

# **QUARTERLY STATEMENT**

**OF THE**

## **Ambac Assurance Corporation Segregated Account, in Rehabilitation**

**Of**

**in the state of WI**

**to the Insurance Department  
of the State of**

For the Period Ended  
March 31,

**2010**





# QUARTERLY STATEMENT

As of March 31, 2010  
of the Condition and Affairs of the

## Ambac Assurance Corporation Segregated Account, in Rehabilitation

NAIC Group Code 1248, (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  
 NAIC Company Code 13763 Employer's ID Number 391135174  
 Incorporated/Organized March 24, 2010 Commenced Business March 24, 2010  
 Statutory Home Office c/o Dewitt Ross & Stevens S.C., 2 East Mifflin Street, Suite 600 Madison, WI 53703  
*(Street and Number) (City or Town, State and Zip Code)*  
 Main Administrative Office One State Street Plaza New York, NY 10004 212-668-0340  
*(Street and Number) (City or Town, State and Zip Code) (Area Code) (Telephone Number)*  
 Mail Address One State Street Plaza New York, NY 10004  
*(Street and Number or P. O. Box) (City or Town, State and Zip Code)*  
 Primary Location of Books and Records One State Street Plaza New York, NY 10004 212-668-0340  
*(Street and Number) (City or Town, State and Zip Code) (Area Code) (Telephone Number)*  
 Internet Website Address http://www.ambac.com  
 Statutory Statement Contact 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 & Chief Accounting Officer	6. Diana Adams #	Senior Managing Director
7. Gregg Lloyd Bienstock #	Senior Vice President	8. Timothy Stevens #	Senior Managing Director

### DIRECTORS OR TRUSTEES of Ambac Assurance Corporation

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

_____ (Signature) David William Wallis #	_____ (Signature) Kevin John Doyle #	_____ (Signature) Robert Bryan Eisman #
1. (Printed Name) President (President & Chief Executive Officer), Ambac Assurance Corporation, in its capacity as manager of the Ambac Assurance Corporation Segregated Account	2. (Printed Name) Secretary (Senior Vice President & General Counsel), Ambac Assurance Corporation, in its capacity as manager of the Ambac Assurance Corporation Segregated Account	3. (Printed Name) Senior Managing Director & Chief Accounting Officer, Ambac Assurance Corporation, in its capacity as manager of the Ambac Assurance Corporation Segregated Account
_____ (Title)	_____ (Title)	_____ (Title)

Subscribed and sworn to before me  
This \_\_\_\_\_ 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.....			.0	
2. Stocks:				
2.1 Preferred stocks.....			.0	
2.2 Common stocks.....			.0	
3. Mortgage loans on real estate:				
3.1 First liens.....			.0	
3.2 Other than first liens.....			.0	
4. Real estate:				
4.1 Properties occupied by the company (less \$.....0 encumbrances).....			.0	
4.2 Properties held for the production of income (less \$.....0 encumbrances).....			.0	
4.3 Properties held for sale (less \$.....0 encumbrances).....			.0	
5. Cash (\$.....0), cash equivalents (\$.....0) and short-term investments (\$.....0).....			.0	
6. Contract loans (including \$.....0 premium notes).....			.0	
7. Derivatives.....			.0	
8. Other invested assets.....	2,000,225,530		2,000,225,530	
9. Receivables for securities.....			.0	
10. Aggregate write-ins for invested assets.....	.0	.0	.0	.0
11. Subtotals, cash and invested assets (Lines 1 to 10).....	2,000,225,530	.0	2,000,225,530	.0
12. Title plants less \$.....0 charged off (for Title insurers only).....			.0	
13. Investment income due and accrued.....	1,972,603		1,972,603	
14. Premiums and considerations:				
14.1 Uncollected premiums and agents' balances in the course of collection.....			.0	
14.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$.....0 earned but unbilled premiums).....			.0	
14.3 Accrued retrospective premiums.....			.0	
15. Reinsurance:				
15.1 Amounts recoverable from reinsurers.....			.0	
15.2 Funds held by or deposited with reinsured companies.....			.0	
15.3 Other amounts receivable under reinsurance contracts.....			.0	
16. Amounts receivable relating to uninsured plans.....			.0	
17.1 Current federal and foreign income tax recoverable and interest thereon.....			.0	
17.2 Net deferred tax asset.....			.0	
18. Guaranty funds receivable or on deposit.....			.0	
19. Electronic data processing equipment and software.....			.0	
20. Furniture and equipment, including health care delivery assets (\$.....0).....			.0	
21. Net adjustment in assets and liabilities due to foreign exchange rates.....			.0	
22. Receivables from parent, subsidiaries and affiliates.....			.0	
23. Health care (\$.....0) and other amounts receivable.....			.0	
24. Aggregate write-ins for other than invested assets.....	.0	.0	.0	.0
25. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 11 through 24).....	2,002,198,133	.0	2,002,198,133	.0
26. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			.0	
27. Total (Lines 25 and 26).....	2,002,198,133	.0	2,002,198,133	.0

