign income taxes incurred.....	100,000	2,050,000	(483,521,179)
20. Net income (Line 18 minus Line 19) (to Line 22).....	(1,470,250,256)	(3,093,362,668)	(2,479,611,710)
CAPITAL AND SURPLUS ACCOUNT			
21. Surplus as regards policyholders, December 31 prior year.....	801,868,685	1,554,448,411	1,554,448,411
22. Net income (from Line 20).....	(1,470,250,256)	(3,093,362,668)	(2,479,611,710)
23. Net transfers (to) from Protected Cell accounts.....			
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$..... 0.....	191,360,678	(64,238,713)	(2,695,389)
25. Change in net unrealized foreign exchange capital gain (loss).....			23,735,605
26. Change in net deferred income tax.....		626,201,930	(1,395,276,863)
27. Change in nonadmitted assets.....	(4,385,676)	(552,572,920)	1,474,628,315
28. Change in provision for reinsurance.....			(4,364,000)
29. Change in surplus notes.....	2,000,000,000		
30. Surplus (contributed to) withdrawn from protected cells.....			
31. Cumulative effect of changes in accounting principles.....			
32. Capital changes:			
32.1 Paid in.....		3,097,000	(1,589,000)
32.2 Transferred from surplus (Stock Dividend).....			
32.3 Transferred to surplus.....			
33. Surplus adjustments:			
33.1 Paid in.....	26,100,252	101,304,392	101,661,433
33.2 Transferred to capital (Stock Dividend).....			
33.3 Transferred from capital.....			
34. Net remittances from or (to) Home Office.....			
35. Dividends to stockholders.....	(817,203)	(10,254,028)	(12,509,301)
36. Change in treasury stock.....			
37. Aggregate write-ins for gains and losses in surplus.....	(44,155,637)	1,740,997,284	1,543,441,184
38. Change in surplus as regards policyholders (Lines 22 through 37).....	697,852,158	(1,248,827,723)	(752,579,726)
39. Surplus as regards policyholders, as of statement date (Lines 21 plus 38).....	1,499,720,843	305,620,688	801,868,685

DETAILS OF WRITE-INS

0501. Gains on reinsurance commutations.....			(348,390,963)
0502.			
0503.			
0598. Summary of remaining write-ins for Line 5 from overflow page.....	0	0	0
0599. Totals (Lines 0501 thru 0503 plus 0598) (Line 5 above).....	0	0	(348,390,963)
1401. Other miscellaneous income.....	5,016,094	45,870,461	31,894,090
1402. Estimated provision for uncollectible intercompany loan with affiliate.....	(21,666,909)	73,500,000	41,600,000
1403. Change in retroactive reinsurance reserves ceded to Ambac Assurance Corp Segregated Account.....	2,689,873,229		
1498. Summary of remaining write-ins for Line 14 from overflow page.....	(2,675,750,618)	0	0
1499. Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above).....	(2,528,204)	119,370,461	73,494,090
3701. Mandatory contingency reserve for adverse losses, net of tax.....	(44,415,282)	1,740,997,284	1,578,541,184
3702. Surplus from Ambac Assurance Corporation Segregated Account.....	259,645		
3703. Cumulative effect of prior period error in correction of the liability for estimated losses in subsidiary guarantees.....			(35,100,000)
3798. Summary of remaining write-ins for Line 37 from overflow page.....	0	0	0
3799. Totals (Lines 3701 thru 3703 plus 3798) (Line 37 above).....	(44,155,637)	1,740,997,284	1,543,441,184

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.....	149,310,496	203,147,215	443,070,312
2. Net investment income.....	125,211,439	162,444,429	295,112,153
3. Miscellaneous income.....	5,016,093	45,870,461	31,894,090
4. Total (Lines 1 through 3).....	279,538,028	411,462,105	770,076,555
5. Benefit and loss related payments.....	406,468,080	660,532,822	1,377,023,524
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			
7. Commissions, expenses paid and aggregate write-ins for deductions.....	2,809,161,752	141,020,133	1,274,639,004
8. Dividends paid to policyholders.....			
9. Federal and foreign income taxes paid (recovered) net of \$.....0 tax on capital gains (losses).....	(443,940,722)	39,569	(275,095,747)
10. Total (Lines 5 through 9).....	2,771,689,110	801,592,524	2,376,566,781
11. Net cash from operations (Line 4 minus Line 10).....	(2,492,151,082)	(390,130,419)	(1,606,490,226)
CASH FROM INVESTMENTS			
12. Proceeds from investments sold, matured or repaid:			
12.1 Bonds.....	2,497,888,093	724,779,313	2,384,771,722
12.2 Stocks.....			486,572
12.3 Mortgage loans.....			
12.4 Real estate.....			
12.5 Other invested assets.....	121,011	400,000	156,701,487
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments.....	(169,136)	2,806,967	2,891,731
12.7 Miscellaneous proceeds.....	66,197,958		348,407,464
12.8 Total investment proceeds (Lines 12.1 to 12.7).....	2,564,037,926	727,986,280	2,893,258,976
13. Cost of investments acquired (long-term only):			
13.1 Bonds.....	554,729,809	691,597,381	1,794,596,803
13.2 Stocks.....			486,572
13.3 Mortgage loans.....			
13.4 Real estate.....			
13.5 Other invested assets.....	5,561,637	25,738,699	165,974,850
13.6 Miscellaneous applications.....	11,487,165	180,281,329	7,376,756
13.7 Total investments acquired (Lines 13.1 to 13.6).....	571,778,611	897,617,409	1,968,434,981
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).....	1,992,259,315	(169,631,129)	924,823,995
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.....	262,200	98,808,968	90,403,915
16.3 Borrowed funds.....			
16.4 Net deposits on deposit-type contracts and other insurance liabilities.....			
16.5 Dividends to stockholders.....	817,203	10,254,028	12,509,301
16.6 Other cash provided (applied).....	187,841,421	771,629	50,296,377
17. Net cash from financing and miscellaneous sources (Lines 16.1 through 16.4 minus Line 16.5 plus Line 16.6).....	187,286,418	89,326,569	128,190,991
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).....	(312,605,349)	(470,434,979)	(553,475,240)
19. Cash, cash equivalents and short-term investments:			
19.1 Beginning of year.....	625,356,082	1,178,831,322	1,178,831,322
19.2 End of period (Line 18 plus Line 19.1).....	312,750,733	708,396,343	625,356,082

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

20.0001			
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NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies

a. Accounting Practices

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

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

The Wisconsin Insurance Commissioner has prescribed an accounting practice that differs from NAIC SAP. Paragraph 7 of Statement of Statutory Accounting Principles No. 60 "Financial Guaranty Insurance" ("SSAP 60") allows for a deduction from loss reserves for the time value of money by application of a discount rate equal to the average rate of return on the admitted assets of the financial guaranty insurer as of the date of the computation of the reserve. The discount rate shall be adjusted at the end of each calendar year. Additionally, in accordance with paragraph 7 of Statutory Accounting Principles No. 5 "Liabilities, Contingencies and Impairments of Assets", Ambac Assurance records probable losses on its subsidiaries credit derivative contracts, using a discount rate equal to the average rate of return on its admitted assets. The Company's average rate of return on its admitted assets at December 31, 2009 was 6.74%. The Wisconsin Insurance Commissioner has directed the Company to utilize a prescribed discount rate of 5.10% for the purpose of discounting both its loss reserves and its estimated impairment losses on subsidiary guarantees. Statutory surplus at June 30, 2010 and December 31, 2009 was lower by \$104,949,787 and \$1,515,691,199, respectively, than if the Company had reported such amounts in accordance with NAIC SAP. Net income for the six months ended June 30, 2010 was higher by \$1,410,741,412 and for the year ended December 31, 2009 was lower by \$1,515,691,199, than if the Company had reported such amounts in accordance with NAIC SAP.

The Wisconsin Insurance Commissioner has prescribed an additional accounting practice that differs from NAIC SAP. Paragraph 4 of Statement of Statutory Accounting Principles No. 41 "Surplus Notes" ("SSAP 41") states that proceeds received by the issuer of surplus notes must be in the form of cash or other admitted assets having readily determinable values and liquidity satisfactory to the commissioner of the state of domicile. Under the 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 connection with commutations or the settlement of claims 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 in connection with commutations or settlement of claims have a claim against surplus senior to the preferred and common shareholders. Statutory surplus is not impacted as a result of the prescribed practice as it is a reclassification from unassigned funds to surplus notes. Net income for six months ended June 30, 2010 is lower by \$2,000,000,000 than if the Company had recorded the issuance of surplus notes in accordance with NAIC SAP.

Wisconsin accounting practices for changes to contingency reserves differ from NAIC SAP. Under NAIC SAP, contributions to and releases from the contingency reserve are recorded via a direct charge or credit to surplus. Under section 3.08(7)(b) of the Wisconsin Administrative Code, contributions to and releases from the contingency reserve are to be recorded through underwriting income. The Company received permission of the Wisconsin Insurance Commissioner to record contributions to and releases from the contingency reserve and the related tax and loss bond impact, in accordance with NAIC SAP. Statutory surplus is the same using each of these accounting practices. Net income for six months ended June 30, 2010 and year end December 31, 2009 are higher by \$44,415,282 and lower by \$1,578,541,184 respectively than if the Company had recorded contingency reserve in accordance with the Wisconsin Administrative Code.

The Wisconsin Insurance Commissioner has permitted an additional accounting practice that differs from NAIC SAP. The Company received permission of the Wisconsin Insurance Commissioner to adjust its carrying value of its common stock investment in Ambac Assurance UK Ltd ("Ambac UK") to eliminate for any impairment that Ambac UK recorded on reinsurance recoverable from Ambac Assurance. Statutory surplus at June 30, 2010 is higher by \$382,482,771 than if the Company had taken into consideration the implications of such impairments on the quarterly statutory financial statements.

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

	<u>June 30, 2010</u>	<u>December 31, 2009</u>
Net Loss, Wisconsin Basis	\$ (1,514,665,538)	\$ (901,070,526)
Effect of Wisconsin Prescribed Practices:	589,258,588	1,515,691,199
Effect of Wisconsin Permitted Practices:	<u>44,415,282</u>	<u>(1,578,541,184)</u>
Net Loss, NAIC SAP	\$ <u>(880,991,668)</u>	\$ <u>(963,920,511)</u>
Statutory Surplus, Wisconsin Basis	\$ 1,499,720,843	\$ 801,868,685
		1,515,691,199
Effect of Wisconsin Prescribed Practices:	104,949,787	
Effect of Wisconsin Permitted Practices:	<u>(382,482,771)</u>	<u>-</u>
Statutory Surplus, NAIC SAP	\$ <u>1,222,187,859</u>	\$ <u>2,317,559,884</u>

Note 2 - Accounting Changes and Corrections of Errors

No significant change from 2009 Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

Note 3 - Business Combinations and Goodwill

No significant change from 2009 Notes to Financial Statements.

Note 4 - Discontinued Operations

No significant change from 2009 Notes to Financial Statements.

Note 5 - Investments

d. Loan-Backed Securities

- i. The Company consistently uses the retrospective method to revalue loan-backed securities using current prepayment assumptions.
- ii. Prepayment assumptions for single class and multi-class loan-backed securities were obtained from publicly available sources.
- iii. During 2010, there were no changes in the methodology utilized by the Company to revalue loan-backed securities.
- iv. During 2010, the Company recognized other-than-temporary impairment losses (“OTTI losses”) on certain loan-backed securities for which it had the intent to sell as well as on securities where the present value of cash flows expected to be collected were less than the amortized cost basis of the securities. For the loan-backed securities still held at June 30, 2010, the total amortized cost immediately prior to the recognition of OTTI losses, the OTTI losses recognized during the six months ended June 30, 2010, and the fair value of these securities at the time OTTI losses were recognized are as follows:

	Amortized Cost Basis – Immediately Prior to Recognition of OTTI Losses	OTTI Losses Recognized during six months ended June 30, 2010	Fair Value at the time OTTI Losses were recognized ⁽¹⁾
Aggregate of all loan-backed securities for which OTTI losses were recognized during 2010 that were classified as “Intent to Sell”	\$73,314,240	\$15,452,380	\$57,861,860
Aggregate of all loan-backed securities for which OTTI losses were recognized during 2010 that were classified as “Intent & Ability to Hold to Maturity”	-	-	-
Aggregate of all loan-backed securities for which OTTI losses were recognized during 2010 due to the present value of cash flows expected to be collected were less than the amortized cost basis of the security ⁽²⁾	\$376,612,022	\$120,650,567	\$255,961,455

(1) Fair value of these loan-backed securities based on Securities Valuation Office (“SVO”) prices, if available, at June 30, 2010 was \$331,407,739.

(2) Cash flows on Ambac Assurance insured residential mortgage-backed securities were adversely impacted due to the claims moratorium and actions by the Wisconsin Insurance Commissioner, resulting in other-than-temporary impairment losses, which was reported as a realized capital loss in the Statement of Income.

- v. During 2010, the Company recognized other-than-temporary impairment losses (“OTTI losses”) on certain loan-backed securities where the present value of cash flows expected to be collected were less than the amortized cost basis of the securities. For the loan-backed securities still held at June 30, 2010, the total amortized cost immediately prior to the recognition of OTTI losses, the OTTI losses recognized during the six months ended June 30, 2010, and the fair value of these securities at the time OTTI losses were recognized are as follows:

CUSIP	Amortized cost before current period OTTI	Projected Cashflows	Recognized other-than-temporary impairment	Amortized cost after other-than-temporary impairment	Fair Value
000759CF5	\$ 3,298,057.59	\$ 1,525,525.68	\$1,772,531.91	\$ 1,525,525.68	\$2,706,704.74
07401WAA7	11,543,282.67	5,256,702.88	6,286,579.79	5,256,702.88	6,026,706.34
07401WAP4	14,175,642.58	6,680,459.49	7,495,183.09	6,680,459.49	5,973,879.63
07401WBA6	288,942.46	98,680.01	190,262.45	98,680.01	210,028.94
12666TAC0	8,103,823.05	5,829,259.19	2,274,563.86	5,829,259.19	6,782,045.50
12666TAD8	3,425,766.56	1,945,190.86	1,480,575.70	1,945,190.86	3,152,327.56
12666TAF3	4,872,452.83	3,218,455.55	1,653,997.28	3,218,455.55	4,790,017.21
126670NY0	3,166,370.26	2,599,514.73	566,855.53	2,599,514.73	2,425,517.10
126673TP7	315,438.88	263,559.20	51,879.68	263,559.20	324,260.71
126684AB5	9,766,524.64	9,036,720.00	729,804.64	9,036,720.00	9,770,154.77
126684AC3	6,096,709.35	4,111,632.71	1,985,076.64	4,111,632.71	4,468,624.62
126684AD1	736,315.28	375,006.20	361,309.08	375,006.20	234,523.94

NOTES TO FINANCIAL STATEMENTS

126684AE9	8,316,522.70	4,399,699.50	3,916,823.20	4,399,699.50	2,315,248.64
126884AF6	9,315,252.26	6,532,733.72	2,782,518.54	6,532,733.72	4,157,223.57
126685AK2	822,731.12	731,687.52	91,043.60	731,687.52	820,140.85
126685CS3	1,384,265.01	1,076,485.95	307,779.06	1,076,485.95	1,241,137.19
126685CZ7	17,719,487.93	16,401,064.26	1,318,423.67	16,401,064.26	16,677,871.07
126685DA1	566,844.97	373,581.76	193,263.21	373,581.76	754,597.45
126685DC7	5,414,234.43	4,248,905.81	1,165,328.62	4,248,905.81	4,852,253.65
126685DJ2	20,089,072.33	12,758,748.50	7,330,323.83	12,758,748.50	11,515,257.83
12668RAC2	2,901,825.79	1,124,911.17	1,776,914.02	1,124,911.17	495,950.32
23242EAC3	8,735,282.58	8,398,471.47	336,811.11	8,398,471.47	9,815,029.63
23243NAD0	5,432,996.64	5,185,050.14	247,946.50	5,185,050.14	3,635,245.32
23243NAF5	1,046,001.03	313,260.98	732,740.05	313,260.98	2,316,531.77
23243NAG3	11,598,445.48	5,912,281.85	5,686,163.63	5,912,281.85	8,376,482.97
23243NAH1	9,960,856.38	5,319,426.01	4,641,430.37	5,319,426.01	6,115,344.58
32029HAB8	2,773,848.60	1,205,631.86	1,568,216.74	1,205,631.86	2,516,081.72
361856EH6	12,644,122.22	12,109,729.17	534,393.05	12,109,729.17	13,869,083.14
361856EK9	29,834,475.80	23,254,888.04	6,579,587.76	23,254,888.04	26,496,446.05
39538WCZ9	2,392,987.63	1,669,908.35	723,079.28	1,669,908.35	2,375,385.39
39538WEF1	1,370,231.19	669,894.45	700,336.74	669,894.45	411,773.78
43709RAA2	1,878,646.71	701,584.09	1,177,062.62	701,584.09	890,154.37
45254TTF1	7,078,018.66	6,782,253.47	295,765.19	6,782,253.47	6,660,054.23
45661AAC6	3,272,496.59	2,783,268.90	489,227.69	2,783,268.90	2,791,118.08
45667HAB7	25,196,478.31	21,260,671.65	3,935,806.66	21,260,671.65	24,913,365.46
46412AAE2	6,798,130.35	5,899,768.61	898,361.74	5,899,768.61	7,767,012.04
46412RAB1	8,707,046.56	7,560,092.64	1,146,953.92	7,560,092.64	7,350,779.09
464125AC7	9,303,872.68	6,546,748.03	2,757,124.65	6,546,748.03	16,257,240.00
464126CG4	1,415,036.43	1,072,159.45	342,876.98	1,072,159.45	1,298,427.25
52524PAG7	4,565,001.12	3,896,433.16	668,567.96	3,896,433.16	3,104,558.28
52525LAS9	51,026,757.59	23,383,934.44	27,642,823.15	23,383,934.44	9,790,271.12
68402VAE2	2,670,084.36	2,151,121.47	518,962.89	2,151,121.47	1,460,376.54
68402VAG7	3,215,470.87	2,563,068.71	652,402.16	2,563,068.71	1,774,520.00
69121YAA2	12,042,925.94	654,956.00	11,387,969.94	654,956.00	850,469.76
785778PF2	658,849.23	321,618.48	337,230.75	321,618.48	563,679.12
785778PG0	1,614,351.02	793,237.44	821,113.58	793,237.44	1,289,272.45
785813AA4	1,357,102.90	733,326.32	623,776.58	733,326.32	312,344.55
881561W91	442,472.04	360,504.37	81,967.67	360,504.37	163,019.73
92976YAA0	4,138,995.18	3,871,759.91	267,235.27	3,871,759.91	4,757,658.16
92978LAA6	13,121,475.71	11,997,880.66	1,123,595.05	11,997,880.66	15,929,682.77
TOTAL	\$376,612,022.49	\$255,961,455.40	\$120,650,567.09	\$255,961,455.40	\$273,545,878.96

- vi. The following table shows all impaired securities (Fair value is less than cost or amortized cost) for which an other-than-temporary impairment has not been recognized in earnings by length of time that the individual securities have been in a continuous unrealized loss position at June 30, 2010:

	Unrealized Loss	Fair Value
Less than 12 months	\$19,494,239	\$44,206,852
Greater than 12 months	\$7,091,925	\$41,848,823

- vii. Ambac Assurance has a formal impairment review process for all securities in its investment portfolio. Ambac Assurance conducts a review each quarter to identify and evaluate investments that have indications of possible other than temporary impairment, including substantial or continuous declines in fair value below amortized cost or declines in external credit ratings from the time the securities were purchased. Management has determined that the unrealized losses reflected in the table above are temporary in nature as of June 30, 2010 based upon (i) no principal and interest payment defaults on these securities; (ii) analysis of the creditworthiness of the issuer and financial guarantor, as applicable, and analysis of projected defaults on the underlying collateral; (iii) management has no intent to sell these investments in debt securities; and (iv) it is not more likely than not that Ambac Assurance will be required to sell these debt securities before the anticipated recovery of its amortized cost basis. The assessment under (iv) is based on a comparison of future available liquidity from the fixed income investment portfolio against the projected net cash outflow from operating activities and debt service. For purposes of this assessment, available liquidity from the fixed income investment portfolio is comprised of the fair value of securities for which management has asserted its intent to sell plus the scheduled maturities and interest payments from the remaining securities in the portfolio. As of June 30, 2010, for securities that have indications of possible other-than-temporary impairment but which management does not intend to sell and will not more likely than not be required to sell, management compared the present value of cash flows expected to be collected to the amortized cost basis of the securities to assess whether the amortized cost will be recovered. Cash flows were discounted at the effective interest rate implicit in the security at the date of acquisition. For floating rate securities, future cash flows and the discount rate used were both adjusted to reflect changes in the index rate applicable to each security as of the evaluation date.

Note 6 - Joint Ventures, Partnerships and Limited Liability Companies

No significant change from 2009 Notes to Financial Statements.

Note 7 - Investment Income

NOTES TO FINANCIAL STATEMENTS

No significant change from 2009 Notes to Financial Statements.

Note 8 - Derivative Instruments

No significant change from 2009 Notes to Financial Statements.