### DETAILS OF WRITE-INS

1001 .....			.0	
1002 .....			.0	
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).....	.0	.0	.0	.0
2401 .....			.0	
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).....	.0	.0	.0	.0

## LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Statement Date	2 December 31 Prior Year
1. Losses (current accident year \$.....0).....		
2. Reinsurance payable on paid losses and loss adjustment expenses.....		
3. Loss adjustment expenses.....		
4. Commissions payable, contingent commissions and other similar charges.....		
5. Other expenses (excluding taxes, licenses and fees).....		
6. Taxes, licenses and fees (excluding federal and foreign income taxes).....		
7.1 Current federal and foreign income taxes (including \$.....0 on realized capital gains (losses)).....		
7.2 Net deferred tax liability.....		
8. Borrowed money \$.....0 and interest thereon \$.....0.....		
9. Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$.....0 and including warranty reserves of \$.....0).....		
10. Advance premium.....		
11. Dividends declared and unpaid:		
11.1 Stockholders.....		
11.2 Policyholders.....		
12. Ceded reinsurance premiums payable (net of ceding commissions).....		
13. Funds held by company under reinsurance treaties.....		
14. Amounts withheld or retained by company for account of others.....		
15. Remittances and items not allocated.....		
16. Provision for reinsurance.....		
17. Net adjustments in assets and liabilities due to foreign exchange rates.....		
18. Drafts outstanding.....		
19. Payable to parent, subsidiaries and affiliates.....		
20. Derivatives.....		
21. Payable for securities.....		
22. Liability for amounts held under uninsured plans.....		
23. Capital notes \$.....0 and interest thereon \$.....0.....		
24. Aggregate write-ins for liabilities.....	2,001,972,603	0
25. Total liabilities excluding protected cell liabilities (Lines 1 through 24).....	2,001,972,603	0
26. Protected cell liabilities.....		
27. Total liabilities (Lines 25 and 26).....	2,001,972,603	0
28. Aggregate write-ins for special surplus funds.....	0	0
29. Common capital stock.....		
30. Preferred capital stock.....		
31. Aggregate write-ins for other than special surplus funds.....	0	0
32. Surplus notes.....		
33. Gross paid in and contributed surplus.....		
34. Unassigned funds (surplus).....	225,530	
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).....	225,530	0
37. Totals.....	2,002,198,133	0