Note 9 - Income Taxes

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

	6/30/2010
Current income taxes incurred	\$ 100,000
Change in def. income tax (w/o tax on unrealized gains & losses)	0
Total income Tax Reported	\$100,000
Income before taxes	(1,470,150,256)
	35%
Expected income tax expense (benefit) at 35% statutory rate	(514,552,590)
Increase (decrease) in actual tax reported resulting from:	
a. Dividends received deduction	-
b. Non-deductible expenses for meals, penalties and lobbying	28,000
c. Tax-exempt income	(14,291,338)
d. Change in deferred taxes on non-admitted assets	-
e. Change in valuation allowance adjustment	521,449,843
f. Other	7,466,085
Total income tax reported	\$ 100,000

- b. Operating loss carryforward
- 1) At June 30, 2010 the Company had \$6,459,977,791 of unused operating loss carryforwards available to offset against future taxable income, which will begin expiring in 2028 and fully expire in 2030.
 - 2) At June 30, 2010 there are no amounts available for recoupment in the event of future net losses.
 - 3) The Company has no deposits admitted under Section 6603 of the Internal Revenue Code
- c. Consolidated federal income tax return
- 1) The Company will be included in Ambac Financial Group, Inc.'s ("Ambac") consolidated federal income tax return, which includes the following taxable entities: Ambac, Ambac Assurance, Ambac (Bermuda) Limited, Ambac Capital Corporation, Ambac Investments Inc., Ambac Capital Funding, Inc., RangeMark Financial Services Inc., Ambac Asset Funding Corporation, Ambac All Corporation, Connie Lee Holdings, Inc. ("Connie Lee Holdings") and Everspan.
 - 2) The method of allocation between the Companies is subject to a written Tax Sharing Agreement approved by both the Wisconsin Insurance Department and the Company's Board of Directors. Amounts assessed/reimbursed are based upon separate return calculations made as if the Company had filed its own federal income tax return for each taxable period. Pursuant to an agreement with Ambac, the Company will be paid for losses to the extent they could be utilized by the Company on a standalone basis under the rules of the Internal Revenue Code.

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

Recent Developments:

Segregated Account

On March 24, 2010, Ambac Assurance acquiesced to the request of the Office of the Commissioner of Insurance of the State of Wisconsin ("OCI") to establish a segregated account pursuant to Wisc. Stat. §611.24(2) (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 will be 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, 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. 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

NOTES TO FINANCIAL STATEMENTS

collection rights), if any, in respect of the Segregated Account Policies, (ii) Ambac Assurance's disputed contingent liability, if any, under the long-term lease with One State Street, LLC, and its contingent liability (as guarantor), if any, under the Ambac UK lease with British Land, (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). Net par exposure allocated to the Segregated Account is \$57,610,863,498 as of June 30, 2010, which is inclusive of net par exposures assumed under reinsurance contracts, primarily from Ambac UK, in an aggregate amount of \$20,973,633,032.

On March 24, 2010, the OCI commenced rehabilitation proceedings with respect to the Segregated Account (the "Segregated Account Rehabilitation Proceedings") in order to permit the OCI to facilitate an orderly run-off and/or settlement of the liabilities allocated to the Segregated Account pursuant to the provisions of the Wisconsin Insurers Rehabilitation and Liquidation Act. The rehabilitator of the Segregated Account is Sean Dilweg, the Commissioner of Insurance of the State of Wisconsin. On March 24, 2010, the rehabilitation court also issued an injunction effective until further order of the court enjoining certain actions by Segregated Account policyholders and other counterparties, including the assertion of damages or acceleration of losses based on early termination and the loss of control rights in insured transactions. Certain Segregated Account policyholders have filed lawsuits challenging the Segregated Account Rehabilitation Proceedings (see footnote 14e).

Pursuant to the Verified Petition filed in Wisconsin in connection with such proceedings, the OCI has stated that it will seek the approval of the rehabilitation court for a plan of rehabilitation with respect to the Segregated Account (the "Segregated Account Rehabilitation Plan"). The Verified Petition states that the Segregated Account Rehabilitation Plan will, if approved, provide, among other things, that the holders of Segregated Account Policies shall receive in respect of claims made a combination of (i) cash and (ii) surplus notes (the "Segregated Account Surplus Notes") with the same terms as the Ambac Assurance Surplus Notes (as defined below). Until the Segregated Account Rehabilitation Plan is approved, which OCI has indicated will be filed approximately six months after the rehabilitation proceedings were commenced, it is anticipated that no claims will be paid on Segregated Account Policies, except as approved by the rehabilitation court. In July 2010, with the approval of the rehabilitation court, the Segregated Account issued \$50 million of Segregated Account Surplus Notes in connection with a commutation of an insurance policy allocated to the Segregated Account.

Ambac Assurance has issued a \$2,000,000,000 secured note due in 2050 (the "Secured Note") to the Segregated Account. The Segregated Account has the ability to demand payment from time to time to pay claims and other liabilities. The balance of the secured note is \$1,982,884,800 at June 30, 2010, inclusive of capitalized interest since the date of issuance. In addition, once the Secured Note has been exhausted, the Segregated Account has the ability to demand payment from time to time under an aggregate excess of loss reinsurance agreement provided by Ambac Assurance (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 accounting practice (the "Minimum Surplus Amount"). As long as the surplus as regards to policyholders is not less than the Minimum Surplus Amount, payments by the general account of Ambac Assurance (the "General Account") to the Segregated Account under the Reinsurance Agreement are not capped. In addition, the Plan of Operation provides that the General Account may issue surplus notes directly to holders of Segregated Account Policies to satisfy the portion of claim liability not paid by the Segregated Account in cash or in Segregated Account Surplus Notes. There is no Wisconsin insurance fund available to pay claims.

Pursuant to the terms of the Plan of Operation, assets and investments, if any, allocated to the Segregated Account will be available and used solely to satisfy costs, expenses, charges, and liabilities attributable to the items allocated to the Segregated Account. Such assets and investments, if any, will not be charged with any costs, expenses, charges, or liabilities arising out of any other business of Ambac Assurance, except as otherwise provided in the Secured Note or the Reinsurance Agreement. Likewise, assets and investments in the General Account will not be charged with any costs, expenses, charges, or liabilities arising out of the direct business allocated to the Segregated Account, except as otherwise provided in the Secured Note or the Cooperation Agreement (as defined and described below).

The Secured Note will be subject to mandatory prepayment on demand in an amount equal to (i) the cash portion of claim liabilities, loss settlements, commutations and purchases of Segregated Account Policies (or related insured obligations) due and payable by the Segregated Account ("Segregated Account Policy Cash Payments"), amounts due and payable by the Segregated Account arising out of the non-policy obligations allocated thereto, and any cash interest payment and cash principal repayment under any Segregated Account Surplus Notes in connection with any of the foregoing, provided in each case such amounts due and payable are in accordance with the Segregated Account Rehabilitation Plan and not otherwise disapproved by the rehabilitator of the Segregated Account plus (ii) amounts due and payable by the Segregated Account in respect of specified administrative expenses of the Segregated Account plus (iii) other amounts directed to be paid by the rehabilitator of the Segregated Account in conjunction with the rehabilitation proceeding, minus (iv) the amount of the Segregated Account's liquid assets as determined by the Segregated Account. In addition, if an event of default occurs under the Secured Note, the Segregated Account is entitled to accelerate the outstanding principal amount due under the Secured Note.

Interest on the Secured Note accrues at the rate of 4.5% per annum, and accrued interest will be added to principal quarterly. Ambac Assurance has secured its obligations under the Secured Note and the Reinsurance Agreement by granting to the Segregated Account a security interest in all of Ambac Assurance's right, title and interest in installment premiums received in respect of the Segregated Account Policies; reinsurance premiums received in respect of assumed reinsurance agreements with respect to which the liabilities of Ambac Assurance have been allocated to the Segregated Account; recoveries under third party reinsurance agreements in respect of the Segregated Account Policies; and any recoveries arising from remediation efforts or reimbursement or collection rights with respect to policies allocated to the Segregated Account. Pursuant to the Secured Note, Ambac Assurance has made certain covenants to the Segregated Account, including covenants that Ambac Assurance will not, (i) without the Segregated Account's consent (not to be unreasonably withheld), amend its investment policies if doing so would have a material adverse effect on Ambac Assurance's ability to perform its obligations under the Secured Note, the Reinsurance Agreement and the documents relating thereto or under any other material agreement to which it is a party, (ii) without the prior approval of the OCI and the rehabilitator of the Segregated Account, directly or indirectly make any distribution to its shareholder or redeem any of its securities and, (iii) without the Segregated Account's consent (not to be unreasonably withheld), enter into any transaction other than pursuant to the reasonable requirements of Ambac Assurance's business and which Ambac Assurance reasonably believes are fair and reasonable terms and provisions.

Pursuant to the Reinsurance Agreement, Ambac Assurance has agreed to pay Segregated Account Policy Cash Payments, any cash interest payment and cash principal repayment under any Segregated Account Surplus Notes in connection with any of the foregoing and other amounts directed to be paid by the rehabilitator of the Segregated Account in conjunction with the rehabilitation proceeding, minus the amount of the Segregated Account's liquid assets as determined by the Segregated Account. Ambac Assurance's liability under the Reinsurance Agreement will attach only after all principal under the Secured Note has been paid. The Reinsurance Agreement contains the same covenants for the benefit of the Segregated Account as those that appear in the Secured Note, as described in the preceding paragraph.

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

During the Segregated Account Rehabilitation Proceedings, the rehabilitator of the Segregated Account has the authority to control the management of the Segregated Account. Ambac Assurance will provide certain management and administrative services to the Segregated Account and the rehabilitator pursuant to a Management Services Agreement (the "Management Services Agreement"), including information technology services, credit exposure management, treasury, accounting, tax, management information, risk management, loss management, internal audit services and business continuity services. Services will be provided at cost, subject to mutual agreement of the Segregated Account and Ambac Assurance. Either party may terminate the Management Services Agreement for cause upon 120 days written notice (or such shorter period as the rehabilitator may determine) and the Segregated Account may terminate without cause at any time upon at least 30 days prior notice. If the Segregated Account elects to terminate the Management Services Agreement, Ambac Assurance will not have the right to consent to the replacement services provider.

Ambac Assurance and the Segregated Account have also entered into a Cooperation Agreement (the "Cooperation Agreement"), pursuant to which the parties have agreed to certain matters related to decision-making, information sharing, tax compliance and allocation of expenses (including an agreement by Ambac Assurance to reimburse the Segregated Account for specified expenses to the extent not reimbursed under the Secured Note, subject to the Minimum Surplus Amount). Ambac Assurance has made certain covenants to the Segregated Account, including an agreement to not enter into any transaction involving more than \$5,000,000 (or such higher amount as is agreed with the rehabilitator) without the Segregated Account's prior consent (other than policy claim payments made in the ordinary course of business and investments in accordance with Ambac Assurance's investment policy), and providing the Segregated Account with an annual budget and projection for Ambac Assurance and its subsidiaries for the forthcoming fiscal year, as well as quarterly updates thereto. The Cooperation Agreement also addresses Ambac Assurance's rights in the event Ambac Assurance is no longer the management and administrative services provider to the Segregated Account as described above.

Accounting Considerations:

- 1) The \$2,000,000,000 secured note due 2050 has been recorded as a liability as borrowed money, including accrued interest payable. The principal balance, including capitalized interest, as of June 30, 2010 is \$1,982,884,800.
- 2) The allocation of insurance policies to the Segregated Account as well as the aggregate excess of loss reinsurance agreement has been recorded as retroactive reinsurance since these contracts were executed in connection with a court-ordered rehabilitation of the Ambac Assurance Segregated Account. Accordingly, the net balances due under these obligations are reported as a net write-in contra-liability.

Settlement Agreement

On June 7, 2010, Ambac Assurance entered into a Settlement Agreement (the "Settlement Agreement") with the counterparties (the "Counterparties") to outstanding credit default swaps with ACP that were guaranteed by Ambac Assurance. Pursuant to the terms of the Settlement Agreement, in exchange for the termination of the Commuted CDO of ABS Obligations (as defined below), Ambac Assurance paid to the Counterparties in the aggregate (i) \$2,600,000,000 in cash and (ii) \$2,000,000,000 in principal amount of newly issued surplus notes of Ambac Assurance (the "Ambac Assurance Surplus Notes"). In addition, effective June 7, 2010, the outstanding credit default swaps with the Counterparties remaining in the General Account of Ambac Assurance have been amended to remove certain events of default and termination events, as set forth in the Settlement Agreement.

Pursuant to the Settlement Agreement, Ambac Assurance has filed an amendment to its articles of incorporation. Under such amendment, at all times after September 30, 2010, at least two members of the board of directors of Ambac Assurance must be Unaffiliated Qualified Directors (as defined in the Settlement Agreement) and, at all times after November 29, 2010, at least one-third (and, in any event, not less than three members) of the board of directors of Ambac Assurance must be Unaffiliated Qualified Directors. If at any time Ambac Assurance does not have the requisite number of Unaffiliated Qualified Directors, Ambac Assurance has agreed to use its commercially reasonable efforts to find additional Unaffiliated Qualified Directors.

The Settlement Agreement includes covenants that remain in force until the Ambac Assurance Surplus Notes have been redeemed, repurchased or repaid in full. These covenants generally restrict the operations of Ambac Assurance and its subsidiaries to runoff activities. Certain of these restrictions may be waived with the approval of a majority of the Unaffiliated Qualified Directors and/or the OCI. However, other restrictions may only be waived with the approval of the holders of a majority of the outstanding Ambac Assurance Surplus Notes (excluding any notes held by Ambac Assurance or its affiliates) that cast a ballot and, in certain cases, with the approval of all of the Counterparties.

Pursuant to a commutation agreement entered into with each of the Counterparties that is a party to credit default swaps written by ACP with respect to certain CDO of ABS obligations and related financial guaranty insurance policies written by Ambac Assurance with respect to ACP's obligations thereunder, Ambac Assurance and ACP have commuted all of such obligations (the "Committed CDO of ABS Obligations"), totaling \$16,542,574,575 of par. In addition to the commutation of the Committed CDO of ABS Obligations, Ambac Assurance has also commuted for \$96,517,985 of cash certain additional obligations, including certain non-CDO of ABS obligations, to the Counterparties with par or notional amounting to \$1,406,543,761. Ambac Assurance commuted another CDO of ABS transaction in an amount equal to its remaining par value of \$90,000,000. It is expected that, subject to certain conditions, certain other non-CDO of ABS obligations with par amounting to a maximum of approximately \$1,400,000,000 will be commuted within the next twelve months for a maximum amount of approximately \$115,000,000 of cash plus surplus notes of Ambac Assurance with a par value of \$60,000,000. Each of the Counterparties, in the aggregate and Ambac Assurance, ACP and Ambac, in the aggregate, have released the other party from any claims relating to any credit default swaps or financial guaranty insurance policies commuted pursuant to the Commutation Agreements. In addition, Ambac Assurance, ACP and Ambac, in the aggregate, and a Counterparty have generally released the other parties from any claims relating to actions taken or omitted to be taken prior to June 7, 2010, subject to certain exceptions.

At June 30, 2010, the Ambac Assurance Surplus Notes are reported with a carrying value of \$2,000,000,000. Interest on the Ambac Assurance Surplus Notes is payable annually at the rate of 5.1% on the unpaid principal balance outstanding. All payments of principal and interest on the Ambac Assurance Surplus Notes are subject to the prior approval of the OCI. If the OCI does not approve the payment of interest on the Ambac Assurance Surplus Notes, such interest will accrue and compound annually until paid. The Ambac Assurance Surplus Notes were issued pursuant to a Fiscal Agency Agreement entered into on June 7, 2010 with The Bank of New York Mellon, as fiscal agent (the "Fiscal Agency Agreement").

Ambac Assurance has entered into call options with certain of the Counterparties pursuant to which, with the prior consent of OCI, Ambac Assurance may repurchase Ambac Assurance Surplus Notes from such Counterparties. As of the date hereof, Ambac Assurance

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has options to call an aggregate of \$940.0 million in principal amount of Ambac Assurance Surplus Notes at a weighted average call price of \$0.22 per \$1.00 face amount. At June 30, 2010, these options have a weighted average maturity of approximately 29 months.

Pursuant to the terms of the Settlement Agreement, on June 7, 2010, Ambac entered into an amendment to the Tax Sharing Agreement (the "Tax Sharing Agreement") with its affiliates. Under the Tax Sharing Agreement, the consolidated net operating losses ("NOL") of the group are treated as an asset of Ambac Assurance and its subsidiaries. Ambac is required to compensate Ambac Assurance on a current basis for use of any portion of that asset, except that Ambac is not required to compensate Ambac Assurance for Ambac's use of NOL in connection with cancellation of debt income associated with restructurings of its debt outstanding as of March 15, 2010.

Ambac UK

Pursuant to the Amended and Restated 1997 Reinsurance Agreement between Ambac UK and Ambac Assurance (the "AUK Reinsurance Agreement"), Ambac Assurance reinsures on a quota share basis 90% of the liabilities under policies issued by Ambac UK, and reinsures on an excess of loss basis Ambac UK policy liabilities in excess of £500,000 per anum. Ambac UK has sent Ambac Assurance notices of termination with respect to the AUK Reinsurance Agreement in which Ambac UK demands payment of unearned premium reserves, loss reserves and loss adjustment expense reserves related to the reinsured policies, less ceding commissions and certain adjustments. Ambac Assurance has not agreed or accepted that the purported termination of the AUK Reinsurance Agreement was valid. Since the notice of termination was delivered, Ambac UK has stopped payment of all premiums collected and due to Ambac Assurance under the AUK Reinsurance Agreement. As of June 30, 2010, Ambac Assurance has receivables of \$20,279,380 related to assumed premiums due prior to June 30, 2010 reported in line 14.1 of Ambac Assurance's Assets and \$17,798,809 of accrued premiums not yet due for collection reported in line 14.2 of Ambac Assurance's Assets. These balances have not been non-admitted as Ambac Assurance has the right to offset the receivable balances against loss reserves when claims are settled.

Pursuant to the Segregated Account Rehabilitation Proceedings, the liabilities of Ambac Assurance under the AUK Reinsurance Agreement have been allocated to the Segregated Account; as such, the rehabilitator of the Segregated Account will determine the actions, if any, to be taken in respect of the AUK Reinsurance Agreement.

Impact of Settlement Agreement and Segregated Account Rehabilitation Proceeding on Ambac

Under the terms of the Settlement Agreement, Ambac Assurance has issued Ambac Assurance Surplus Notes to the Counterparties. In addition, pursuant to the terms of the Segregated Account Rehabilitation Plan, the Segregated Account will issue Segregated Account Surplus Notes (together with the Ambac Assurance Surplus Notes, the "Surplus Notes") to pay a portion of the claims of the Segregated Account. The aggregate par value of the Surplus Notes issued by Ambac Assurance will be substantial. The Surplus Notes rank senior to Ambac's equity investment in Ambac Assurance. There is residual value to Ambac in Ambac Assurance only to the extent that funds remain at Ambac Assurance after the payment of claims under outstanding financial guaranty policies and the redemption, repurchase or repayment in full of the Surplus Notes and Ambac Assurance's auction market preferred shares. The value of Ambac's equity investment in Ambac Assurance is difficult to estimate, and will primarily depend on the performance of Ambac Assurance's insured portfolio (i.e., the ultimate losses therein relative to its claims paying resources), ongoing remediation efforts of Ambac Assurance with respect to policies allocated to the Segregated Account, including those relating to residential mortgage-backed securities, and on other factors, including Ambac Assurance's ability to repurchase Surplus Notes and its auction market preferred shares at less than their face value.

In addition, the rehabilitator of the Segregated Account retains significant decision-making authority with respect to the Segregated Account and has the discretion to oversee and approve certain actions taken by Ambac Assurance in respect of assets and liabilities which remain in Ambac Assurance, and such decisions will be made by the rehabilitator for the benefit of policyholders and the rehabilitator will not take into account the interests of securityholders of Ambac. Actions taken by the rehabilitator could further reduce the equity value of Ambac Assurance.

Tax Treatment of Surplus Notes

It is possible that the Surplus Notes may be characterized as equity of Ambac Assurance for U.S. federal income tax purposes. If the Surplus Notes are characterized as equity of Ambac Assurance and it is determined the Surplus Notes represent more than 20% of the total value of the stock of Ambac Assurance, Ambac Assurance may no longer be characterized as an includable corporation that is affiliated with Ambac. As a result, Ambac Assurance may no longer be characterized as a member of the U.S. federal income tax consolidated group of which Ambac is the common parent (the "Company Consolidated Tax Group") and Ambac Assurance would be required to file a separate consolidated tax return as the common parent of a new U.S. federal income tax consolidated group including Ambac Assurance, as the new common parent, and Ambac Assurance's subsidiaries (the "Ambac Assurance Consolidated Tax Group").

To the extent Ambac Assurance is no longer a member of Ambac Consolidated Tax Group, the Ambac Assurance NOL (and certain other available tax attributes of Ambac Assurance and the other members of the Ambac Assurance Consolidated Tax Group) may no longer be available for use by Ambac or any of the remaining members of Ambac Consolidated Tax Group to reduce the U.S. federal income tax liabilities of Ambac Consolidated Tax Group. This could result in a material increase in future tax liabilities of Ambac Consolidated Tax Group. In addition, certain other benefits resulting from U.S. federal income tax consolidation may no longer be available to Ambac Consolidated Tax Group, including certain favorable rules relating to transactions occurring between members of Ambac Consolidated Tax Group and members of the Ambac Assurance Consolidated Tax Group.

If the Surplus Notes are characterized as equity of Ambac Assurance and it is determined the Surplus Notes represent more than 50% of the total value of the stock of Ambac Assurance, the Ambac Assurance NOL (and certain other tax attributes or tax benefits of the Ambac Assurance Consolidated Tax Group) may be subject to limitation, including the limitation provided by Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"). If Section 382 were applicable with respect to the Ambac Assurance Consolidated Tax Group, in general the Ambac Assurance Consolidated Tax Group annual use of the group's NOL may be limited to an amount equal to the product of (i) the value of the Ambac Assurance Consolidated Tax Group's stock and (ii) the applicable federal long term tax exempt interest rate. However, certain exemptions to the Code Section 382 limitation may be applicable.

Furthermore, to the extent Ambac Assurance is no longer characterized as a member of Ambac Consolidated Tax Group, the Ambac Assurance Consolidated Tax Group may not reconsolidate with Ambac Consolidated Tax Group for a period of five years following

NOTES TO FINANCIAL STATEMENTS

such event, even if Ambac were to be characterized as reacquiring or owning 80% or more of the stock of the Ambac Assurance Consolidated Tax Group following any deconsolidation. In addition, depending upon certain facts related to the potential deconsolidation of the Ambac Assurance Consolidated Tax Group and any reconsolidation with Ambac Consolidated Tax Group, the acquisition by Ambac Consolidated Tax Group of additional value with respect to the stock of the Ambac Assurance Consolidated Tax Group may also result in the imposition of a Code Section 382 limitation with respect to the Ambac Assurance Consolidated Tax Group's NOL reducing or eliminating the potential tax benefit of the NOL to Ambac Consolidated Tax Group.

Note 11 - Debt

- a. On March 24, 2010, the Company has issued a \$2,000,000,000 secured demand note ("Secured Note") to Ambac Assurance Corporation Segregated Account ("Segregated Account") due 2050. Interest on the Secured Note accrues at the rate of 4.5% per annum, and accrued interest will be added to principal quarterly. No interest has been paid during the current year. Amounts due under this Secured Note, including interest thereon, are reported in borrowed money on the statutory balance sheet. See Recent Developments section: Segregated Account in Note 10 for further information.
- b. The Company has no funding agreements with Federal Home Loan Banks (FHLB).

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

No significant change from 2009 Notes to Financial Statements.

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

No significant change from 2009 Notes to Financial Statements.

Note 14 - Contingencies

- a. Since the commencement of the Segregated Account Rehabilitation Proceedings, Ambac Assurance has been named in lawsuits filed by certain policyholders seeking to enjoin Ambac Assurance from entering into the Settlement Agreement discussed above in "Recent Developments" section contained in this Report. Various third parties have filed motions or objections in the rehabilitation court and/or moved to intervene in the rehabilitation proceedings. These challenges can be divided into three groups.

First, several third parties sought to enjoin the consummation of a commutation transaction between the General Account and certain financial institutions that were counterparties to credit-default swaps wrapped by Ambac Assurance (the "CDS Settlement"). Initial challenges to the CDS Settlement were brought by: (a) a group composed of Aurelius Capital Management, LP, Fir Tree, Inc., King Street Capital, L.P., King Street Capital Master Fund Ltd., Monarch Alternative Capital LP, and Stonehill Capital Management LLC and their respective managed funds (the "RMBS Investors"); and (b) certain beneficial holders of the Las Vegas Monorail Project Revenue Bonds (the "LVM Bondholders"). A number of other institutions, including Bank of New York Mellon, U.S. Bank N.A., Deutsche Bank National Trust Co. and Deutsche Bank Trust Co. Americas, in their capacities as trustees of securitization trusts, as well as Federal Home Loan Mortgage Corp., joined these challenges to the CDS Settlement, in whole or in part. On May 27, 2010, the court entered an order denying all challenges to the CDS Settlement, and the CDS Settlement was consummated on June 7, 2010. The RMBS Investors, the LVM Bondholders and Federal Home Loan Mortgage Corp. are appealing from the court's May 27, 2010 order.

Second, a number of third parties have objected to the creation and rehabilitation of the Segregated Account on constitutional, statutory and common law grounds. The first such challenge was filed by Wells Fargo Bank, N.A., in its capacity as trustee for the beneficial owners of the Las Vegas Monorail Project Revenue bonds. The RMBS Investors filed similar challenges, which were denied in the May 27, 2010 order. The LVM Bondholders objected to the allocation of their policies to the Segregated Account. This motion and the motion filed by Wells Fargo were denied in an order entered on July 16, 2010. On August 2, 2010, the LVM Bondholders filed a notice of appeal from this order.

Additional third parties have challenged the creation and rehabilitation of the Segregated Account and/or the allocation of their policies to the Segregated Account, including Deutsche Bank National Trust Co., Deutsche Bank Trust Co. Americas and U.S. Bank National Association, all in their capacities as trustees for securitization trusts, as well as PNC Bank, N.A., as servicer of a securitization trust, and ALL Student Loan Corp., Lloyds TSB Bank plc, Depfa Bank, plc, One State Street LLC, KnowledgeWorks Foundation and the Treasurer of the State of Ohio. These motions are scheduled to be argued on September 9 and 13, 2010.

Third, certain third parties filed motions seeking dissolution or modification of the court's temporary injunction order on constitutional, statutory and common law grounds. These objectors include Bank of America, N.A., Bank of New York Mellon, Deutsche Bank National Trust Co., Deutsche Bank Trust Co. Americas, U.S. Bank National Association, and Wells Fargo Bank, N.A., all in their capacities as trustees for securitization trusts, as well as PNC Bank, N.A., as servicer of a securitization trust, and KnowledgeWorks Foundation, the Treasurer of the State of Ohio, Depfa Bank plc, and One State Street LLC. These motions are scheduled to be argued on September 9 and 13, 2010.

Note 15 - Leases

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

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under the Ambac UK lease with British Land.

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 on exposures allocated to the Segregated Account, at June 30, 2010 was \$58,258,185,828.

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

The Company did not engage in any wash sale transactions during 2010.

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

No significant change from 2009 Notes to Financial Statements.

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

No significant change from 2009 Notes to Financial Statements.

Note 20 - Other Items

No significant change from 2009 Notes to Financial Statements.

Note 21 - Events Subsequent

Pursuant to SSAP 9, Subsequent Events, the date through which subsequent events have been evaluated was August 16, 2010 for the six months ended June 30, 2010, the same date on which the Company's statements are issued. In July 2010, the Segregated Account paid \$65 million and issued \$50 million of Segregated Account Surplus Notes, in connection with a commutation of an insurance policy allocated to the Segregated Account. This commutation will have no impact on total surplus. On July 16, 2010 Ambac completed the sale of its advisory services subsidiary, RangeMark Financial Services, Inc. ("RangeMark") and its subsidiaries, including RangeMark Capital Markets, Inc. and RangeMark Investment Management, Inc., to the management of RangeMark. This sale will have no impact on total surplus.

Note 22 - Reinsurance

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

On March 24, 2010, the Ambac Assurance ceded liabilities to the Segregated Account of \$3,639,973,059 in return for consideration in the form of a secured note in the amount of \$2,000,000,000 resulting in a loss of \$1,639,973,059. Pursuant to the aggregate excess of loss reinsurance agreement, the Segregated Account in turn retroceded \$1,639,973,059 of these liabilities back to Ambac Assurance, resulting in a net gain of \$-0- on the initial allocation of liabilities and retrocession. The liabilities ceded to the Segregated Account include loss, loss adjustment expense reserves and contingency reserves recorded in accordance with Ambac Assurances accounting policies and practices.

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

	Retroactive Reinsurance Ceded to from Ambac Assurance Corporation Segregated Account	Retroactive Reinsurance Assumed from Ambac Assurance Segregated Account	Net Retroactive Reinsurance ceded to Ambac Assurance Corporation Segregated Account
Initial Transfer of Retroactive Reinsurance Assets/(Liabilities)	\$3,639,973,059	\$(1,639,973,059)	\$2,000,000,000
Current Year Retroactive Reinsurance Changes	1,039,813,686	(1,035,777,559)	4,036,127
Retroactive Reinsurance Assets/(Liabilities) as of June 30, 2010	<u>\$4,679,786,745</u>	<u>\$(2,675,750,618)</u>	<u>\$2,004,036,127</u>

	Retroactive Reinsurance Ceded to from Ambac Assurance Corporation Segregated Account	Retroactive Reinsurance Assumed from Ambac Assurance Segregated Account	Impact to Surplus
Retroactive Reinsurance Assets/(Liabilities) as of June 30, 2010	\$4,679,786,745	\$(2,675,750,618)	\$2,004,036,127
Consideration Provided to Ambac Assurance Corporation Segregated Account	(2,000,000,000)	-	(2,000,000,000)

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Current Year Loss and LAE Payments	10,086,484	-	10,086,484
Surplus Impact as of June 30, 2010	\$2,689,873,229	\$(2,675,750,618)	\$ 14,122,611

The Company does not utilize the deposit method to account for any of its reinsurance transactions.

Note 23 - Retrospectively Rated Contracts & Contracts Subject to Redetermination

No significant change from 2009 Notes to Financial Statements.

Note 24 - Change in Incurred Losses and Loss Adjustment Expenses

Loss incurred of \$914.4 million in 2010 is primarily due to \$640.8 million of incurred losses on residential mortgage backed credits. Case basis loss reserves at June 30, 2010 and December 31, 2009 were as follows:

Amounts in \$ millions

	<u>June 30, 2010</u>	<u>December 31, 2009</u>	<u>Change</u>
Mortgage-Backed & Home Equity - Second Lien	\$ 684.6	\$ 235.7	\$ 448.9
Mortgage-Backed & Home Equity - Other	75.6	87.1	(11.5)
Mortgage-Backed & Home Equity - First Lien	796.2	543.7	252.5
Total Mortgage-Backed & Home Equity	1,556.4	866.5	\$689.9
Public Finance	1.5	4.2	(2.7)
Other	264.2	233.8	30.4
Total Case Basis Loss Reserves	\$ 1,822.1	\$ 1,104.5	\$ 717.6
Total Losses Paid for the six months ended June 30, 2010			\$ 196.8
Total Losses Incurred for the six months ended June 30, 2010			\$ 914.4

* June 30, 2010 loss incurred Include \$655.5 of claims that have been presented and not paid.

Ambac Assurance has updated its estimated subrogation recoveries from \$1,882.1 million at December 31, 2009 to \$2,058.1 million at June 30, 2010.

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

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

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Ambac Assurance's estimate of subrogation recoveries includes two components: (1) estimated dollar amounts of loans with material breaches of representations and warranties based on an extrapolation of the breach rate identified in a random sample of loans taken from the entire population of loans in a securitization ("random sample approach") and (2) dollar amount of actual loans with identified material breaches of representations and warranties discovered from samples of impaired loans in a securitization ("adverse sample approach"). We do not include estimates of damages in our estimate of subrogation recoveries under either approach. The amount the sponsors believe to be their liability for these breaches is not known.

The random sample approach to estimate subrogation recoveries was based on obtaining a statistically valid random sample for all the original loans in the pool. First, a "breach rate" was computed by dividing (i) the loans identified in sample as having breached representations and warranties by (ii) the total sample size. Second, an extrapolation to the entire loan pool was performed by multiplying the breach rate by the sum of (a) the current unpaid loan pool balance ("CULPB") plus (b) realized losses resulting from loan liquidations or charge-offs to date, to compute an estimated repurchase obligation. The CULPB includes principal only on non-charged-off and non-liquidated loans, and the realized losses include principal, interest and unreimbursed servicer advances and/or trustee expenses on charged-off and liquidated loans. As a result, the CULPB and realized loss components, which are used in extrapolating the estimated repurchase obligation, do not precisely correspond to each sponsor's contractual repurchase obligation as defined in the transaction documents. Nonetheless, the CULPB and realized loss components are provided through regular trustee reports we receive in the normal course of our surveillance of these transactions and is the best information we have available to estimate the sponsor's repurchase obligation under the random sample approach. Third, a realization factor (which incorporates Ambac Assurance's views about the uncertainties surrounding the settlement negotiation and litigation processes) was then applied to the estimated repurchase obligation to compute the undiscounted subrogation recovery. The realization factor was developed from a range of realization factors using Ambac Assurance's own assumptions about the likelihood of outcomes based on all the information available to it including (i) discussions with external legal counsel and their views on ultimate settlement, (ii) recent experience with loan put back negotiations where the existence of a material breach was debated and negotiated at the loan level, and (iii) the pervasiveness of the breach rates. Finally, a discount factor was applied (using the assumptions discussed in the paragraph subsequent to the next table below) to the undiscounted subrogation recovery to compute the estimated subrogation recovery.

Due to the nature of the sampling methodology used, the subrogation recovery estimate we have recorded based on the above-described random sample approach includes all breached loans which we believe the sponsor is contractually required to repurchase, including extrapolation to a loan pool which includes loans which we do not anticipate defaulting (i.e. performing loans). In theory, a performing loan should have little or no effect on Ambac Assurance's anticipated claim payments, regardless of whether or not the sponsor repurchases the loan. In other words, since there will be sufficient cash flows to service the notes in either situation (i.e. whether cash is received from a sponsor loan repurchase or whether cash is received from the underlying performing loan), there should be no claim payment under Ambac Assurance's insurance policy. Nonetheless, we have recorded a subrogation recovery for certain performing loans because we believe the breaches of representations and warranties are so pervasive that a judicial court would deem it impractical to have the sponsor re-underwrite every loan in a given transaction and repurchase only individual loans that have breached. Rather, we believe there is established precedent for the utilization of a statistical sampling and extrapolation methodology across a population to prove liability and damages where it would be impractical to make a determination on an individual loan basis. We believe the court would likely require a monetary settlement based on a reasonable methodology, such as our random sample approach, and limit such a settlement to Ambac Assurance's ever-to-date paid losses plus the present value of expected future paid losses for each policy. That is, the settlement monies would be either remitted directly to Ambac Assurance, placed in the securitization trust, or otherwise held under an arrangement for the benefit of the securitization trust; however, individual loans would not be repurchased from the trust. In either case those settlement monies would offset past and future Ambac Assurance claim payments. Consequently, since the sponsor is contractually obligated to repurchase those loans which breach representations and warranties regardless of whether they are current or defaulted, we believe the appropriate measure in estimating subrogation recoveries is to apply the breach rate to both performing and defaulted loans.

The adverse sample approach to estimate subrogation recoveries was based on a sample taken from those loans in the pool that were impaired, meaning loans greater than 90 days past due, charged-off, in foreclosure, REO or bankruptcy. The estimated subrogation recovery under this approach represents 100% of the original principal balance of those specific loans identified as having not met the underwriting criteria or otherwise breaching representations and warranties (i.e. the adverse loans), multiplied by a discount factor using the same assumptions used for the discount factor in the random sample approach. For transactions subject to the adverse sample approach, given Ambac Assurance's limitations in developing a statistically valid random sample and its belief that the subrogation estimate under this approach is inherently conservative (for reasons discussed below), Ambac Assurance did not attempt to develop probability-weighted alternative cash flow scenarios as it believes such results would not be meaningful. The three primary differences between this adverse sample approach and the random sample approach, discussed in the previous paragraph, are as follows:

- i. There is no extrapolation to the CULPB and realized losses under the adverse sample approach. At June 30, 2010, the adverse sample approach is used for 14 transactions that are with the same sponsor, who has limited our access to the underlying loan files and, therefore, a statistically valid random sample from the entire loan pool cannot be selected. This is in contrast to the transactions subject to the random sample approach where Ambac Assurance's access to individual loan files has not been limited and the Company, therefore, has been able to develop a statistically valid representative sample.
- ii. The adverse sample approach is only based on the original principal balance rather than the principal balance at the time of default and liquidation or charge-off. Furthermore, it does not include other components of the sponsor's contractual repurchase obligation where the sponsor is also obligated to repay accrued interest, servicer advances and/or trustee expenses. The adverse sample approach relies on individual loan level data where all of the components of the sponsor's buyback obligation have not been specifically provided by the sponsor nor is easily estimable. For example, home equity lines of credit (HELOCs) are revolving loans whose principal balances may be higher or lower at the time of default and liquidation or charge-off than at the time of origination. However, given the limited information available to Ambac Assurance in estimating such principal balances at the time of liquidation or charge-off, the original principal balance must be used in calculating subrogation recoveries. Another example is closed-end second lien RMBS where the interest due on a particular loan will be a function of the length of time of delinquency prior to liquidation or charge-off, and cannot be readily estimated. Incremental costs, including fees and servicer advances for such items as property taxes and maintenance, are likewise not readily estimated.
- iii. Unlike the random sample approach, for the adverse sample approach Ambac Assurance did not apply a realization factor to the estimated repurchase obligation for the adverse loans related to uncertainties surrounding settlement negotiation or litigation processes given that the adverse loans selected represent only approximately 35% of the value of the impaired population of loans, only approximately 4% of the value of the original loans in the pool and the breach rate in the sample was pervasive. In other words, because the adverse loans selected represent only a fraction of the population of impaired loans and a very small proportion of the original loans in the pools, Ambac Assurance believes there is an ample population

NOTES TO FINANCIAL STATEMENTS

of additional impaired loans where breaches of representations and warranties exist that could potentially replace any adverse loans it already identified that might be successfully challenged in negotiations or litigation.

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

We have performed the above-mentioned, detailed examinations on a variety of second-lien transactions and five first-lien transactions that have experienced exceptionally poor performance. However, the loan file examinations and related estimated recoveries we have reviewed and recorded to date have been limited to only those transactions whose sponsors (or their successors) are subsidiaries of large financial institutions, all of which carry an investment grade rating from at least one nationally recognized rating agency. A total of seven sponsors represent the 26 transactions which have been reviewed as of June 30, 2010. While our contractual recourse is generally to the sponsor/subsidiary, rather than to the financial institutional parent, each of these financial institutions has significant financial resources and an ongoing interest in mortgage finance, and we therefore believe that the financial institution/parent would not seek to disclaim financial responsibility for these obligations if the sponsor/subsidiary is unable to honor its contractual obligations or pay a judgement that we may obtain in litigation. Additionally, in the case of successor institutions, we are not aware of any provisions that explicitly preclude or limit the successors' obligations to honor the obligations of the original sponsor. As a result, we did not make any significant adjustments to our estimated subrogation recoveries with respect to the credit risk of these sponsors (or their successors). We believe that focusing our loan remediation efforts on large financial institutions first will provide the greatest economic benefit to Ambac Assurance. Ambac Assurance retains the right to review all RMBS transactions for representations and warranties breaches. Since a significant number of other second-lien and first-lien transactions are also experiencing poor performance, management is considering expanding the scope of this effort.

Note 25 - Intercompany Pooling Arrangements

No significant change from 2009 Notes to Financial Statements.

Note 26 - Structured Settlements

No significant change from 2009 Notes to Financial Statements.

Note 27 - Health Care Receivables

No significant change from 2009 Notes to Financial Statements.

Note 28 - Participating Policies

No significant change from 2009 Notes to Financial Statements.

Note 29 - Premium Deficiency Reserves

No significant change from 2009 Notes to Financial Statements.

Note 30 - High Deductibles

No significant change from 2009 Notes to Financial Statements.

Note 31 - Discounting of Liabilities for Unpaid Losses or Unpaid Loss Adjustment Expenses

No significant change from 2009 Notes to Financial Statements.

Note 32 - Asbestos/Environmental Reserves

No significant change from 2009 Notes to Financial Statements.

Note 33 - Subscriber Savings Accounts

No significant change from 2009 Notes to Financial Statements.

Note 34 - Multiple Peril Crop Insurance

No significant change from 2009 Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

Note 35 - Financial Guaranty Insurance

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

One of two approaches is utilized to estimate expected losses to ultimately determine if a loss reserve should be established. The first approach is a statistical expected loss approach, which considers the likelihood of all possible outcomes. The statistical expected loss is the product of: (i) the net par outstanding on the credit; (ii) internally developed historical default information (taking into consideration internal ratings and average life of an obligation); (iii) internally developed loss severities; and (iv) a discount factor. The loss severities and default information are based on rating agency information, are specific to each bond type and are established and approved by Ambac Assurance's senior management. For certain credit exposures, Ambac Assurance's additional monitoring and loss remediation efforts may provide information relevant to adjust this estimate of statistical expected losses. As such, loss severities used in estimating the statistical expected losses may be adjusted based on the professional judgment of the surveillance analyst monitoring the credit with the approval of senior management. Analysts may accept the "base case" statistical expected loss as the best estimate of expected loss or determine an adjusted statistical expected loss that better reflects a given transaction's potential severity.

The second approach entails the use of more precise estimates of expected net cash outflows (future claim payments, net of potential recoveries, expected to be paid to the holder of the insured financial obligation). This approach can include the utilization of market accepted software tools to develop net claim payment estimates. We have utilized such tools for residential mortgage-backed exposures as well as certain other types of exposures. These tools, in conjunction with detailed data of the historical performance of the collateral pools, assist Ambac Assurance in the determination of certain assumptions, such as default and voluntary prepayment rates, which are needed in order to estimate expected future net claim payments. For certain policies, estimated potential recoveries exceed estimated future claim payments because all or a portion of such recoveries relate to claims previously paid.