### DETAILS OF WRITE-INS

2401. Retroactive reinsurance reserves assumed from Ambac Assurance Corporation.....	4,046,785,435	
2402. Retroactive reinsurance reserves retroceded to Ambac Assurance Corporation.....	(2,044,812,832)	
2403. ....		
2498. Summary of remaining write-ins for Line 24 from overflow page.....	0	0
2499. Totals (Lines 2401 thru 2403 plus 2498) (Line 24 above).....	2,001,972,603	0
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
<b>UNDERWRITING INCOME</b>			
1. Premiums earned:			
1.1 Direct..... (written \$.....0).....			
1.2 Assumed..... (written \$.....0).....			
1.3 Ceded..... (written \$.....0).....			
1.4 Net..... (written \$.....0).....	0	0	0
DEDUCTIONS:			
2. Losses incurred (current accident year \$.....0):			
2.1 Direct.....			
2.2 Assumed.....			
2.3 Ceded.....			
2.4 Net.....	0	0	0
3. Loss adjustment expenses incurred.....			
4. Other underwriting expenses incurred.....			
5. Aggregate write-ins for underwriting deductions.....	0	0	0
6. Total underwriting deductions (Lines 2 through 5).....	0	0	0
7. Net income of protected cells.....			
8. Net underwriting gain (loss) (Line 1 minus Line 6 + Line 7).....	0	0	0
<b>INVESTMENT INCOME</b>			
9. Net investment income earned.....	1,972,603		
10. Net realized capital gains (losses) less capital gains tax of \$.....0.....			
11. Net investment gain (loss) (Lines 9 + 10).....	1,972,603	0	0
<b>OTHER INCOME</b>			
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.....	(1,972,603)	0	0
15. Total other income (Lines 12 through 14).....	(1,972,603)	0	0
16. Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 + 11 + 15).....	0	0	0
17. Dividends to policyholders.....			
18. Net income after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Line 16 minus Line 17).....	0	0	0
19. Federal and foreign income taxes incurred.....			
20. Net income (Line 18 minus Line 19) (to Line 22).....	0	0	0
<b>CAPITAL AND SURPLUS ACCOUNT</b>			
21. Surplus as regards policyholders, December 31 prior year.....	0		
22. Net income (from Line 20).....	0	0	0
23. Net transfers (to) from Protected Cell accounts.....			
24. Change in net unrealized capital gains or (losses) less capital gains tax of \$.....0.....	225,530		
25. Change in net unrealized foreign exchange capital gain (loss).....			
26. Change in net deferred income tax.....			
27. Change in nonadmitted assets.....			
28. Change in provision for reinsurance.....			
29. Change in surplus notes.....			
30. Surplus (contributed to) withdrawn from protected cells.....			
31. Cumulative effect of changes in accounting principles.....			
32. Capital changes:			
32.1 Paid in.....			
32.2 Transferred from surplus (Stock Dividend).....			
32.3 Transferred to surplus.....			
33. Surplus adjustments:			
33.1 Paid in.....			
33.2 Transferred to capital (Stock Dividend).....			
33.3 Transferred from capital.....			
34. Net remittances from or (to) Home Office.....			
35. Dividends to stockholders.....			
36. Change in treasury stock.....			
37. Aggregate write-ins for gains and losses in surplus.....	0	0	0
38. Change in surplus as regards policyholders (Lines 22 through 37).....	225,530	0	0
39. Surplus as regards policyholders, as of statement date (Lines 21 plus 38).....	225,530	0	0
<b>DETAILS OF WRITE-INS</b>			
0501. ....			
0502. ....			
0503. ....			
0598. Summary of remaining write-ins for Line 5 from overflow page.....	0	0	0
0599. Totals (Lines 0501 thru 0503 plus 0598) (Line 5 above).....	0	0	0
1401. Change in retroactive reinsurance reserves assumed from Ambac Assurance Corporation.....	(2,046,785,435)		
1402. Change in retroactive reinsurance reserves retroceded to Ambac Assurance Corporation.....	2,044,812,832		
1403. ....			
1498. Summary of remaining write-ins for Line 14 from overflow page.....	0	0	0
1499. Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above).....	(1,972,603)	0	0
3701. ....			
3702. ....			
3703. ....			
3798. Summary of remaining write-ins for Line 37 from overflow page.....	0	0	0
3799. Totals (Lines 3701 thru 3703 plus 3798) (Line 37 above).....	0	0	0

## CASH FLOW

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

NONE

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

20.0001 .....			
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**NOTES TO FINANCIAL STATEMENTS**

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**Note 1 - Summary of Significant Accounting Policies**

## a. Accounting Practices

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

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

## b. Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with statutory accounting practices prescribed or permitted by the State of Wisconsin requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the statutory financial statements, and the reported revenues and expenses during the reporting period. Such estimates are used in connection with retroactive reinsurance reserves. Current market conditions increase the risk and complexity of the judgments in estimates. Actual results could differ from those estimates.