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

Case basis loss reserves are established for losses on guaranteed obligations that have already defaulted. All credits are assigned risk classifications by the Surveillance Group using the following guidelines:

CLASS I – "Fully Performing – Meets Ambac Assurance Criteria with Remote Probability of Claim"

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

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

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

CLASS IA – "Potential Problem with Risks to be Dimensioned"

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

CLASS II – "Substandard Requiring Intervention"

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

NOTES TO FINANCIAL STATEMENTS**CLASS III – “Doubtful with Clear Potential for Loss”**

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

CLASS IV – “Imminent Default or Defaulted”

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

CLASS V – “Fully Reserved”

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

Below is the losses and loss adjustment expense roll-forward, net of subrogation recoverable and reinsurance for the period ended June 30, 2010:

(\$ in Thousands)	Six Months Ended June 30, 2010
Losses and Loss Adjustment Expenses at December 31, 2009, net of subrogation recoverable and net of reinsurance	\$ <u>1,136,984.0</u>
Change in loss reserves due to:	
Credits added	\$ 607,828.8
Change in existing credit	668,531.4
Change in subrogation recoveries	(175,978.6)
Claim payments, net of subrogation received and reinsurance	<u>(214,997.8)</u>
Net change in loss reserve	<u>885,383.8</u>
Loss and Loss Adjustment Expenses at June 30, 2010, net of subrogation recoverable and net of reinsurance	\$ <u>2,022,367.8</u>

* Includes \$655,468.4 of claims that have been presented and not paid as of June 30, 2010

(\$ in thousand)	IV	V	Total
Number of Policies	119	1	120
Remaining weighted-average contract period (in years)	7	1	7
Gross insured contractual payments outstanding:			
Principal	\$ 14,161,153	\$ 47	\$ 14,161,200
Interest	3,192,660	27	3,192,687
Total	<u>\$ 17,353,813</u>	<u>\$ 74</u>	<u>\$ 17,353,887</u>
Gross claim liability	\$ 6,148,963	\$ 74	\$ 6,149,037
Less:			
Gross potential recoveries	(3,350,678)	-	(3,350,678)
Discount	(952,012)	(25)	(952,037)
Claim liability reported in the balance sheet (excl. reinsurance)	<u>\$ 1,846,274</u>	<u>\$ 48</u>	<u>\$ 1,480,607</u>
Gross unearned premium revenue	\$ 14,280	\$ -	\$ 14,280
Reinsurance recoverable reported in the balance sheet	\$ (24,145)	\$ -	\$ (24,145)

* Excludes \$211,358 gross of reinsurance and \$200,190 net of reinsurance, of loss adjustment expense reserves

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

GENERAL

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

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

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

2.2 If yes, date of change: 6/7/2010.....

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

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

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

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

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

6.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/2006.....

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

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

6.4 By what department or departments?
Wisconsin

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

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

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

7.2 If yes, give full information:

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

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

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

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

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 OTS	6 FDIC	7 SEC
Rangemark Capital Markets, Inc.	New York, NY	NO	NO	NO	NO	YES
RangeMark Investment Management, Inc	New York, NY	NO	NO	NO	NO	YES

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

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

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

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

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

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

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

GENERAL

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

FINANCIAL

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

10.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: \$.....2,425,932

INVESTMENT

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

11.2 If yes, give full and complete information relating thereto:
The Company loaned securities with a carrying value of \$125,413,224 to Ambac Financial Services, LLC pursuant to a revolving credit facility approved by the Wisconsin Insurance Commissioner. There is no collateral for the loan.

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

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

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

14.2 If yes, please complete the following:

	1 Prior Year-End Book/Adjusted Carrying Value	2 Current Quarter Book/Adjusted Carrying Value
14.21 Bonds.....	\$0	\$0
14.22 Preferred Stock.....	\$0	\$0
14.23 Common Stock.....	\$341,474,654	\$511,056,509
14.24 Short-Term Investments.....	\$0	\$0
14.25 Mortgage Loans on Real Estate.....	\$0	\$0
14.26 All Other.....	\$242,965	\$0
14.27 Total Investment in Parent, Subsidiaries and Affiliates (Subtotal Lines 14.21 to 14.26).....	\$341,717,619	\$511,056,509
14.28 Total Investment in Parent included in Lines 14.21 to 14.26 above.....	\$0	\$0

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

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

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

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

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

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

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

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

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

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

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

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

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

17.2 If no, list exceptions:

GENERAL INTERROGATORIES (continued)

PART 2

PROPERTY & CASUALTY INTERROGATORIES

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

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

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

3.2 If yes, give full and complete information thereto:

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

4.2 If yes, complete the following schedule:

1 Line of Business	2 Maximum Interest	3 Disc. Rate	Total Discount				Discount Taken During Period			
			4 Unpaid Losses	5 Unpaid LAE	6 IBNR	7 Total	8 Unpaid Losses	9 Unpaid LAE	10 IBNR	11 Total
	.....	.....5.100 %	..935,725,534	.....	.....	..935,725,534	...(68,416,378)	.....	.....	...(68,416,378)
Total.....	.....XXX...	.....XXX.....	..935,725,534	.....0	.....0	..935,725,534	...(68,416,378)	.....0	.....0	...(68,416,378)

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 Location	5 Is Insurer Authorized? (YES or NO)
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NONE

SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN

Current Year to Date - Allocated by States and Territories

	1	Direct Premiums Written		Direct Losses Paid (Deducting Salvage)		Direct Losses Unpaid	
		2	3	4	5	6	7
States, Etc.	Active Status	Current Year to Date	Prior Year to Date	Current Year to Date	Prior Year to Date	Current Year to Date	Prior Year to Date
1. Alabama.....AL	L	119,548	147,951				
2. Alaska.....AK	L						
3. Arizona.....AZ	L	19,834	1,036,253				
4. Arkansas.....AR	L	525,755	1,969,270				
5. California.....CA	L	6,417,545	10,413,515	40,266,496	146,136,496	365,879,311	399,459,898
6. Colorado.....CO	L	2,143,026	2,245,049				
7. Connecticut.....CT	L	1,348,691	6,494,346				
8. Delaware.....DE	L	3,744,323	5,114,829	23,800,514	42,587,796	(2,293,815)	16,321,644
9. District of Columbia.....DC	L						
10. Florida.....FL	L	364,159	489,239	8,881,285		(9,910,064)	
11. Georgia.....GA	L	503,030	202,925				
12. Hawaii.....HI	L	1,023,769	1,024,052				
13. Idaho.....ID	L	102	224				
14. Illinois.....IL	L	7,993,178	8,992,887	24,412,142	96,077,372	(14,294,976)	63,332,351
15. Indiana.....IN	L	197,123	439,611				
16. Iowa.....IA	L	61,332	185,408				
17. Kansas.....KS	L	257,465	252,483	3,756		606,855	
18. Kentucky.....KY	L	181,277	201,941		(315)		
19. Louisiana.....LA	L	451,065	704,229				
20. Maine.....ME	L	252,513	294,135				
21. Maryland.....MD	L	910,806	983,850	3,400,775	2,776,198	184,144,473	23,141,211
22. Massachusetts.....MA	L	5,826,917	6,199,494	1,429,156	13,168,309	175,984,761	73,631,789
23. Michigan.....MI	L	436,423	156,069		3,925	23,466,407	
24. Minnesota.....MN	L	6,628,913	7,594,082	7,334,288	28,591,665	134,928,122	113,391,666
25. Mississippi.....MS	L						
26. Missouri.....MO	L	1,698,531	1,968,027				
27. Montana.....MT	L	242,790	364,185				
28. Nebraska.....NE	L						
29. Nevada.....NV	L	285,312	297,251		3,767,799	458,973	6,027,976
30. New Hampshire.....NH	L	(3,657)	108,147				
31. New Jersey.....NJ	L	261,835	324,003	4,104,843		768,916	
32. New Mexico.....NM	L	279,120	281,436				
33. New York.....NY	L	68,458,079	94,352,321	92,575,079	376,823,057	233,800,848	541,822,240
34. North Carolina.....NC	L	851,054	1,792,679				
35. North Dakota.....ND	L	7,200	7,201				
36. Ohio.....OH	L	567,581	752,808			733,416	
37. Oklahoma.....OK	L						
38. Oregon.....OR	L	11,079	11,383				
39. Pennsylvania.....PA	L	480,278	996,783	(2,884,743)	30,340,000	(24,096,247)	(14,669,628)
40. Rhode Island.....RI	L	926,400	1,000,365				
41. South Carolina.....SC	L	313,255	369,397				
42. South Dakota.....SD	L						
43. Tennessee.....TN	L	12,316	13,976				
44. Texas.....TX	L	2,120,402	2,154,665				
45. Utah.....UT	L		30,085				
46. Vermont.....VT	L	124,495					
47. Virginia.....VA	L	305,086	305,779				
48. Washington.....WA	L	386,161	388,977				
49. West Virginia.....WV	L		81,250				
50. Wisconsin.....WI	L	4,995	5,316				
51. Wyoming.....WY	L						
52. American Samoa.....AS	N						
53. Guam.....GU	L						
54. Puerto Rico.....PR	L						
55. US Virgin Islands.....VI	L						
56. Northern Mariana Islands.....MP	N						
57. Canada.....CN	N						
58. Aggregate Other Alien.....OT	XXX	20,554,543	14,281,917	0	0	0	0
59. Totals.....	(a).....54	137,293,649	175,029,793	203,323,591	740,272,302	1,070,176,980	1,222,459,147

DETAILS OF WRITE-INS

5801. Cayman Islands.....	XXX	4,799,215	11,973,759				
5802. Australia.....	XXX	1,974,801	1,759,740				
5803. Bermuda.....	XXX		510,377				
5898. Summary of remaining write-ins for Line 58 from overflow page.....	XXX	13,780,527	38,041	0	0	0	0
5899. Totals (Lines 5801 thru 5803 + Line 5898) (Line 58 above).....	XXX	20,554,543	14,281,917	0	0	0	0

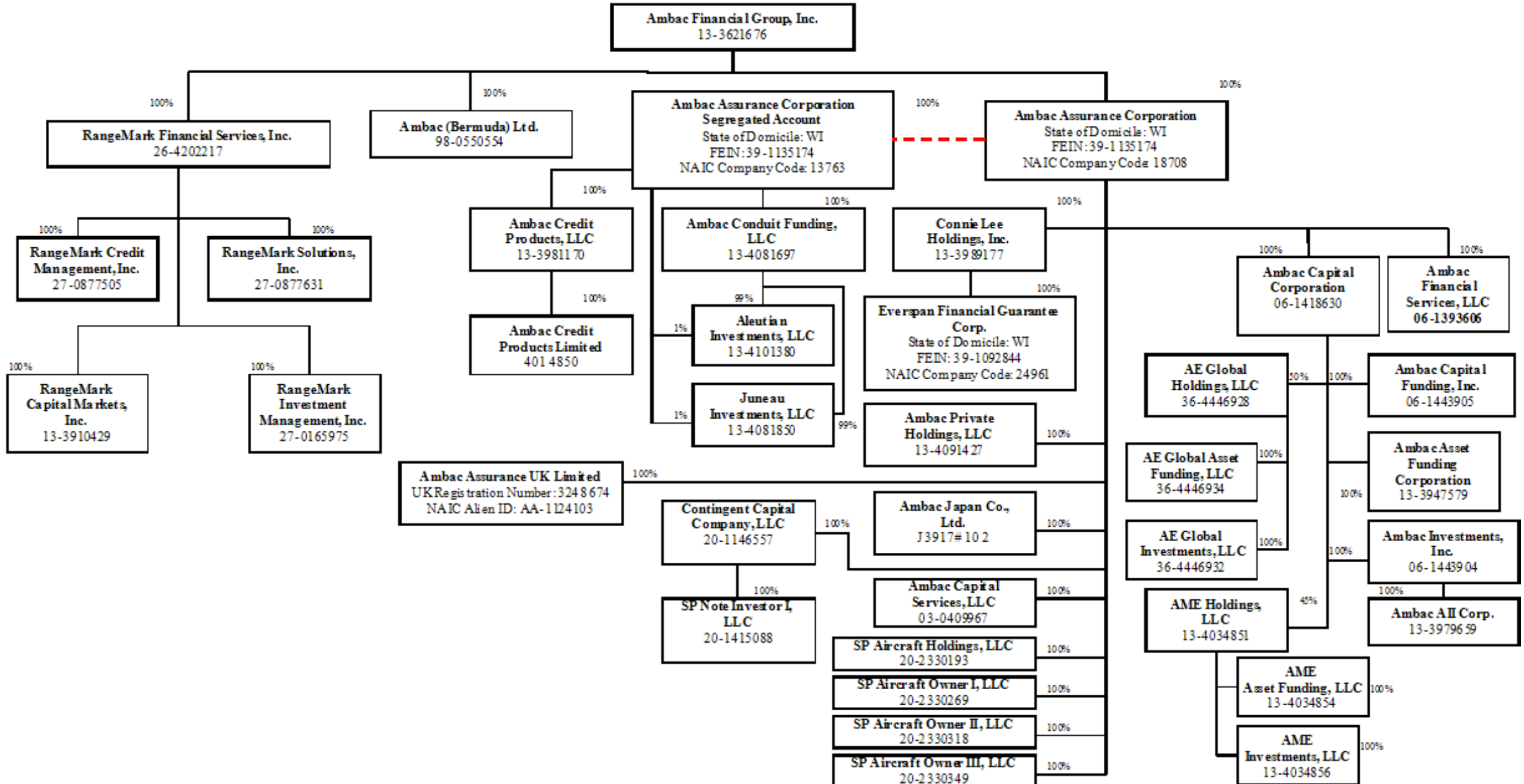
(L) - Licensed or Chartered - Licensed Insurance Carrier or Domiciled RRG; (R) - Registered - Non-domiciled RRGs; (Q) - Qualified - Qualified or Accredited Reinsurer; (E) - Eligible - Reporting Entities eligible or approved to write Surplus Lines in the state; (N) - None of the above - Not allowed to write business in the state.

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

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

PART 1 – ORGANIZATIONAL CHART

Q11



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

PART 1 – ORGANIZATIONAL CHART

Q11.1

PART 1 - LOSS EXPERIENCE

Lines of Business	Current Year to Date			4 Prior Year to Date Direct Loss Percentage
	1 Direct Premiums Earned	2 Direct Losses Incurred	3 Direct Loss Percentage	
1. Fire.....			0.0	
2. Allied lines.....			0.0	
3. Farmowners multiple peril.....			0.0	
4. Homeowners multiple peril.....			0.0	
5. Commercial multiple peril.....			0.0	
6. Mortgage guaranty.....			0.0	
8. Ocean marine.....			0.0	
9. Inland marine.....			0.0	
10. Financial guaranty.....	288,401,487	884,077,995	306.5	271.3
11.1. Medical professional liability - occurrence.....			0.0	
11.2. Medical professional liability - claims-made.....			0.0	
12. Earthquake.....			0.0	
13. Group accident and health.....			0.0	
14. Credit accident and health.....			0.0	
15. Other accident and health.....			0.0	
16. Workers' compensation.....			0.0	
17.1. Other liability-occurrence.....			0.0	
17.2. Other liability-claims made.....			0.0	
17.3. Excess workers' compensation.....			0.0	
18.1. Products liability-occurrence.....			0.0	
18.2. Products liability-claims made.....			0.0	
19.1, 19.2. Private passenger auto liability.....			0.0	
19.3, 19.4. Commercial auto liability.....			0.0	
21. Auto physical damage.....			0.0	
22. Aircraft (all perils).....			0.0	
23. Fidelity.....			0.0	
24. Surety.....	2,239,473		0.0	
26. Burglary and theft.....			0.0	
27. Boiler and machinery.....			0.0	
28. Credit.....			0.0	
29. International.....			0.0	
30. Warranty.....			0.0	
31. Reinsurance-nonproportional assumed property.....	XXX	XXX	XXX	XXX
32. Reinsurance-nonproportional assumed liability.....	XXX	XXX	XXX	XXX
33. Reinsurance-nonproportional assumed financial lines.....	XXX	XXX	XXX	XXX
34. Aggregate write-ins for other lines of business.....	0	0	0.0	
35. Totals.....	290,640,960	884,077,995	304.2	269.7

DETAILS OF WRITE-INS

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

PART 2 - DIRECT PREMIUMS WRITTEN

Lines of Business	1	2	3
	Current Quarter	Current Year to Date	Prior Year Year to Date
1. Fire.....			
2. Allied lines.....			
3. Farmowners multiple peril.....			
4. Homeowners multiple peril.....			
5. Commercial multiple peril.....			
6. Mortgage guaranty.....			
8. Ocean marine.....			
9. Inland marine.....			
10. Financial guaranty.....	72,746,679	137,254,089	174,990,233
11.1. Medical professional liability - occurrence.....			
11.2. Medical professional liability - claims made.....			
12. Earthquake.....			
13. Group accident and health.....			
14. Credit accident and health.....			
15. Other accident and health.....			
16. Workers' compensation.....			
17.1. Other liability-occurrence.....			
17.2. Other liability-claims made.....			
17.3. Excess workers' compensation.....			
18.1. Products liability-occurrence.....			
18.2. Products liability-claims made.....			
19.1, 19.2. Private passenger auto liability.....			
19.3, 19.4. Commercial auto liability.....			
21. Auto physical damage.....			
22. Aircraft (all perils).....			
23. Fidelity.....			
24. Surety.....	19,780	39,560	39,560
26. Burglary and theft.....			
27. Boiler and machinery.....			
28. Credit.....			
29. International.....			
30. Warranty.....			
31. Reinsurance-nonproportional assumed property.....	XXX	XXX	XXX
32. Reinsurance-nonproportional assumed liability.....	XXX	XXX	XXX
33. Reinsurance-nonproportional assumed financial lines.....	XXX	XXX	XXX
34. Aggregate write-ins for other lines of business.....	0	0	0
35. Totals.....	72,766,459	137,293,649	175,029,793

DETAILS OF WRITE-INS

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

PART 3 (000 omitted)

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES SCHEDULE

	1	2	3	4	5	6	7	8	9	10	11	12	13
Years in Which Losses Occurred	Prior Year-End Known Case Loss and LAE Reserves	Prior Year-End IBNR Loss and LAE Reserves	Total Prior Year-End Loss and LAE Reserves (Cols. 1 + 2)	2010 Loss and LAE Payments on Claims Reported as of Prior Year-End	2010 Loss and LAE Payments on Claims Unreported as of Prior Year-End	Total 2010 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. 2007 + Prior.....	(73,670)		(73,670)	11,995		11,995	(11,183)			(11,183)	74,482	0	74,482
2. 2008.....	132,404		132,404	94,222		94,222	378,903			378,903	340,721	0	340,721
3. Subtotals 2008 + Prior.....	58,734	0	58,734	106,217	0	106,217	367,720	0	0	367,720	415,203	0	415,203
4. 2009.....	1,078,249		1,078,249	96,840		96,840	1,055,176			1,055,176	73,767	0	73,767
5. Subtotals 2009 + Prior.....	1,136,983	0	1,136,983	203,057	0	203,057	1,422,896	0	0	1,422,896	488,970	0	488,970
6. 2010.....	XXX	XXX	XXX	XXX	11,931	11,931	XXX	599,472		599,472	XXX	XXX	XXX
7. Totals.....	1,136,983	0	1,136,983	203,057	11,931	214,988	1,422,896	599,472	0	2,022,368	488,970	0	488,970
8. Prior Year-End's Surplus As Regards Policyholders	801,869										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
											1.43.0 %	2.0.0 %	3.43.0 %
													Col. 13, Line 7 Line 8
													4.61.0 %

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SUPPLEMENTAL EXHIBITS AND SCHEDULES INTERROGATORIES

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

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

Explanation:

- 1.
- 2.
- 3.