## c. Accounting Policies

As noted in footnote #10 below, on March 24, 2010, Ambac Assurance Corporation ("Ambac Assurance") established a segregated account pursuant to Wisc. Stat. §611.24(2). Under Wisconsin insurance law, the Segregated Account is a separate insurer from Ambac Assurance for purposes of the Segregated Account Rehabilitation Proceedings. The purpose of the Segregated Account is to segregate certain segments of Ambac Assurance's liabilities. The Segregated Account is capitalized by a \$2,000,000,000 secured note due 2050 issued by Ambac Assurance (the "Secured Note") and an aggregate excess of loss reinsurance agreement provided by Ambac Assurance (the "Reinsurance Agreement") whereby Ambac Assurance assumes all liabilities in excess of the Secured Note principal balance and the total of all other liquid assets. The Company has applied the retroactive reinsurance accounting guidance contained in SSAP 62R "Property and Casualty Insurance" to account for the initial transfer and retrocession of the liabilities, as well as subsequent changes in the reserves.

Expenses incurred in connection with the operation of the Segregated Account pursuant to the Segregated Account Rehabilitation Proceedings are charged to operations as incurred.

In addition, the Company utilizes the following accounting policies:

- i. The Company did not hold short-term investments or cash equivalents at March 31, 2010.
- ii. The Company did not hold investments in bonds at March 31, 2010.
- iii. The Company did not hold investments in unaffiliated common stocks at March 31, 2010.
- iv. The Company did not hold investments in preferred stock at March 31, 2010.
- v. The Company did not hold investments in mortgage loans at March 31, 2010.
- vi. The Company did not hold investments in loan-backed securities mortgage loans at March 31, 2010.
- vii. Investments in non-insurance limited liability companies ("LLCs") are recorded based on the audited GAAP equity of the investee. Investments in unaudited companies are non-admitted.
- viii. The Company did not hold derivative instruments at March 31, 2010.
- ix. The Company anticipates investment income as a factor in the premium deficiency calculation, in accordance with SSAP No. 53 – Property and Casualty Contracts – Premiums.
- x. The Company did not establish case basis loss reserves at March 31, 2010. The Company recognizes a Retroactive Reinsurance Liability for its obligations.
- xi. The Company did not hold mandatory contingency reserves at March 31, 2010.

**Note 2 - Accounting Changes and Corrections of Errors**

The Company did not have any correction of errors at March 31, 2010.

**Note 3 - Business Combinations and Goodwill**

The Company has not been a party to any business combinations taking the form of a statutory merger.

**Note 4 - Discontinued Operations**

The Company does not have any discontinued operations at March 31, 2010.



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## NOTES TO FINANCIAL STATEMENTS

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### **Note 5 - Investments**

- a. Mortgage Loans – The Company did not hold mortgage loans as investments at March 31, 2010.
- b. Restructured Debt – The Company did not restructure any investments in debt securities at March 31, 2010.
- c. Reverse Mortgages – The Company did not hold reverse mortgages as investments at March 31, 2010.
- d. Loan-Backed Securities – The Company did not hold loan-backed securities at March 31, 2010.
- e. Repurchase Agreements – The Company did not enter into repurchase agreements at March 31, 2010.
- f. Real Estate Impairment and Land Sales – The Company did not hold investments in real estate, recognize any real estate impairments, or engage in retail land sales at March 31, 2010.
- g. Low Income Housing Tax Credits – The Company did not hold low income housing tax credits as investments at March 31, 2010.

### **Note 6 - Joint Ventures, Partnerships and Limited Liability Companies**

The Company has no investments in Joint Ventures, Limited Partnerships, or Limited Liability Companies that exceed 10% of admitted asset

### **Note 7 - Investment Income**

All investment income due and accrued was admitted at March 31, 2010.

### **Note 8 - Derivative Instruments**

The Company did not hold derivative instruments at March 31, 2010.