Bar Code:



Overflow Page for Write-Ins

Additional Write-ins for Liabilities:

	1 Current Statement Date	2 December 31, Prior Year
2404. Unapplied premium liability.....	82,096	202,768
2405. Retroactive reinsurance reserves ceded to Ambac Assurance Corporation Segregated Account.....	(4,679,786,745)	
2406. Retroactive reinsurance reserves assumed from Ambac Assurance Corporation Segregated Account.....	2,675,750,618	
2407. Liabilities from Ambac Assurance Corporation Segregated Account.....	2,005,230,625	
2497. Summary of remaining write-ins for Line 24.....	1,276,594	202,768

Additional Write-ins for Statement of Income:

	1 Current Year to Date	2 Prior Year to Date	3 Prior Year Ended December 31
1404. Change in retroactive reinsurance reserves assumed from Ambac Assurance Corp Segregated Account.....	(2,675,750,618)		
1497. Summary of remaining write-ins for Line 14.....	(2,675,750,618)	.0	.0

Additional Write-ins for Schedule T:

	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
States, Etc.							
5804. New Zealand.....	XXX	46,245	38,041				
5805. Chile.....	XXX	13,734,282					
5897. Summary of remaining write-ins for Line 58 from overflow.....	XXX	13,780,527	38,041	0	0	0	0

SCHEDULE A - VERIFICATION

Real Estate

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

NONE

SCHEDULE B - VERIFICATION

Mortgage Loans

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

NONE

SCHEDULE BA - VERIFICATION

Other Long-Term Invested Assets

	1 Year to Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year.....	11,052,550	87,346,288
2. Cost of acquired:		
2.1 Actual cost at time of acquisition.....	24,254,020	8,707,902
2.2 Additional investment made after acquisition.....	4,621	157,286,867
3. Capitalized deferred interest and other.....		
4. Accrual of discount.....		
5. Unrealized valuation increase (decrease).....	3,930,562	(85,684,869)
6. Total gain (loss) on disposals.....	(23,788,947)	97,849
7. Deduct amounts received on disposals.....	121,011	156,701,487
8. Deduct amortization of premium and depreciation.....		
9. Total foreign exchange change in book/adjusted carrying value.....	(554,491)	
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).....	14,777,304	11,052,550
12. Deduct total nonadmitted amounts.....	6,860,997	2,121,232
13. Statement value at end of current period (Line 11 minus Line 12).....	7,916,307	8,931,318

SCHEDULE D - VERIFICATION

Bonds and Stocks

	1 Year to Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value of bonds and stocks, December 31 of prior year.....	6,536,957,415	8,031,425,062
2. Cost of bonds and stocks acquired.....	554,987,388	1,795,515,626
3. Accrual of discount.....	98,715,240	218,817,390
4. Unrealized valuation increase (decrease).....	206,495,534	82,417,561
5. Total gain (loss) on disposals.....	70,687,657	88,262,547
6. Deduct consideration for bonds and stocks disposed of.....	2,497,888,093	2,385,258,294
7. Deduct amortization of premium.....	27,926,755	33,803,153
8. Total foreign exchange change in book/adjusted carrying value.....	(18,081,896)	22,779,236
9. Deduct current year's other than temporary impairment recognized.....	153,115,333	1,283,198,560
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9).....	4,770,831,157	6,536,957,415
11. Deduct total nonadmitted amounts.....	157,682	156,458
12. Statement value at end of current period (Line 10 minus Line 11).....	4,770,673,475	6,536,800,957

SCHEDULE D - PART 1B

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

	1	2	3	4	5	6	7	8
	Book/Adjusted Carrying Value Beginning of Current Quarter	Acquisitions During Current Quarter	Dispositions During Current Quarter	Non-Trading Activity During Current Quarter	Book/Adjusted Carrying Value End of First Quarter	Book/Adjusted Carrying Value End of Second Quarter	Book/Adjusted Carrying Value End of Third Quarter	Book/Adjusted Carrying Value December 31 Prior Year
BONDS								
1. Class 1 (a).....	6,892,746,481	9,214,798,592	12,244,680,624	30,577,721	6,892,746,481	3,893,442,170		6,042,239,611
2. Class 2 (a).....	657,418,552	3,907,756	29,874,415	(28,245,722)	657,418,552	603,206,171		690,559,813
3. Class 3 (a).....	17,876,134		2,460,532	859,984	17,876,134	16,275,586		48,505,263
4. Class 4 (a).....								
5. Class 5 (a).....	638,341			(638,341)	638,341			4,275,004
6. Class 6 (a).....	52,573,281		4,712,485	2,925,922	52,573,281	50,786,718		29,003,597
7. Total Bonds.....	7,621,252,789	9,218,706,348	12,281,728,056	5,479,564	7,621,252,789	4,563,710,645	0	6,814,583,288
PREFERRED STOCK								
8. Class 1.....								
9. Class 2.....								
10. Class 3.....								
11. Class 4.....								
12. Class 5.....								
13. Class 6.....								
14. Total Preferred Stock.....	0	0	0	0	0	0	0	0
15. Total Bonds and Preferred Stock.....	7,621,252,789	9,218,706,348	12,281,728,056	5,479,564	7,621,252,789	4,563,710,645	0	6,814,583,288

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(a) Book/Adjusted Carrying Value column for the end of the current reporting period includes the following amount of non-rated short-term and cash equivalent bonds by NAIC designation:
NAIC 1 \$.....303,935,998; NAIC 2 \$.....0; NAIC 3 \$.....0; NAIC 4 \$.....0; NAIC 5 \$.....0; NAIC 6 \$.....0.

SCHEDULE DA - PART 1

Short-Term Investments

	1 Book/Adjusted Carrying Value	2 Par Value	3 Actual Cost	4 Interest Collected Year To Date	5 Paid for Accrued Interest Year To Date
9199999. Totals.....	303,935,998	XXX	303,982,108	119,022	

SCHEDULE DA - VERIFICATION

Short-Term Investments

	1 Year to Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year.....	619,100,527	1,163,645,364
2. Cost of short-term investments acquired.....	7,336,055,744	10,404,435,600
3. Accrual of discount.....		254,138
4. Unrealized valuation increase (decrease).....		
5. Total gain (loss) on disposals.....	(462,670)	1,501,908
6. Deduct consideration received on disposals.....	7,651,051,055	10,951,581,190
7. Deduct amortization of premium.....	82	111,663
8. Total foreign exchange change in book/adjusted carrying value.....	293,534	956,370
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).....	303,935,998	619,100,527
11. Deduct total nonadmitted amounts.....		
12. Statement value at end of current period (Line 10 minus Line 11).....	303,935,998	619,100,527

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

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

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

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

**Sch. DB-Verification
NONE**

SCHEDULE E- VERIFICATION

Cash Equivalents

	1 Year to Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year.....	0	8,000,000
2. Cost of cash equivalents acquired.....	5,879,659,643	40,001,003
3. Accrual of discount.....	340,357	726,643
4. Unrealized valuation increase (decrease).....		
5. Total gain (loss) on disposals.....		466,684
6. Deduct consideration received on disposals.....	5,880,000,000	49,194,330
7. Deduct amortization of premium.....		
8. Total foreign exchange change in book/ adjusted carrying value.....		
9. Deduct current year's other than temporary impairment recognized.....		
10. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5-6-7+8-9).....	0	0
11. Deduct total nonadmitted amounts.....		
12. Statement value at end of current period (Line 10 minus Line 11).....	0	0

Sch. A-Pt 2
NONE

Sch. A-Pt 3
NONE

Sch. B-Pt 2
NONE

Sch. B-Pt 3
NONE

SCHEDULE BA - PART 2

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

1 CUSIP Identification	2 Name or Description	Location		5 Name of Vendor or General Partner	6 NAIC Desig- nation	7 Date Originally Acquired	8 Type and Strategy	9 Actual Cost at Time of Acquisition	10 Additional Investment Made After Acquisition	11 Amount of Encumbrances	12 Commitment for Additional Investment	13 Percentage of Ownership
		3 City	4 State									
Joint Venture or Partnership Interests That Have Underlying Characteristics of Other - Affiliated												
	Contingent Capital Company, LLC.....	New York.....	NY.....	Ambac Financial Group, Inc.....		06/14/2010....		5,561,637				100.0
	Ambac Financial Services, LLC.....	New York.....	NY.....	Direct.....		04/06/1994....			4,621			100.0
2099999. Total - Joint Venture or Partnership Interests That Have Underlying Characteristics of Other - Affiliated.....								5,561,637	4,621	.0	0	.XXX
4099999. Subtotal - Affiliated.....								5,561,637	4,621	.0	0	.XXX
4199999. Totals.....								5,561,637	4,621	.0	0	.XXX

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 City	4 State					9 Unrealized Valuation Increase (Decrease)	10 Current Year's (Depreciation) or (Amortization)/ Accretion	11 Current Year's Other Than Temporary Impairment Recognized	12 Capitalized Deferred Interest and Other	13 Total Change in B./A.C.V. (9+10-11+12)							14 Total Foreign Exchange Change in B./A.C.V.	
Non-Collateral Loans - Affiliated																				
	Exchequer Partnership Finance.....	London.....	UK...	Direct.....	09/30/2009	06/30/2010						0	(121,320)		121,011		1,305	1,305		
2699999. Total - Non-Collateral Loans - Affiliated.....								0	0	0	0	0	(121,320)	0	121,011	0	1,305	1,305	0	
Any Other Class of Asset - Affiliated																				
	SP Aircraft Holdings, LLC.....							(686,897)					(686,897)					0		
	Ambac Private Holdings, LLC.....							(134,976)					(134,976)					0		
	Ambac Financial Services, LLC.....							(4,621)					(4,621)					0		
3899999. Total - Any Other Class of Asset - Affiliated.....								0	(826,494)	0	0	0	(826,494)	0	0	0	0	0	0	
4099999. Subtotal - Affiliated.....								0	(826,494)	0	0	0	(826,494)	(121,320)	0	121,011	0	1,305	1,305	0
4199999. Totals.....								0	(826,494)	0	0	0	(826,494)	(121,320)	0	121,011	0	1,305	1,305	0

QE03

SCHEDULE D - PART 3

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

1 CUSIP Identification	2 Description	3 Foreign	4 Date Acquired	5 Name of Vendor	6 Number of Shares of Stock	7 Actual Cost	8 Par Value	9 Paid for Accrued Interest and Dividends	10 NAIC Designation or Market Indicator (a)
Bonds - U.S. States, Territories and Possessions									
452152 FW 6	Illinois St General 5.125% 07/01/17		...06/28/2010	Citigroup Global Markets		11,382,800	11,440,000		1FE
452152 FX 4	Illinois St General 5.375% 07/01/18		...06/28/2010	Citigroup Global Markets		10,357,950	10,410,000		1FE
1799999.	Total - Bonds - U.S. States, Territories & Possessions					21,740,750	21,850,000	0	XXX
Bonds - Industrial and Miscellaneous									
073902 PR 3	Bear Stearns Co Inc PRP 6.400% 10/02/17		...05/12/2010	JP Morgan Securities		4,216,045	3,835,000	30,680	1FE
38141G FM 1	Goldman Sachs Group Inc 6.150% 04/01/18		...04/29/2010	Goldman Sachs		3,133,860	3,000,000	16,913	1FE
62875U AA 3	NBC Universal 5.150% 04/30/20		...04/27/2010	JP Morgan Securities		2,146,668	2,150,000		2FE
89417E AC 3	Travelers Cos Inc PRPL 5.750% 12/15/17		...06/10/2010	Wachovia Securities		2,142,660	2,000,000		1FE
94106L AS 8	Waste Management 6.100% 03/15/18		...04/22/2010	RBC Capital Markets		1,761,088	1,600,000	11,386	2FE
3899999.	Total - Bonds - Industrial & Miscellaneous					13,400,321	12,585,000	58,979	XXX
8399997.	Total - Bonds - Part 3					35,141,071	34,435,000	58,979	XXX
8399999.	Total - Bonds					35,141,071	34,435,000	58,979	XXX
Common Stocks - Parent, Subsidiaries and Affiliates									
000000 00 0	Ambac Capital Corporation		...06/30/2010	Direct		31,812	XXX		
9199999.	Total - Common Stocks - Parent, Subsidiaries and Affiliates					31,812	XXX	0	XXX
9799997.	Total - Common Stocks - Part 3					31,812	XXX	0	XXX
9799999.	Total - Common Stocks					31,812	XXX	0	XXX
9899999.	Total - Preferred and Common Stocks					31,812	XXX	0	XXX
9999999.	Total - Bonds, Preferred and Common Stocks					35,172,883	XXX	58,979	XXX

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

QE04

SCHEDULE D - PART 4

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

1 CUSIP Identification	2 Description	3 F o r e i g n	4 Disposal Date	5 Name of Purchaser	6 Number of Shares of Stock	7 Consideration	8 Par Value	9 Actual Cost	10 Prior Year Book/ Adjusted Carrying Value	Change in Book/Adjusted Carrying Value					16 Book/ Adjusted Carrying Value At Disposal Date	17 Foreign Exchange Gain (Loss) on Disposal	18 Realized Gain (Loss) on Disposal	19 Total Gain (Loss) on Disposal	20 Bond Interest/ Stock Dividends Received During Year	21 Maturity Date	22 NAIC Desig- nation or Market Indicator (a)
										11 Unrealized Valuation Increase/ (Decrease)	12 Current Year's (Amortization)/ Accretion	13 Current Year's Other Than Temporary Impairment Recognized	14 Total Change in B./A.C.V. (11+12-13)	15 Total Foreign Exchange Change in B./A.C.V.							

Bonds - U.S. Government

36213C	YP	9	GNMA #550718 5.000% 11/15/35.....	06/01/2010	Paydown.....	8,669	8,669	8,987	8,979		(311)		(311)		8,669			0	79	11/15/2035	1
36241K	VV	7	GNMA #782428 5.000% 10/15/38.....	06/01/2010	Paydown.....	71,888	71,888	74,482	74,428		(2,540)		(2,540)		71,888			0	562	10/15/2038	1
36241K	YZ	5	GNMA #782528 5.000% 01/15/39.....	06/01/2010	Paydown.....	48,092	48,092	49,828	49,792		(1,700)		(1,700)		48,092			0	393	01/15/2039	1
36297A	3U	5	GNMA #706511 5.000% 02/15/39.....	06/01/2010	Paydown.....	48,699	48,699	50,464	50,425		(1,726)		(1,726)		48,699			0	264	02/15/2039	1
912828	KQ	2	US Treasury Note Notes 3.125% 05/15/19..	04/14/2010	Morgan Stanley.....	28,618,359	30,000,000	29,545,313	29,562,120		11,684		11,684		29,573,805		(955,445)	(955,445)	391,057	05/15/2019	1
912828	MP	2	US Treasury Note Notes 3.625% 02/15/20..	04/29/2010	Goldman Sachs.....	1,210,836	1,225,000	1,222,512			1		1		1,222,513		(11,677)	(11,677)	9,568	02/15/2020	1
0399999			Total - Bonds - U.S. Government.....			30,006,543	31,402,348	30,951,586	29,745,744	0	5,408	0	5,408	0	30,973,666	0	(967,122)	(967,122)	401,923	XXX	XXX

Bonds - U.S. States, Territories and Possessions

13067J	MK	4	California St Economic 0.270% 07/01/23.....	05/21/2010	Goldman Sachs.....	25,000,000	25,000,000	25,000,000					0	25,000,000			0	13,925	07/01/2023	1FE	
419780	4N	8	Hawaii State Ser Di 5.000% 03/01/23.....	04/07/2010	Citigroup Global Markets.....	17,499,688	16,425,000	17,360,075	17,049,409		(24,834)		(24,834)	17,024,575		475,113	475,113	93,531	03/01/2023	1FE	
419780	4Q	1	Hawaii State Ser DI 5.000% 03/01/24.....	04/07/2010	Citigroup Global Markets.....	18,885,053	17,825,000	18,839,777	18,502,631		(26,951)		(26,951)	18,475,680		409,373	409,373	101,503	03/01/2024	1FE	
452150	Z3	2	Illinois State First Se 5.000% 08/01/26.....	04/20/2010	Citigroup Global Markets.....	13,597,203	13,590,000	13,623,975	13,596,951		(1,886)		(1,886)	13,595,064		2,139	2,139	154,775	08/01/2026	1FE	
452151	BC	6	Illinois State First Se 5.000% 07/01/27.....	04/20/2010	Merrill Lynch.....	20,011,200	20,000,000	20,084,000	20,026,315		(4,539)		(4,539)	20,021,776		(10,576)	(10,576)	311,111	07/01/2027	1FE	
452151	HB	2	Illinois State Illinois 5.000% 12/01/27.....	04/20/2010	Citigroup Global Markets.....	10,006,700	10,000,000	10,050,000	10,016,915		(1,821)		(1,821)	10,015,095		(8,395)	(8,395)	197,222	12/01/2027	1FE	
641460	U6	5	Nevada St Unref Bal Mun 5.000% 05/15/28.....	04/09/2010	Key Capital Markets.....	2,549,144	2,540,000	2,389,073	2,391,395		1,397		1,397	2,392,792		156,352	156,352	52,564	05/15/2028	1FE	
658256	LD	2	North Carolina St Pub I 5.000% 03/01/22.....	04/20/2010	Goldman Sachs.....	5,397,200	5,000,000	5,188,000	5,069,188		(6,376)		(6,376)	5,062,812		334,388	334,388	36,111	03/01/2022	1FE	
677520	BZ	0	Ohio St Common Schs 5.00% 06/15/25.....	04/07/2010	Merrill Lynch.....	11,840,912	11,230,000	11,732,318	11,630,501		(18,873)		(18,873)	11,611,628		229,284	229,284	182,488	06/15/2025	1FE	
939745	DU	6	Washington St. Adj-Ser 0.260% 06/01/20.....	05/21/2010	Goldman Sachs.....	23,500,000	23,500,000	23,500,000					0	23,500,000				13,360	06/01/2020	1FE	
939745	DU	6	Washington St. Adj-Ser 0.260% 06/01/20.....	06/02/2010	Redemption 100.0000	1,500,000	1,500,000	1,500,000					0	1,500,000				906	06/01/2020	1FE	
1799999			Total - Bonds - U.S. States, Territories & Possessions.....			149,787,100	146,610,000	149,267,218	98,283,305	0	(83,883)	0	(83,883)	0	148,199,422	0	1,587,678	1,587,678	1,157,496	XXX	XXX

Bonds - U.S. Political Subdivisions of States, Territories and Possessions

014393	KM	3	Aldine Tex Indpt Sch Di 4.500% 02/15/22.....	04/08/2010	Merrill Lynch.....	5,551,952	5,320,000	5,378,573	5,364,532		(1,573)		(1,573)	5,362,959		188,993	188,993	38,570	02/15/2022	1FE
033161	UE	8	Anchorage Alaska-Serie 4.500% 09/01/23.....	04/14/2010	Seattle Northwest Securities.....	5,164,050	5,000,000	5,036,800	5,028,324		(915)		(915)	5,027,409		136,641	136,641	30,000	09/01/2023	1FE
167501	R6	4	Chicago Ill Brd Ed 5.500% 12/01/23.....	04/06/2010	Goldman Sachs.....	1,604,453	1,575,000	1,502,521	1,515,558		717		717	1,516,275		88,177	88,177	30,800	12/01/2023	1FE
181059	KB	1	Clark Cnty Nev Sch Dist 5.000% 06/15/20.....	04/06/2010	Barclay's Bank.....	10,785,700	10,000,000	10,109,000	10,105,168		(2,582)		(2,582)	10,102,586		683,114	683,114	158,333	06/15/2020	1FE
181288	KK	6	Clark Cnty Wash Sch Dis 4.500% 12/01/20.....	04/14/2010	Seattle Northwest Securities.....	5,354,523	5,080,000	5,196,281	5,171,414		(2,994)		(2,994)	5,168,419		186,104	186,104	87,630	12/01/2020	1FE
346766	LJ	5	Fort Bend Cnty Tex 5.000% 03/01/26.....	04/08/2010	Citigroup Global Markets.....	6,876,804	6,490,000	6,748,886	6,734,475		(8,229)		(8,229)	6,726,246		150,558	150,558	37,858	03/01/2026	1FE
431621	LK	5	Hilliard Ohio Sch Dist 5.000% 12/01/26.....	04/08/2010	Key Capital Markets.....	5,416,870	5,130,000	5,306,729	5,256,007		(4,514)		(4,514)	5,251,493		165,377	165,377	94,050	12/01/2026	1FE
438670	NE	7	Honolulu Hawaii City & 5.000% 07/01/22.....	04/08/2010	Citigroup Global Markets.....	19,607,625	18,555,000	19,658,651	19,259,573		(33,669)		(33,669)	19,225,903		381,722	381,722	262,863	07/01/2022	1FE
438670	NF	4	Honolulu Hawaii City & 5.000% 07/01/23.....	04/08/2010	Citigroup Global Markets.....	15,090,702	14,320,000	15,137,815	14,842,413		(24,988)		(24,988)	14,817,425		273,277	273,277	202,867	07/01/2023	1FE
442331	KB	9	Houston Tex Ref-Pub 5.000% 03/01/24.....	04/07/2010	Merrill Lynch.....	13,593,003	12,935,000	13,437,913	13,314,175		(14,973)		(14,973)	13,299,202		293,801	293,801	73,658	03/01/2024	1FE
442331	KC	7	Houston Tex Ref-Pub 5.000% 03/01/25.....	04/07/2010	Merrill Lynch.....	14,227,223	13,580,000	14,088,299	13,963,301		(15,121)		(15,121)	13,948,181		279,042	279,042	77,331	03/01/2025	1FE
486063	BL	3	Katy Tex Indpt Sch Dist 4.500% 02/15/23.....	04/09/2010	Merrill Lynch.....	10,399,100	10,000,000	10,142,100	10,108,519		(3,852)		(3,852)	10,104,667		294,433	294,433	73,750	02/15/2023	1FE
486063	BM	1	Katy Tex Indpt Sch Dist 4.500% 02/15/24.....	04/09/2010	Merrill Lynch.....	16,752,122	16,185,000	15,730,849	15,778,212		5,689		5,689	15,783,901		968,221	968,221	119,364	02/15/2024	1FE
495224	J8	1	King Cnty Wash Sch Dist 4.375% 12/01/23.....	04/16/2010	Seattle Northwest Securities.....	25,696,000	25,000,000	25,000,000	25,000,000		0		0	25,000,000		696,000	696,000	425,347	12/01/2023	1FE
517840	WA	8	Las Vegas Vy Nev Wtr Di 5.000% 06/01/23.....	04/08/2010	Seattle Northwest Securities.....	6,428,410	6,235,000	6,297,724	6,256,362		(2,077)		(2,077)	6,254,284		174,125	174,125	114,308	06/01/2023	1FE

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SCHEDULE D - PART 4

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

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value					16	17	18	19	20	21	22
										11	12	13	14	15							
CUSIP Identification	Description	F o r e i g n	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/ Adjusted Carrying Value	Unrealized Valuation Increase/ (Decrease)	Current Year's (Amortization)/ Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11+12-13)	Total Foreign Exchange Change in B./A.C.V.	Book/ Adjusted Carrying Value At Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/ Stock Dividends Received During Year	Maturity Date	NAIC Designation or Market Indicator (a)
517840 WB 6	Las Vegas Vy Nev Wtr Di 5.000% 06/01/24		04/09/2010	Seattle Northwest Securities		6,430,601	6,245,000	6,293,149	6,261,336		(1,630)		(1,630)		6,259,706		170,895	170,895	115,359	06/01/2024	1FE
517840 WE 0	Las Vegas Vy Nev Wtr Di 5.000% 06/01/27		04/20/2010	Seattle Northwest Securities		10,259,500	10,000,000	10,117,500	10,075,275		(7,404)		(7,404)		10,067,871		191,629	191,629	190,972	06/01/2027	1FE
528828 SF 4	Lewisville Tex Indept S 4.500% 08/15/23		04/09/2010	Merrill Lynch		5,212,250	5,000,000	5,057,300	5,044,356		(1,465)		(1,465)		5,042,892		169,358	169,358	36,875	08/15/2023	1FE
564385 H4 7	Mansfield Texas Indpt S 5.000% 02/15/27		04/07/2010	Merrill Lynch		17,616,861	17,265,000	16,813,002	16,896,114		3,622		3,622		16,899,735		717,125	717,125	136,681	02/15/2027	1FE
649668 YX 2	New York N Y Unrefunde 5.750% 05/15/12		04/07/2010	Seattle Northwest Securities		206,538	205,000	212,814	205,000				0		205,000		1,538	1,538	4,813	05/15/2012	1FE
64966E PD 3	New York N Y Unrefunded 6.000% 05/15/30		05/15/2010	Redemption 101.0000		712,050	705,000	711,204	707,396		(305)		(305)		707,091		4,959	4,959	21,150	05/15/2030	1FE
720611 NV 0	Pierce Cnty Wash Sch Di 5.250% 12/01/22		04/06/2010	Seattle Northwest Securities		12,160,170	11,000,000	11,205,810	11,132,716		(11,896)		(11,896)		11,120,819		1,039,351	1,039,351	205,333	12/01/2022	1FE
829596 LC 7	Sioux Falls S D Sch Dis 5.000% 01/01/26		04/08/2010	Key Capital Markets		5,748,170	5,485,000	5,670,667	5,610,637		(5,579)		(5,579)		5,605,058		143,113	143,113	77,704	01/01/2026	1FE
833221 QQ 0	Snohomish Cnty Wash Sch 5.000% 12/01/25		04/08/2010	Citigroup Global Markets		12,633,000	12,000,000	12,302,040	12,283,200		(11,061)		(11,061)		12,272,139		360,861	360,861	220,000	12/01/2025	1FE
849476 HB 5	Spring Branch Tex Indpt 4.500% 02/01/23		04/09/2010	Merrill Lynch		5,653,433	5,465,000	5,500,632	5,490,512		(1,198)		(1,198)		5,489,314		164,119	164,119	49,868	02/01/2023	1FE
2499999	Total - Bonds - U.S. Political Subdivisions of States, Territories & Possessions					239,181,110	228,775,000	232,656,259	231,404,575	0	(145,997)	0	(145,997)	0	231,258,575	0	7,922,533	7,922,533	2,885,484	XXX	XXX

Bonds - U.S. Special Revenue and Special Assessment

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040688 GL 1	Arizona Wtr Infrastruct 5.000% 10/01/24		04/08/2010	Seattle Northwest Securities		8,781,095	8,175,000	8,718,719	8,550,499		(13,349)		(13,349)		8,537,150		243,945	243,945	218,000	10/01/2024	1FE
040688 GM 9	Arizona Wtr Infrastruct 5.000% 10/01/25		04/08/2010	Seattle Northwest Securities		5,352,900	5,000,000	5,323,800	5,223,683		(7,940)		(7,940)		5,215,744		137,156	137,156	133,333	10/01/2025	1FE
07201T ZP 6	Bay Area Govt Assn Cali 5.500% 09/01/18		05/06/2010	Everspan Financial Guarantee		6,318,620	7,000,000	6,943,440	6,950,712		1,523		1,523		6,952,235		(633,615)	(633,615)	70,583	09/01/2018	1
130039 AA 8	California St Admin Svc 1.354% 01/01/17		05/06/2010	Everspan Financial Guarantee		3,630,000	3,630,000	3,630,000	3,630,000				0		3,630,000				8,386	01/01/2017	1FE
13033K P5 2	California Hsg Fin Agy 0.220% 08/01/34		06/02/2010	Redemption 100.0000		2,500,000	2,500,000	2,500,000	2,500,000				0		2,500,000				2,043	08/01/2034	1FE
20775N AS 9	Connecticut St Res Reco 5.125% 11/15/15		04/08/2010	Seattle Northwest Securities		2,679,813	2,650,000	2,362,687	2,510,107		5,696		5,696		2,515,803		164,010	164,010	55,834	11/15/2015	1FE
31283H 5A 9	Freddie Mac Pool # G017 6.500% 10/01/34		06/01/2010	Paydown		22,319	22,319	23,495	23,467		(1,148)		(1,148)		22,319				234	10/01/2034	1
31283H N2 7	Freddie Mac Pool # G013 7.000% 08/01/31		06/01/2010	Paydown		90	90	95	95		(5)		(5)		90				1	08/01/2031	1
3128H7 H3 9	Freddie Mac FGCI # E992 6.000% 09/01/18		06/01/2010	Paydown		2,177	2,177	2,286	2,277		(101)		(101)		2,177				23	09/01/2018	1
3128KF BD 1	Freddie Mac Pool # A527 6.000% 09/01/36		06/01/2010	Paydown		35,562	35,562	37,045	37,013		(1,452)		(1,452)		35,562				447	09/01/2036	1
3128NC SZ 3	Freddie Mac ARM #1G08 4.747% 08/01/35		06/01/2010	Paydown		43,720	43,720	43,618	43,618		102		102		43,720				332	08/01/2035	1
31292H VU 5	Freddie Mac C01527 5.500% 04/01/33		06/01/2010	Paydown		33,590	33,590	34,493	34,447		(856)		(856)		33,590				302	04/01/2033	1
31295W D7 0	FGLMC A01026 9.500% 05/01/20		06/01/2010	Paydown		370	370	385	377		(7)		(7)		370				6	05/01/2020	1
31295W GF 9	FGLMC A01098 9.500% 09/01/20		06/01/2010	Paydown		381	381	396	389		(8)		(8)		381				7	09/01/2020	1
31295W PP 7	FGLMC A01330 9.500% 09/01/16		06/01/2010	Paydown		563	563	585	570		(8)		(8)		563				10	09/01/2016	1
312962 5K 5	Freddie Mac FG #B10850 4.500% 11/01/18		06/01/2010	Paydown		59,872	59,872	61,668	61,517		(1,645)		(1,645)		59,872				455	11/01/2018	1
31296P EM 0	Freddie Mac FG #A14640 5.000% 10/01/33		06/01/2010	Paydown		28,862	28,862	29,764	29,739		(877)		(877)		28,862				195	10/01/2033	1
312971 H9 8	Freddie Mac FG #B18356 5.000% 05/01/20		06/01/2010	Paydown		28,578	28,578	29,627	29,553		(975)		(975)		28,578				226	05/01/2020	1
31297M H2 7	Freddie Mac Pool #A3204 5.500% 04/01/35		06/01/2010	Paydown		1,897,100	1,897,100	1,963,498	1,962,627		(65,527)		(65,527)		1,897,100				16,254	04/01/2035	1
31297T 6K 4	FGLMC FGA38074 5.000% 10/01/35		06/01/2010	Paydown		11,863	11,863	12,217	12,208		(345)		(345)		11,863				85	10/01/2035	1
3133TD JS 6	FHLMC 2050 PE 6.500% 04/15/13		06/01/2010	Paydown		286,228	286,228	288,240	286,228				0		286,228				3,097	04/15/2013	1
3133TG U4 9	FHLMC Series 2091 CL 6.000% 11/15/28		06/01/2010	Paydown		17,712	17,712	18,310	18,289		(577)		(577)		17,712				176	11/15/2028	1
3133TS BS 1	Freddie Mac FHR 2293 6.500% 03/15/31		06/01/2010	Paydown		41,012	41,012	44,011	43,905		(2,893)		(2,893)		41,012				471	03/15/2031	1

SCHEDULE D - PART 4

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

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value					16	17	18	19	20	21	22	
										11	12	13	14	15								
CUSIP Identification	Description	F o r e i g n	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/ Adjusted Carrying Value	Unrealized Valuation Increase/ (Decrease)	Current Year's (Amortization)/ Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11+12-13)	Total Foreign Exchange Change in B./A.C.V.	Book/ Adjusted Carrying Value At Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/ Stock Dividends Received During Year	Maturity Date	NAIC Designation or Market Indicator (a)	
31362T	GE 7 FNMA #070367 8.000% 07/01/19.....		06/01/2010	Paydown.....		1,416	1,416	1,336	1,351		65		65		1,416			0	16	07/01/2019	1.....	
31365D	JV 8 FNCL #124576 9.000% 09/01/22.....		06/01/2010	Paydown.....		77	77	78	78		(1)		(1)		77			0	1	09/01/2022	1.....	
31371J	6T 6 FNMA 15YR 5.500% 08/01/16.....		06/01/2010	Paydown.....		38,019	38,019	37,240	37,450		569		569		38,019			0	356	08/01/2016	1.....	
31371K	EJ 6 FNCI #254037 5.500% 10/01/16.....		06/01/2010	Paydown.....		24,397	24,397	24,041	24,156		241		241		24,397			0	221	10/01/2016	1.....	
31371L	A6 6 Fannie Mae FN 254829 5.500% 08/01/33.....		06/01/2010	Paydown.....		341,803	341,803	339,106	339,277		2,526		2,526		341,803			0	3,611	08/01/2033	1.....	
31384W	BA 7 FNCI # 535633 5.500% 12/01/14.....		06/01/2010	Paydown.....		36,834	36,834	36,296	36,503		331		331		36,834			0	334	12/01/2014	1.....	
31385J	CH 9 FNCI #545572 6.000% 04/01/17.....		06/01/2010	Paydown.....		44,687	44,687	44,830	44,717		(30)		(30)		44,687			0	465	01/01/2017	1.....	
31387K	V5 9 FNMA 15 YR 586636 6.000% 06/01/16.....		06/01/2010	Paydown.....		1,582	1,582	1,566	1,570		11		11		1,582			0	16	06/01/2016	1.....	
31387K	V8 3 FNMA #586639 6.000% 06/01/16.....		06/01/2010	Paydown.....		4,596	4,596	4,550	4,563		33		33		4,596			0	46	06/01/2016	1.....	
31387N	YL 5 FNMA 589415 5.500% 07/01/16.....		06/01/2010	Paydown.....		8,602	8,602	8,440	8,515		88		88		8,602			0	101	07/01/2016	1.....	
31389H	HL 5 Fannie Mae # 625835 6.000% 01/01/17.....		06/01/2010	Paydown.....		28,530	28,530	28,570	28,544		(14)		(14)		28,530			0	284	01/01/2017	1.....	
31392J	AD 1 Fannie Mae Series 2003- 7.500% 07/25/42.....		06/01/2010	Paydown.....		327	327	348	348		(21)		(21)		327			0	4	07/25/2042	1.....	
31392J	YH 6 Fannie Mae Series 2003- 7.500% 08/25/42.....		06/01/2010	Paydown.....		286	286	304	304		(18)		(18)		286			0	3	08/25/2042	1.....	
31401H	PU 0 Fannie Mae FN #708835 5.000% 06/01/18.....		06/01/2010	Paydown.....		12,933	12,933	13,442	13,396		(464)		(464)		12,933			0	106	06/01/2018	1.....	
31401H	SE 3 Fannie Mae 708917 6.000% 06/01/33.....		06/01/2010	Paydown.....		89,047	89,047	93,652	92,167		(3,120)		(3,120)		89,047			0	891	06/01/2033	1.....	
31401J	ND 6 Fannie Mae FN 709688 5.500% 06/01/33.....		06/01/2010	Paydown.....		293,890	293,890	293,990	293,085		805		805		293,890			0	2,962	06/01/2033	1.....	
31401W	GV 5 Fannie Mae 720312 4.500% 06/01/18.....		06/01/2010	Paydown.....		742,525	742,525	743,337	742,320		204		204		742,525			0	5,317	06/01/2018	1.....	
31401W	KH 1 Fannie Mae FN 720396 5.000% 07/01/18.....		06/01/2010	Paydown.....		493,793	493,793	501,354	499,012		(5,219)		(5,219)		493,793			0	4,259	07/01/2018	1.....	
31402C	4H 2 FNCL 725424 5.500% 04/01/34.....		06/01/2010	Paydown.....		954,974	954,974	960,196	957,496		(2,523)		(2,523)		954,974			0	9,781	04/01/2034	1.....	
31402C	XE 7 FNCL 725277 4.500% 03/01/19.....		06/01/2010	Paydown.....		486,667	486,667	491,230	488,986		(2,319)		(2,319)		486,667			0	3,672	03/01/2019	1.....	
31402J	SW 8 FNCL 730533 5.000% 08/01/33.....		06/01/2010	Paydown.....		984,978	984,978	989,644	987,465		(2,487)		(2,487)		984,978			0	7,719	08/01/2033	1.....	
31403N	UF 2 Fannie Mae 753982 5.500% 12/01/33.....		06/01/2010	Paydown.....		275,061	275,061	284,774	284,568		(9,507)		(9,507)		275,061			0	2,727	12/01/2033	1.....	
31403U	MG 3 Fannie Mae FN #758259 6.000% 12/01/33.....		06/01/2010	Paydown.....		7,914	7,914	8,269	8,260		(346)		(346)		7,914			0	66	12/01/2033	1.....	
31404F	JZ 7 Fannie Mae 767180 4.500% 02/01/19.....		06/01/2010	Paydown.....		1,491,795	1,491,795	1,505,780	1,499,970		(8,176)		(8,176)		1,491,795			0	10,886	02/01/2019	1.....	
31404K	SG 8 Fannie Mae FN #771019 5.000% 04/01/34.....		06/01/2010	Paydown.....		63,241	63,241	65,227	65,172		(1,931)		(1,931)		63,241			0	568	04/01/2034	1.....	
31405A	KB 8 Fannie Mae FN #783390 6.500% 09/01/34.....		06/01/2010	Paydown.....		6,111	6,111	6,430	6,422		(311)		(311)		6,111			0	36	09/01/2034	1.....	
31407M	MT 9 FNCL FN #834770 6.500% 07/01/35.....		06/01/2010	Paydown.....		84,164	84,164	88,464	88,365		(4,201)		(4,201)		84,164			0	517	07/01/2035	1.....	
31409W	W8 0 Fannie Mae FN #880971 5.500% 10/01/21.....		06/01/2010	Paydown.....		18,742	18,742	19,497	19,450		(708)		(708)		18,742			0	196	10/01/2021	1.....	
34073M	LG 5 Florida Housing Fin Cor 0.000% 07/01/30.....		04/13/2010	Various.....		1,533,938	4,770,000	1,474,598	1,516,396		24,762		24,762		1,541,159		(7,221)	(7,221)			07/01/2030	1FE.....
407288	NB 1 Hamilton County Ohio Se 5.000% 12/01/16.....		04/09/2010	Ziegler.....		7,623,840	7,000,000	7,817,460	7,344,356		(23,642)		(23,642)		7,320,714		303,126	303,126	129,306	12/01/2016	1FE.....	
438689	EY 3 Honolulu Hawaii City & 5.000% 07/01/25.....		04/08/2010	Citigroup Global Markets.....		9,516,272	9,010,000	9,435,452	9,307,463		(11,888)		(11,888)		9,295,575		220,697	220,697	127,642	07/01/2025	1FE.....	
438689	EZ 0 Honolulu Hawaii City & 5.000% 07/01/26.....		04/08/2010	Citigroup Global Markets.....		9,970,111	9,470,000	9,901,548	9,771,814		(12,079)		(12,079)		9,759,734		210,376	210,376	134,158	07/01/2026	1FE.....	
451443	UH 6 Idaho St Bldg Auth Bldg 0.320% 09/01/25.....		06/16/2010	Redemption 100.0000.....		880,000	880,000	880,000					0		880,000			0	728	09/01/2025	1FE.....	
45505T	GA 3 Indiana St Hsg & Cmnty 0.180% 01/01/37.....		05/28/2010	Goldman Sachs.....		25,000,000	25,000,000	25,000,000					0		25,000,000			0	20,144	01/01/2037	1FE.....	
485424	JB 2 Kansas St Dept Transn H 0.240% 09/01/19.....		05/21/2010	Goldman Sachs.....		25,000,000	25,000,000	25,000,000					0		25,000,000			0	13,678	09/01/2019	1FE.....	
542424	KJ 4 Long Beach Ca Harbor Re 5.000% 05/15/13.....		05/13/2010	Redemption 109.3210.....		8,751,146	8,005,000	8,207,607	8,183,227		(17,830)		(17,830)		8,165,397		585,749	585,749	197,901	05/15/2013	1FE.....	

QE05.2

SCHEDULE D - PART 4

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

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value					16	17	18	19	20	21	22
										11	12	13	14	15							
CUSIP Identification	Description	For e i g n	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/ Adjusted Carrying Value	Unrealized Valuation Increase/ (Decrease)	Current Year's (Amortization)/ Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11+12-13)	Total Foreign Exchange Change in B./A.C.V.	Book/ Adjusted Carrying Value At Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/ Stock Dividends Received During Year	Maturity Date	NAIC Designation or Market Indicator (a)
542424 MH 6	Long Beach Ca Harbor Re 5.000% 05/15/13		04/29/2010	EJ De La Rosa		12,085,437	11,055,000	11,334,802	11,301,134		(24,623)		(24,623)		11,276,511		808,926	808,926	273,304	05/15/2013	1FE
544495 DG 6	Los Angeles Calif Wtr & 0.260% 07/01/34		05/21/2010	Goldman Sachs		25,000,000	25,000,000	25,000,000					0		25,000,000			0	14,363	07/01/2034	1FE
575579 LJ 4	Massachusetts Bay Trans 5.250% 07/01/29		04/08/2010	Goldman Sachs		11,388,800	10,000,000	10,829,900	10,817,046		(8,150)		(8,150)		10,808,896		579,904	579,904	148,750	07/01/2029	1FE
575579 LK 1	Massachusetts Bay Trans 5.250% 07/01/30		04/08/2010	Goldman Sachs		13,774,894	12,140,000	13,092,383	13,078,778		(8,751)		(8,751)		13,070,027		704,867	704,867	180,583	07/01/2030	1FE
575579 LL 9	Massachusetts Bay Trans 5.250% 07/01/31		04/08/2010	Goldman Sachs		6,778,620	6,000,000	6,406,560	6,401,222		(3,535)		(3,535)		6,397,687		380,933	380,933	89,250	07/01/2031	1FE
594653 2F 3	Michigan State Hsng Dev 0.400% 12/01/38		05/21/2010	Barclay's Bank		15,000,000	15,000,000	15,000,000	15,000,000				0		15,000,000			0	23,873	12/01/2038	1FE
596232 BG 2	Middlebury Ind Schs Bld 5.000% 01/15/30		04/12/2010	Seattle Northwest Securities		6,969,104	6,775,000	6,875,067	6,868,989		(3,931)		(3,931)		6,865,058		104,046	104,046	84,688	01/15/2030	1FE
64468T JW 8	New Hampshire St Hsg Fi 6.000% 07/01/16		05/28/2010	Redemption 100.0000		30,000	30,000	30,000	30,000				0		30,000			0	735	07/01/2016	1FE
64468T JY 4	New Hampshire St Hsg Fi 6.100% 07/01/28		05/28/2010	Redemption 100.0000		10,000	10,000	10,063	10,000				0		10,000			0	249	07/01/2028	1FE
645913 AS 3	New Jersey Econ Dev Aut 0.000% 02/15/14		05/06/2010	Everspan Financial Guarantee		8,599,200	10,000,000	7,681,200	8,347,180		129,026		129,026		8,476,206		122,994	122,994		02/15/2014	1FE
64970H AC 8	New York NYCity Hsg Dv 0.270% 11/15/19		05/24/2010	Goldman Sachs		25,000,000	25,000,000	25,000,000					0		25,000,000			0	14,205	11/15/2019	1FE
64970M XT 5	New York NY City Hsg De 6.420% 11/01/27		05/01/2010	Call 100.0000		3,870,000	3,870,000	3,870,000	3,870,000				0		3,870,000			0	124,227	11/01/2027	1FE
64972F SE 7	New York N Y City Mun F 0.270% 06/15/24		05/21/2010	Goldman Sachs		25,000,000	25,000,000	25,000,000					0		25,000,000			0	13,123	06/15/2024	1FE
64986A BE 0	New York St Environment 5.000% 02/15/18		04/08/2010	Merrill Lynch		4,124,635	3,735,000	3,890,824	3,815,096		(4,497)		(4,497)		3,810,599		314,036	314,036	30,088	02/15/2018	1FE
64986A RH 6	New York St Environment 5.000% 10/15/25		04/08/2010	Merrill Lynch		5,378,750	5,000,000	5,157,100	5,111,714		(3,685)		(3,685)		5,108,030		270,720	270,720	123,611	10/15/2025	1FE
649876 K5 7	New York St Loc Govt As 0.280% 04/01/21		05/24/2010	Goldman Sachs		25,000,000	25,000,000	25,000,000					0		25,000,000			0	16,342	04/01/2021	1FE
649886 UC 0	New York ST Mtg Agy Rev 5.50% 10/01/28		04/08/2010	Key Capital Markets		2,189,530	2,170,000	2,023,999	2,050,512		1,159		1,159		2,051,671		137,859	137,859	63,653	10/01/2028	1FE
649886 UC 0	New York ST Mtg Agy Rev 5.50% 10/01/28		04/01/2010	Redemption 100.0000		80,000	80,000	74,534	75,525		41		41		75,566		4,434	4,434	2,200	10/01/2028	1FE
649903 TH 4	New York St Dorm Auth R 5.250% 08/15/27		04/16/2010	Lebenthal & Co. LLC		10,389,900	10,000,000	10,156,000	10,142,368		(8,644)		(8,644)		10,133,724		256,176	256,176	96,250	08/15/2027	1FE
658546 KT 2	North Central Texas Hea 6.625% 06/01/11		06/01/2010	Redemption 100.0000		600,000	600,000	574,956	596,814		939		939		597,753		2,247	2,247	19,875	06/01/2011	1
662858 BY 4	North Texas Twy Auth Da 4.750% 01/01/22		04/06/2010	Barclay's Bank		7,445,681	7,455,000	7,108,342	7,224,830		3,268		3,268		7,228,098		217,584	217,584	96,397	01/01/2022	1FE
678864 U3 1	Oklahoma Hsg Fin Agy 6.350% 09/01/27		06/01/2010	Redemption 100.0000		25,000	25,000	25,000	25,000				0		25,000			0	397	09/01/2027	1FE
705322 AJ 4	Pedemales Electric Cor 5.952% 11/15/22		05/06/2010	Everspan Financial Guarantee		10,154,500	10,000,000	10,212,800	10,207,392		(7,069)		(7,069)		10,200,323		(45,823)	(45,823)	284,373	11/15/2022	1FE
708793 EF 7	Pennsylvania Hsg Fin Ag 0.220% 04/01/18		04/01/2010	Redemption 100.0000		960,000	960,000	960,000	960,000				0		960,000			0	737	04/01/2018	1FE
724795 AB 5	Pittsburgh & Allegheny 7.920% 07/01/30		05/06/2010	Everspan Financial Guarantee		6,701,590	7,000,000	6,649,510	6,652,786		1,090		1,090		6,653,876		47,714	47,714	194,040	07/01/2030	1
738679 KX 8	Portland Ore 7.701% 06/01/22		04/09/2010	Seattle Northwest Securities		139,800	120,000	138,247	137,555		(280)		(280)		137,275		2,525	2,525	3,414	06/01/2022	1FE
769125 DP 7	Riverside Cnty Calif Tr 0.270% 06/01/29		05/21/2010	Barclay's Bank		21,800,000	21,800,000	21,800,000					0		21,800,000			0	13,128	06/01/2029	1FE
769125 DP 7	Riverside Cnty Calif Tr 0.270% 06/01/29		06/01/2010	Redemption 100.0000		400,000	400,000	400,000	400,000				0		400,000			0	253	06/01/2029	1FE
79765T BY 0	San Francisco Calif Cit 0.290% 06/15/34		05/24/2010	Goldman Sachs		25,000,000	25,000,000	25,000,000					0		25,000,000			0	14,342	06/15/2034	1FE
810489 JT 2	Scottsdale Ariz Mun Ppt 5.000% 07/01/30		04/21/2010	Goldman Sachs		7,987,504	7,265,000	7,675,473	7,669,553		(4,328)		(4,328)		7,665,225		322,279	322,279	116,038	07/01/2030	1FE
810489 JU 9	Scottsdale Ariz Mun Ppt 5.000% 07/01/34		04/21/2010	Goldman Sachs		9,926,475	9,185,000	9,350,973	9,349,239		(1,760)		(1,760)		9,347,479		578,996	578,996	145,177	07/01/2034	1FE
828905 EA 3	Simi VY Calif Multifami 0.270% 07/15/36		05/21/2010	Citigroup Global Markets		17,500,000	17,500,000	17,500,000					0		17,500,000			0	9,541	07/15/2036	1FE
837147 E8 6	South Carolina St Pub S 5.250% 01/01/22		04/09/2010	Seattle Northwest Securities		11,040,112	10,180,000	11,108,964	10,788,252		(26,293)		(26,293)		10,761,959		278,153	278,153	152,157	01/01/2022	1FE
837147 G4 3	South Carolina St Pub S 5.000% 01/01/22		04/07/2010	Seattle Northwest Securities		5,313,750	5,000,000	5,331,200	5,218,282		(9,365)		(9,365)		5,208,917		104,833	104,833	70,139	01/01/2022	1FE
837147 P4 3	South Carolina St Pub S 5.000% 01/01/14		05/06/2010	Everspan Financial Guarantee		10,578,400	10,000,000	9,980,100	9,988,736		245		245		9,988,981		589,419	589,419	175,000	01/01/2014	1FE
83755G WU 7	South Dakota Hsg Dev Au 5.150% 11/01/20		04/07/2010	Barclay's Bank		6,198,761	6,025,000	6,025,000	6,025,000				0		6,025,000		173,761	173,761	138,767	11/01/2020	1FE

QE05.3

SCHEDULE D - PART 4

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

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value					16	17	18	19	20	21	22
										11	12	13	14	15							
CUSIP Identification	Description	For	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/ Adjusted Carrying Value	Unrealized Valuation Increase/ (Decrease)	Current Year's (Amortization)/ Accretion	Current Year's Other Than Impairment Recognized	Total Change in B./A.C.V. (11+12-13)	Total Foreign Exchange Change in B./A.C.V.	Book/ Adjusted Carrying Value At Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/ Stock Dividends Received During Year	Maturity Date	NAIC Designation or Market Indicator (a)
841238 AB 4	Southbridge Assoc MA 02 7.590% 02/01/22	.....	05/06/2010	Everspan Financial Guarantee.....	.....	11,170,200	10,000,000	11,223,900	11,204,232	.....	(24,542)	.....	(24,542)	.....	11,179,690	.....	(9,490)	(9,490)	202,400	02/01/2022	2FE.....
842475 D3 6	Southern Calif Pub Pwr 0.270% 07/01/17	.....	05/21/2010	Citigroup Global Markets.....	.....	25,000,000	25,000,000	25,000,000	.....	.....	.....	.....	0	25,000,000	.....	.....	.....	14,753	07/01/2017	1FE.....	
871720 CB 2	Syracuse Ny Indl Dev Ag 0.290% 12/01/35	.....	05/21/2010	Goldman Sachs.....	.....	20,200,000	20,200,000	20,200,000	.....	.....	.....	.....	0	20,200,000	.....	.....	.....	11,849	12/01/2035	1FE.....	
876443 CJ 9	Tarrant Regl Wtr Dist T 5.000% 03/01/25	.....	04/09/2010	Merrill Lynch.....	.....	7,370,720	7,000,000	7,146,440	7,136,911	.....	(5,470)	.....	(5,470)	7,131,441	.....	239,279	239,279	41,806	03/01/2025	1FE.....	
880459 HX 3	Tennessee Housing Dev 6.000% 01/01/20	.....	06/17/2010	Redemption 100.0000	.....	785,000	785,000	777,150	780,079	.....	143	.....	143	780,221	.....	4,779	4,779	21,718	01/01/2020	1FE.....	
899647 FF 3	Tulsa OK Arpts Impt Tr 6.000% 06/01/14	.....	06/01/2010	Redemption 100.0000	.....	245,000	245,000	246,811	245,070	.....	(70)	.....	(70)	245,000	.....	.....	.....	7,350	06/01/2014	1FE.....	
915115 Y4 5	University Tex Perm Uni 5.250% 07/01/35	.....	04/21/2010	Various.....	.....	41,259,476	36,560,000	38,763,106	38,741,498	.....	(16,707)	.....	(16,707)	38,724,782	.....	2,534,694	2,534,694	612,124	07/01/2035	1FE.....	
917565 ET 6	Utah Tran Auth Sale Ta 5.250% 06/15/29	.....	04/20/2010	Seattle Northwest Securities.....	.....	8,668,672	7,630,000	8,420,468	8,407,977	.....	(8,188)	.....	(8,188)	8,399,789	.....	268,883	268,883	142,427	06/15/2029	1FE.....	
921444 AA 3	Vance Cnty NC Hsg Dev C 6.15% 03/01/22	.....	04/08/2010	Key Capital Markets.....	.....	1,171,450	1,145,000	979,204	983,103	.....	2,309	.....	2,309	985,412	.....	186,038	186,038	8,215	03/01/2022	2.....	
95662M PQ 7	West Virginia St Hsg De 5.300% 05/01/24	.....	05/01/2010	Call 100.0000	.....	1,170,000	1,170,000	1,170,000	1,170,000	.....	.....	.....	0	1,170,000	.....	.....	.....	31,005	05/01/2024	1FE.....	
977092 AU 9	Wisconsin Clean Wtr Rev 6.875% 06/01/11	.....	06/01/2010	Redemption 100.0000	.....	2,275,000	2,275,000	2,269,160	2,274,191	.....	289	.....	289	2,274,481	.....	519	519	78,203	06/01/2011	1FE.....	
97710N ZN 9	Wisconsin St Health & E 4.750% 06/01/28	.....	05/18/2010	Seattle Northwest Securities.....	.....	6,069,625	6,225,000	5,677,511	5,790,629	.....	5,247	.....	5,247	5,795,876	.....	273,750	273,750	132,773	06/01/2028	1FE.....	
97710V FK 9	Wisconsin St Health & E 5.600% 07/15/22	.....	04/08/2010	Key Capital Markets.....	.....	5,193,750	5,000,000	5,000,000	5,000,000	.....	.....	.....	0	5,000,000	.....	193,750	193,750	68,444	07/15/2022	1FE.....	
3199999	Total - Bonds - U.S. Special Revenue & Assessment.....	.....	.....	.....	.....	599,604,061	584,751,990	589,523,782	325,644,779	.....	0	.....	(193,724)	.....	588,731,054	.....	10,873,008	10,873,008	5,295,554	.....XXX..	XXX..
Bonds - Industrial and Miscellaneous																					
000759 CF 5	ABFS Mortgage Loan Trus 7.010% 12/15/32	.....	06/01/2010	Paydown.....	.....	65,104	217,013	64,669	114,759	.....	31,496	81,151	(49,655)	65,104	.....	.....	.....	0	(77,021)	12/15/2032	1Z*.....
007036 SE 7	Adjustable Rate Mortgag 0.617% 11/25/35	.....	06/25/2010	Paydown.....	.....	334,040	334,040	163,133	162,761	.....	171,279	.....	171,279	334,040	.....	.....	.....	0	291	11/25/2035	1Z*.....
007036 TM 8	Adjustable Rate Mortgag 0.607% 01/25/36	.....	06/25/2010	Paydown.....	.....	1,224,218	1,224,218	570,172	573,805	.....	650,414	.....	650,414	1,224,218	.....	.....	.....	0	956	01/25/2036	1Z*.....
007036 UQ 7	Adjustable Rate Mortgag 0.617% 02/25/36	.....	06/25/2010	Paydown.....	.....	327,926	327,926	148,633	149,768	.....	178,158	.....	178,158	327,926	.....	.....	.....	0	305	02/25/2036	1Z*.....
02660T FV 0	American Home Mortgage 0.607% 09/25/35	.....	06/25/2010	Paydown.....	.....	464,823	464,823	464,823	464,823	.....	.....	.....	0	464,823	.....	.....	.....	0	236	09/25/2035	1Z*.....
026935 AR 7	American Home Mortgage 0.697% 09/25/27	.....	06/25/2010	Paydown.....	.....	831,237	831,237	831,237	831,237	.....	.....	.....	0	831,237	.....	.....	.....	0	832	09/25/2027	1Z*.....
032511 AX 5	Anadarko Petroleum Corp 5.950% 09/15/16	.....	06/16/2010	RBS Securities.....	.....	2,565,000	3,000,000	3,251,130	3,247,517	.....	(15,134)	.....	(15,134)	3,232,383	.....	(667,383)	(667,383)	47,600	09/15/2016	2FE.....	
05531Y AC 6	BCAP LLC Trust Series 5.343% 08/26/35	.....	06/01/2010	Paydown.....	.....	219,688	219,688	208,704	208,704	.....	10,984	.....	10,984	219,688	.....	.....	.....	0	1,586	08/26/2035	1Z*.....
07386H XN 6	Bear Sterns Alt- A Trus 0.607% 11/25/35	.....	06/25/2010	Paydown.....	.....	504,890	504,890	255,013	270,672	.....	250,750	.....	250,750	504,890	.....	.....	.....	0	427	11/25/2035	1Z*.....
07401W AA 7	Bear Sterns Second Lien 0.537% 01/25/37	.....	06/25/2010	Paydown.....	.....	1,004,264	1,646,438	362,183	795,325	.....	695,101	486,162	208,939	1,004,264	.....	.....	.....	0	1,227	01/25/2037	1Z*.....
07401W AP 4	Bear Sterns Second Lien 0.567% 08/25/37	.....	06/25/2010	Paydown.....	.....	811,288	1,551,686	763,435	1,551,686	.....	192,757	933,155	(740,398)	811,288	.....	.....	.....	0	1,311	08/25/2037	1Z*.....
07401W BA 6	Bear Sterns Second Lien 0.567% 08/25/37	.....	06/25/2010	Paydown.....	.....	26,088	53,528	10,354	30,319	.....	17,751	21,982	(4,231)	26,088	.....	.....	.....	0	39	08/25/2037	1Z*.....
12666T AC 0	Countrywide Asset-Backe 6.050% 09/25/46	.....	06/01/2010	Paydown.....	.....	49,499	165,314	60,162	83,081	.....	(10,134)	23,448	(33,582)	49,499	.....	.....	.....	0	2,097	09/25/2046	1Z*.....
12666T AD 8	Countrywide Asset-Backe 6.300% 09/25/46	.....	06/01/2010	Paydown.....	.....	44,898	97,087	31,260	33,484	.....	14,013	2,600	11,413	44,898	.....	.....	.....	0	855	09/25/2046	1Z*.....
12666T AF 3	Countrywide Asset-Backe 6.150% 09/25/46	.....	06/01/2010	Paydown.....	.....	41,520	110,381	49,024	42,920	.....	(1,400)	.....	(1,400)	41,520	.....	.....	.....	0	(47,411)	09/25/2046	1Z*.....
126673 TP 7	Countrywide Home Equity 0.590% 02/15/30	.....	06/15/2010	Paydown.....	.....	17,625	17,625	6,093	7,292	.....	11,580	.....	11,580	17,625	.....	.....	.....	0	15	02/15/2030	1Z*.....
126684 AB 5	Countrywide Asset-Backe 5.519% 03/25/34	.....	06/01/2010	Paydown.....	.....	1,519,635	1,938,604	1,347,624	1,456,458	.....	181,306	118,129	63,177	1,519,635	.....	.....	.....	0	17,444	03/25/2034	1Z*.....
126684 AC 3	Countrywide Asset-Backe 5.658% 03/25/34	.....	06/01/2010	Paydown.....	.....	211,845	706,127	245,444	297,395	.....	(25,928)	59,622	(85,550)	211,845	.....	.....	.....	0	5,443	03/25/2034	1Z*.....
126684 AD 1	Countrywide Asset-Backe 5.799% 03/25/34	.....	06/01/2010	Paydown.....	.....	32,243	107,477	19,749	35,917	.....	13,875	17,549	(3,674)	32,243	.....	.....	.....	0	849	03/25/2034	1Z*.....
126684 AE 9	Countrywide Asset-Backe 5.962% 11/25/36	.....	06/01/2010	Paydown.....	.....	322,433	1,074,775	226,744	405,677	.....	110,970	194,214	(83,244)	322,433	.....	.....	.....	0	8,730	11/25/2036	1Z*.....
126684 AF 6	Countrywide Asset-Backe 5.657% 03/25/34	.....	06/01/2010	Paydown.....	.....	443,417	1,022,799	405,927	553,685	.....	51,260	161,528	(110,268)	443,417	.....	.....	.....	0	8,207	03/25/2034	1Z*.....

QE05.4

SCHEDULE D - PART 4

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

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value					16	17	18	19	20	21	22
										11	12	13	14	15							
CUSIP Identification	Description	F o r e i g n	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/ Adjusted Carrying Value	Unrealized Valuation Increase/ (Decrease)	Current Year's (Amortization)/ Accretion	Current Year's Other Than Impairment Recognized	Total Change in B./A.C.V. (11+12-13)	Total Foreign Exchange Change in B./A.C.V.	Book/ Adjusted Carrying Value At Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/ Stock Dividends Received During Year	Maturity Date	NAIC Designation or Market Indicator (a)
126685 AK 2	Countrywide Home Equity 0.590% 12/15/35		06/15/2010	Paydown		41,045	41,045	14,573	9,257		34,182		34,182		41,045			0	(689)	12/15/2035	1Z*
126685 CS 3	Countrywide Home Equity 0.520% 05/15/36		06/15/2010	Paydown		150,782	304,077	91,963	82,326		101,524	33,068	68,456		150,782			0	(767)	05/15/2036	1Z*
126685 CZ 7	Countrywide Asset-Backe 5.549% 08/25/21		06/01/2010	Paydown		1,236,672	1,926,369	1,481,728	1,601,032	(233,387)		130,973	(364,360)		1,236,672			0	17,121	08/25/2021	1Z*
126685 DA 1	Countrywide Asset-Backe 5.597% 08/25/21		06/01/2010	Paydown		21,828	72,760	19,040	28,890		3,091	20,153	(17,062)		21,828			0	656	08/25/2021	1Z*
126685 DC 7	Countrywide Asset-Backe 5.597% 08/25/21		06/01/2010	Paydown		199,080	522,701	241,466	307,698	(39,718)		68,900	(108,618)		199,080			0	4,707	08/25/2021	1Z*
126685 DJ 2	Countrywide Home Equity 0.530% 05/15/36		06/15/2010	Paydown		1,673,589	3,739,315	1,191,505	1,912,298		481,237	719,946	(238,709)		1,673,589			0	2,556	05/15/2036	1Z*
12668A SY 2	Countrywide Alternative 0.617% 08/25/35		06/25/2010	Paydown		1,032,039	1,032,039	482,638	486,651		545,388		545,388		1,032,039			0	919	08/25/2035	1Z*
12668B RC 9	Countrywide Alternative 0.547% 02/25/36		06/25/2010	Paydown		1,462,322	1,462,322	494,865	482,766		979,556		979,556		1,462,322			0	1,284	02/25/2036	1Z*
12668R AC 2	Countrywide Alternative 0.538% 02/20/47		06/21/2010	Paydown		91,628	91,628	19,372	49,248		72,638		72,638		91,628			0	74	02/20/2047	1Z*
16165Y AA 0	Chaseflex Trust Series 0.497% 08/25/37		06/25/2010	Paydown		779,196	779,196	374,601	376,354		404,795		404,795		779,196			0	442	08/25/2037	1Z*
17284L AB 0	CIT Educational Loan Tr 0.584% 06/25/42		04/08/2010	Bank of America		22,500,000	30,000,000	22,811,130	30,000,000		20,127	7,188,870	(7,168,743)		22,831,257		(331,257)	(331,257)	9,239	06/25/2042	1FE
19864H AN 7	Columbia University 6.830% 12/15/20		05/06/2010	Everspan Financial Guarantee		3,239,413	2,838,702	3,368,290	3,309,242	(11,622)			(11,622)		3,297,619		(58,206)	(58,206)	76,476	12/15/2020	1FE
19864H AP 2	Columbia University 6.5 6.530% 12/15/15		05/06/2010	Everspan Financial Guarantee		3,271,060	2,857,145	3,196,631	3,125,674	(13,908)			(13,908)		3,111,766		159,294	159,294	73,592	12/15/2015	1FE
19864H AQ 0	Columbia University 7.190% 10/17/16		05/06/2010	Everspan Financial Guarantee		1,100,073	975,000	1,132,862	1,103,792	(5,601)			(5,601)		1,098,191		1,882	1,882	39,335	10/17/2016	1FE
19864H AQ 0	Columbia University 7.190% 10/17/16		04/15/2010	Redemption 100.0000		75,000	75,000	87,143	84,907	(351)			(351)		84,556		(9,556)	(9,556)	2,696	10/17/2016	1FE
21075W DR 3	Contimortgage Home Equi 6.880% 01/15/28		06/01/2010	Paydown		62,568	62,568	62,568	62,568				0		62,568			0	727	01/15/2028	1Z*
22082P AA 7	Corts II Gs Capital I 0.345% 02/15/34		05/06/2010	Everspan Financial Guarantee		3,474,000		3,866,454	3,793,115	(23,874)			(23,874)		3,769,241		(295,241)	(295,241)	70,725	02/15/2034	2FE
22082R AA 3	Corts III Verizon Globa 1.500% 12/01/30		05/06/2010	Everspan Financial Guarantee		4,482,500		4,294,030	4,191,816	(32,946)			(32,946)		4,158,869		323,631	323,631	162,500	12/01/2030	1FE
23242Y AH 8	Countrywide Home Equity 0.650% 02/15/34		06/15/2010	Paydown		563,965	563,965	258,014	259,396		304,569		304,569		563,965			0	452	02/15/2034	3FE
23243N AD 0	Countrywide Asset-Backe 0.457% 07/25/34		06/25/2010	Paydown		2,441,813	2,634,516	2,314,515	2,355,630		196,417	110,234	86,183		2,441,813			0	1,617	07/25/2034	1Z*
23243N AF 5	Countrywide Asset-Backe 5.804% 07/25/34		06/01/2010	Paydown		68,752	229,171	50,705	57,778		23,304	12,330	10,974		68,752			0	1,887	07/25/2034	1Z*
23243N AG 3	Countrywide Asset-Backe 5.932% 07/25/34		06/01/2010	Paydown		553,305	1,844,348	345,082	640,667		237,153	324,515	(87,362)		553,305			0	15,524	07/25/2034	1Z*
23243N AH 1	Countrywide Asset-Backe 6.236% 08/25/38		06/01/2010	Paydown		404,830	1,349,432	304,711	550,211		124,158	269,539	(145,381)		404,830			0	11,941	08/25/2038	1Z*
25151A AG 6	Deutsche Alt-A Securiti 0.627% 08/25/36		06/25/2010	Paydown		251,240		28,108	31,481		(31,481)		(31,481)		0			0	297	08/25/2036	1Z*
32029H AB 8	First Franklin Mtg Loan 0.497% 06/25/27		06/25/2010	Paydown		147,600	147,600	27,858	64,095		124,283		124,283		147,600			0	102	06/25/2027	1Z*
361856 EH 6	GMAC Mortgage Corporati 0.587% 02/25/36		06/25/2010	Paydown		1,081,627	1,599,922	631,812	(341,670)		1,449,950	26,653	1,423,297		1,081,627			0	(33,260)	02/25/2036	1Z*
361856 EK 9	GMAC Mortgage Corporati 0.607% 02/25/36		06/25/2010	Paydown		2,416,603	3,052,106	1,100,235	(195,017)		3,261,138	649,518	2,611,620		2,416,603			0	(66,156)	02/25/2036	1Z*
36185T AA 5	Fort Lewis Comm 04/37 @ 7.12% 04/10/37		06/10/2010	Paydown		207,552	207,552	205,790	205,847		1,705		1,705		207,552			0	2,468	04/10/2037	1FE
36298Y AC 4	GSA Home Equity Trust 0.597% 09/25/36		06/25/2010	Paydown		1,803,792	1,803,792	612,386	693,248		1,110,543		1,110,543		1,803,792			0	1,502	09/25/2036	1Z*
36962G W7 5	General Electric Capita 0.727% 05/05/26		05/06/2010	Everspan Financial Guarantee		9,997,200	12,000,000	12,000,000	12,000,000				0		12,000,000		(2,002,800)	(2,002,800)	19,146	05/05/2026	1FE
38011N AA 4	GMAC Commercial Mtge 7.152% 08/10/36		06/10/2010	Paydown		185,616	185,616	183,796	183,857		1,759		1,759		185,616			0	2,217	08/10/2036	1FE
38011W AA 4	Fort Meade - GMAC 2002- 6.845% 05/10/37		06/10/2010	Paydown		287,244	287,244	269,048	269,389		17,856		17,856		287,244			0	3,284	05/10/2037	1
38141G FM 1	Goldman Sachs Group Inc 6.150% 04/01/18		04/22/2010	Citigroup Global Markets		7,825,125	7,500,000	7,539,225	7,537,579	(735)			(735)		7,536,843		288,282	288,282	263,938	04/01/2018	1FE
39538W CZ 9	Greenpoint Mortgage Fun 0.530% 09/15/30		06/15/2010	Paydown		129,803	129,803	37,357	(123,613)		310,375	56,959	253,416		129,803			0	(5,473)	09/15/2030	1Z*
39538W EF 1	Greenpoint Mortgage Fun 0.617% 11/25/46		06/25/2010	Paydown		62,930	62,930	16,154	33,042		47,220		47,220		62,930			0	57	11/25/2046	1Z*
422777 AJ 1	Hedged Mutual Fund Fee 0.597% 07/02/12		06/30/2010	Paydown		676,354	676,354	676,354	676,354				0		676,354			0	593	07/02/2012	1FE

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SCHEDULE D - PART 4

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

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value					16	17	18	19	20	21	22
										11	12	13	14	15							
CUSIP Identification	Description	Forfeiture	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/Adjusted Carrying Value	Unrealized Valuation Increase/(Decrease)	Current Year's (Amortization)/Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11+12-13)	Total Foreign Exchange Change in B./A.C.V.	Book/Adjusted Carrying Value At Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/Stock Dividends Received During Year	Maturity Date	NAIC Designation or Market Indicator (a)
422777 AL 6	Hedged Mutual Fund Fee 0.591% 01/04/13		06/04/2010	Paydown		744,387	744,387	744,387	744,387				0		744,387			0	624	01/04/2013	1FE
422777 AP 7	Hedged Mutual Fund Fee 0.591% 08/05/13		06/04/2010	Paydown		1,224,714	1,224,714	1,224,714	832,561	392,155			392,155		1,224,714			0	976	08/05/2013	3FE
422777 AQ 5	Hedged Mutual Fund Fee 0.551% 12/04/13		06/04/2010	Paydown		671,853	671,853	671,853	453,836	218,016			218,016		671,853			0	524	12/04/2013	3FE
43709R AA 2	Indymac Seconds Asset 0.507% 02/25/37		06/25/2010	Paydown		60,017	60,017	15,242	40,814		47,005		47,005		60,017			0	42	02/25/2037	1Z*
45254N MA 2	Impac CMB Trust Series 0.867% 03/25/35		06/25/2010	Paydown		104,558	104,558	41,587	39,916		64,642		64,642		104,558			0	125	03/25/2035	1Z*
45254N PU 5	Impac CMB Trust Series 0.667% 08/25/35		06/25/2010	Paydown		856,075	856,075	409,769	410,953		445,122		445,122		856,075			0	869	08/25/2035	1Z*
45254N QG 5	Impac CMB Trust Series 0.597% 10/25/35		06/25/2010	Paydown		624,001	624,001	288,210	284,792		339,208		339,208		624,001			0	529	10/25/2035	1Z*
45254T TF 1	Impac Secured Assets Co 0.597% 03/25/36		06/25/2010	Paydown		677,234	881,499	379,049	372,645		304,589		304,589		677,234			0	788	03/25/2036	1Z*
45257E AC 8	Impac Secured Assets Co 0.617% 10/25/36		06/25/2010	Paydown		2,531,670	2,531,670	898,368	975,527		1,635,627		1,635,627		2,531,670			0	2,307	10/25/2036	1Z*
45661A AC 6	Indymac Home Equity Loa 0.547% 09/28/36		06/28/2010	Paydown		198,434	198,434	117,452	18,504	41,037	159,531	20,639	179,929		198,434			0	(3,280)	09/28/2036	6FE
45667H AB 7	Indymac Loan Tr Ser 0.517% 04/25/12		06/25/2010	Paydown		3,729,533	3,729,533	1,806,176			2,109,407	336,928	1,772,479		3,729,533			0	3,224	04/25/2012	6FE
45670E AA 1	Indymac IMSC Mtge L 0.497% 03/25/47		06/25/2010	Paydown		(639,876)	(463,844)	(174,975)	21,906		3,038,689	3,700,471	(661,782)		(639,876)			0	(58,765)	03/25/2047	1Z*
45670E AB 9	Indymac IMSC Mtge L 0.597% 03/25/47		06/25/2010	Paydown		5,142,705	5,309,673	1,168,128	1,322,850		3,974,577	154,722	3,819,855		5,142,705			0	7,596	03/25/2047	1Z*
45670E AC 7	Indymac IMSC Mtge L 0.707% 03/25/47		06/25/2010	Paydown		3,254,092	3,359,743	436,767	589,344		2,817,326	152,578	2,664,748		3,254,092			0	5,883	03/25/2047	1Z*
458049 AA 1	Insurance Note Capital 0.547% 02/28/36		03/11/2010	Guggenheim Capital Markets									0					0	13,937	02/28/2036	1FE
464126 CG 4	Irwin Home Equity Serie 0.987% 05/25/33		06/25/2010	Paydown		113,547	113,547	41,240	54,428		72,793		72,793		113,547			0	142	05/25/2033	1Z*
46412A AE 2	Irwin Home Equity Serie 5.800% 06/25/37		06/01/2010	Paydown		214,330	214,330	102,967	116,068		98,262		98,262		214,330			0	2,088	06/25/2037	1Z*
46412R AB 1	Irwin Home Equity Serie 0.497% 08/25/37		06/25/2010	Paydown		1,191,241	1,191,241	687,547	761,090		534,491	104,339	430,152		1,191,241			0	847	08/25/2037	1Z*
466247 QH 9	JP Morgan Series 2005-A 2.971% 06/25/35		06/01/2010	Paydown		811,500	811,500	765,853	766,007		45,493		45,493		811,500			0	3,500	06/25/2035	1Z*
466275 AA 2	JP Morgan Alternative L 0.627% 04/25/47		06/25/2010	Paydown		1,804,898	1,804,898	968,394	974,037		830,861		830,861		1,804,898			0	1,623	04/25/2047	1Z*
493268 BJ 4	Keycorp Student Loan T 0.936% 08/27/31		05/27/2010	Paydown		1,050,428	1,050,428	1,050,428	1,050,428				0		1,050,428			0	1,655	08/27/2031	1FE
493268 BW 5	Keycorp Student Loan T 0.751% 01/27/43		04/05/2010	JPM Chase		4,671,608	5,839,510	4,750,449	5,839,510		2,373	1,089,060	(1,086,687)		4,752,822		(81,214)	(81,214)	7,817	01/27/2043	1FE
52524P AG 7	Lehman XS Trust Series 0.507% 05/25/37		06/25/2010	Paydown		319,959	319,959	196,853	211,200		131,679	22,920	108,759		319,959			0	214	05/25/2037	1Z*
52525L AS 9	Lehman XS Trust Series 0.747% 07/25/47		06/25/2010	Paydown		2,180,739	7,265,652	1,423,277	3,105,774		849,948	1,774,983	(925,035)		2,180,739			0	8,097	07/25/2047	1Z*
607059 BR 2	Mobil Oil Credit 5.94% 5.940% 01/15/19		04/15/2010	Redemption 100.0000		263,252	263,252	296,080	291,462		(717)		(717)		290,746		(27,494)	(27,494)	7,819	01/15/2019	1FE
61915R AK 2	Mortgageit Trust Series 0.647% 08/25/35		06/25/2010	Paydown		680,829	680,829	680,829	680,829				0		680,829			0	654	08/25/2035	1Z*
62875U AA 3	NBC Universal 5.150% 04/30/20		04/29/2010	Credit Suisse Securities		2,155,977	2,150,000	2,146,668			(12)		(12)		2,146,655		9,322	9,322	1,230	04/30/2020	2FE
64977# AE 1	NY Capco A3 4/14/10 8 8.870% 04/14/10		04/14/2010	Maturity		129,174	129,174	129,174	129,174				0		129,174			0	11,458	04/14/2010	1
64977# AF 8	NY Capco B3 4/14/10 10 10.960% 04/14/10		04/14/2010	Maturity		138,676	138,676	138,676	138,676				0		138,676			0	15,199	04/14/2010	1
65535V MJ 4	Nomura Asset Acceptance 0.607% 07/25/35		06/25/2010	Paydown		643,333	643,333	643,609	643,598		(265)		(265)		643,333			0	384	07/25/2035	1Z*
65535V NL 8	Nomura Asset Acceptance 0.637% 08/25/35		06/25/2010	Paydown		555,868	555,868	266,146	273,286		282,582		282,582		555,868			0	556	08/25/2035	1Z*
65535V PV 4	Nomura Asset Acceptance 0.617% 10/25/35		06/25/2010	Paydown		388,479	388,479	236,782	243,341		152,132		152,132		388,479			0	332	10/25/2035	1Z*
65535V RK 6	Nomura Asset Acceptance 0.607% 12/25/35		06/25/2010	Paydown		502,839	502,839	172,742	196,926		331,172		331,172		502,839			0	444	12/25/2035	1Z*
65538N AA 1	Nomura Asset Acceptance 0.477% 04/25/37		06/25/2010	Paydown		720,826	720,826	275,782	282,866		445,175		445,175		720,826			0	485	04/25/2037	1Z*
65538N AB 9	Nomura Asset Acceptance 0.597% 04/25/37		06/25/2010	Paydown		613,712	613,712	237,411	243,551		376,415		376,415		613,712			0	537	04/25/2037	1Z*
65538N AC 7	Nomura Asset Acceptance 0.697% 04/25/37		06/25/2010	Paydown		553,838	553,838	216,211	221,834		337,730		337,730		553,838			0	579	04/25/2037	1Z*

QE05.6

SCHEDULE D - PART 4

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

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value					16	17	18	19	20	21	22
										11	12	13	14	15							
CUSIP Identification	Description	F o r e i g n	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/ Adjusted Carrying Value	Unrealized Valuation Increase/ (Decrease)	Current Year's (Amortization)/ Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11+12-13)	Total Foreign Exchange Change in B./A.C.V.	Book/ Adjusted Carrying Value At Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/ Stock Dividends Received During Year	Maturity Date	NAIC Designation or Market Indicator (a)
71531P AA 1	Pershing Road 0.938% 09/01/26.....		06/01/2010	Redemption	100.0000.....	.....805,839	.....805,839	.....805,839	.....805,839	.....	.....	.....	.....0	.....	.....805,839	.....	.....	.....0	.....1,343	09/01/2026	2FE.....
74438G AA 9	Prudential Holdings 12/ 1.414% 12/18/17.....		05/06/2010	Everspan Financial Guarantee.....	.....	.....10,183,320	.....12,000,000	.....10,805,732	.....10,982,327	.....	.....40,225	.....	.....40,225	.....	.....11,022,553	.....	.....(839,233)	.....(839,233)	.....18,931	12/18/2017	1FE.....
76110W XW 1	Residential Asset Serie 1.107% 05/25/34.....		06/25/2010	Paydown.....	.....	.....121,863	.....125,772	.....59,113	.....59,217	.....	.....62,647	.....	.....62,647	.....	.....121,863	.....	.....	.....0	.....204	05/25/2034	1Z*.....
785778 PF 2	Saco I Trust Series 200 0.747% 03/25/37.....		06/25/2010	Paydown.....	.....	.....59,160	.....97,642	.....23,088	.....47,243	.....	.....37,792	.....25,875	.....11,917	.....	.....59,160	.....	.....	.....0	.....121	03/25/2037	1Z*.....
785778 PG 0	Saco I Trust Series 200 0.747% 07/25/36.....		06/25/2010	Paydown.....	.....	.....126,937	.....237,450	.....59,123	.....120,224	.....	.....73,061	.....66,348	.....6,713	.....	.....126,937	.....	.....	.....0	.....273	07/25/2036	1Z*.....
785813 AA 4	Saco I Trust Series 200 0.487% 06/25/36.....		06/25/2010	Paydown.....	.....	.....94,970	.....145,553	.....40,704	.....75,327	.....	.....56,845	.....37,202	.....19,643	.....	.....94,970	.....	.....	.....0	.....105	06/25/2036	1Z*.....
86800N AE 0	Suntrust Student Loan T 0.594% 10/28/37.....		04/07/2010	JPM Chase.....	.....	.....17,911,250	.....23,000,000	.....17,997,960	.....22,995,678	.....	.....8,096	.....4,997,781	.....(4,989,685)	.....	.....18,005,994	.....	.....(94,744)	.....(94,744)	.....24,525	10/28/2037	1FE.....
881561 2U 7	Terwin Mortgage Trust 3.868% 03/25/39.....		06/03/2010	Cantor Fitzgerald.....	.....	.....3,887,250	.....14,200,000	.....1,489,641	.....2,691,970	.....	.....156,927	.....	.....156,927	.....	.....1,634,353	.....	.....2,252,897	.....2,252,897	.....144,862	03/25/2039	1Z*.....
881561 W9 1	Terwin Mortgage Trust 4.500% 10/25/40.....		06/03/2010	Cantor Fitzgerald.....	.....	.....395,644	.....1,413,015	.....260,061	.....331,321	.....	.....(12,023)	.....80,759	.....(92,782)	.....	.....238,539	.....	.....157,105	.....157,105	.....15,896	10/25/2040	1Z*.....
881561 W9 1	Terwin Mortgage Trust 4.500% 10/25/40.....		06/01/2010	Paydown.....	.....	.....28,984	.....28,984	.....5,459	.....6,435	.....	.....23,758	.....1,209	.....22,549	.....	.....28,984	.....	.....	.....0	.....238	10/25/2040	1Z*.....
92976Y AA 0	Wachovia Asset 0.487% 07/25/37.....		06/25/2010	Paydown.....	.....	.....332,639	.....332,639	.....151,039	.....161,464	.....	.....181,745	.....	.....181,745	.....	.....332,639	.....	.....	.....0	.....269	07/25/2037	1Z*.....
92978L AA 6	Wachovia Asset 0.477% 07/25/37.....		06/25/2010	Paydown.....	.....	.....535,717	.....535,716	.....233,575	.....255,449	.....	.....302,338	.....	.....302,338	.....	.....535,717	.....	.....	.....0	.....356	07/25/2037	1Z*.....
051156 AA 5	Augusta Fndg VII Other 0.786% 08/15/13.....	F..	05/06/2010	Everspan Financial Guarantee.....	.....	.....5,240,200	.....7,706,176	.....7,706,176	.....7,706,174	.....	.....1	.....	.....1	.....	.....7,706,176	.....	.....(2,465,976)	.....(2,465,976)	.....10,275	08/15/2013	2FE.....
05330A AA 5	Autopista Maipo 7.373% 06/15/22.....	F..	06/15/2010	Redemption 100.0000.....	.....	.....47,118	.....47,118	.....49,690	.....49,063	.....	.....(44)	.....	.....(44)	.....	.....49,019	.....	.....(1,901)	.....(1,901)	.....1,737	06/15/2022	2FE.....
233048 AC 1	DBS Bank Ltd Money Cent 0.913% 07/15/21.....	F..	05/06/2010	Everspan Financial Guarantee.....	.....	.....10,980,000	.....12,000,000	.....12,000,000	.....12,000,000	.....	.....	.....	.....0	.....	.....12,000,000	.....	.....(1,020,000)	.....(1,020,000)	.....32,531	07/15/2021	1FE.....
55265D AH 8	Mastr ABS Nim Trust Ser 0.363% 05/26/10.....	F..	05/26/2010	Paydown.....	.....	.....784,515	.....2,616,905	.....1,177,607	.....2,207,893	.....	.....369,036	.....1,792,414	.....(1,423,378)	.....	.....784,515	.....	.....	.....0	.....1,571	05/26/2010	6Z*.....
3899999.	Total - Bonds - Industrial & Miscellaneous.....					.....175,228,443	.....217,998,147	.....155,636,174	.....169,842,233	.....651,208	.....32,714,682	.....26,069,426	.....7,296,464	.....0	.....179,931,035	.....0	.....(4,702,592)	.....(4,702,592)	.....950,023	.....XXX...	.....XXX...
8399997.	Total - Bonds - Part 4.....					.....1,193,807,257	.....1,209,537,485	.....1,158,035,019	.....854,920,636	.....651,208	.....32,296,486	.....26,069,426	.....6,878,268	.....0	.....1,179,093,752	.....0	.....14,713,505	.....14,713,505	.....10,690,480	.....XXX...	.....XXX...
8399999.	Total - Bonds.....					.....1,193,807,257	.....1,209,537,485	.....1,158,035,019	.....854,920,636	.....651,208	.....32,296,486	.....26,069,426	.....6,878,268	.....0	.....1,179,093,752	.....0	.....14,713,505	.....14,713,505	.....10,690,480	.....XXX...	.....XXX...
9999999.	Total - Bonds, Preferred and Common Stocks.....				1,193,807,257XXX.....1,158,035,019854,920,636651,20832,296,48626,069,4266,878,26801,179,093,752014,713,50514,713,50510,690,480XXX...XXX...

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

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

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

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

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

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

**Sch. DB-Pt D
NONE**

SCHEDULE E - PART 1 - CASH

Month End Depository Balances

1 Depository	2 Code	3 Rate of Interest	4 Amount of Interest Received During Current Quarter	5 Amount of Interest Accrued at Current Statement Date	Book Balance at End of Each Month During Current Quarter			9 *
					6 First Month	7 Second Month	8 Third Month	
Open Depositories								
Citibank, N.A..... London, England.....			1,398		1,322,580	214,875	431,557	XXX..
Citibank, N.A..... New York, New York.....			14		174,597	59,835	4,024,979	XXX..
Bank of New York..... New York, New York.....			6		567,240	135,934	4,358,199	XXX..
0199999. Total Open Depositories.....	...XXX.....	...XXX.....	1,418	0	2,064,417	410,644	8,814,735	XXX..
0399999. Total Cash on Deposit.....	...XXX.....	...XXX.....	1,418	0	2,064,417	410,644	8,814,735	XXX..
0599999. Total Cash.....	...XXX.....	...XXX.....	1,418	0	2,064,417	410,644	8,814,735	XXX..

SCHEDULE E - PART 2 - CASH EQUIVALENTS

Show Investments Owned End of Current Quarter

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

QE10