### **Note 9 - Income Taxes**

The Company adopted SSAP 10R effective March 31, 2010.

- A. The Company does not have a net deferred tax asset at March 31, 2010.
  1. The admitted deferred tax assets provisions of paragraph 10.e. do not apply to the Company because it is a Financial Guarantee Monoline insurer and is not required to prepare Risk Based Capital calculations.
  2. The Company has no net admitted adjusted gross deferred tax assets under SSAP 10R.
  3. The Company has no admitted adjusted gross deferred tax assets as a result of the application of paragraph 10.e.
- B. Unrecognized Deferred Tax Liabilities
  1. There are no temporary differences for which deferred tax liabilities are not recognized.
  2. The Company has a \$0 unrecognized DTL for temporary differences related to investments in foreign subsidiaries and foreign corporate joint ventures that are essentially permanent in duration (or a statement that a determination is not practicable).
- C. Current Tax and Change in Deferred Tax
  1. The Company has no provisions for income taxes incurred on earnings for the three months ended March 31, 2010.
  2. The Company does not have any deferred tax assets nor liabilities at March 31, 2010.
- D. Reconciliation of Federal Income Tax Rate to Actual Effective Rate
  1. The Company does not have net income or income tax incurred for the three months ended March 31, 2010.
- E. Operating Loss and Tax Credit Carryforwards and Protective Tax Deposits
  1. At March 31, 2010, the Company did not have any unused operating loss carryforwards available to offset against future taxable income.
  2. At March 31, 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.
- F. Consolidated Federal Income Tax Returns
  1. For the purposes of federal income taxes, the Segregated Account and Ambac Assurance are a single tax-paying entity (“Ambac Assurance Corporation”). Ambac Assurance Corporation will be included in Ambac Financial Group, Inc.'s (“Ambac Financial”) consolidated federal income tax return, which includes the following taxable entities: Ambac Financial, Ambac Assurance Corporation, 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. 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 Ambac Assurance’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 Financial, 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.

**NOTES TO FINANCIAL STATEMENTS****Note 10 - Information Concerning Parent, Subsidiaries, Affiliates and Other Related Parties****Recent Developments:****Segregated Account**

- a. On March 24, 2010, Ambac Assurance established 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, and in connection with such segregation Ambac Assurance has allocated to the Segregated Account (i) certain policies insuring or relating to credit default swaps, (ii) all residential mortgage-backed securities ("RMBS") policies, (iii) certain other identified policies, including those relating to Las Vegas Monorail Company, and (iv) certain Student Loan Policies (as defined below) (collectively, the "Segregated Account Policies"). The Segregated Account Rehabilitation Plan will, if approved, provide that Ambac Assurance may, with the approval of the OCI, cause additional Student Loan Policies to be transferred to the Segregated Account. Ambac Assurance also allocated the following to the Segregated Account: (i) all remediation claims, defenses, offsets, and/or credits (but excluding recoveries arising from remediation efforts or reimbursement or collection rights with respect to policies allocated to the Segregated Account), 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 Assurance UK Limited ("Ambac UK") lease with British Land, (iii) Ambac Assurance's limited liability interests in Ambac Credit Products, LLC ("ACP"), Ambac Conduit Funding LLC, Aleutian Investments LLC and Juneau Investments LLC 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 \$64,012,000,000 as of March 31, 2010, which is inclusive of net par exposures assumed under reinsurance contracts, primarily from Ambac UK, in an aggregate amount of \$22,770,000,000.

On March 24, 2010, the Office of the Commissioner of Insurance of the state of Wisconsin ("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. 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. 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 Surplus Notes shall have a maturity date of ten years from their issue date. Interest on the Surplus Notes shall be payable annually at the annual rate of 5.1%. All payments of principal and interest on the Surplus Notes shall be subject to the prior approval of OCI. If the OCI does not approve the payment of interest on the Surplus Notes, such interest will accrue and compound annually until paid or otherwise. Until the Segregated Account Rehabilitation Plan is approved, which OCI has indicated will be filed in approximately six months, it is anticipated that no claims will be paid on Segregated Account Policies, except as approved by the rehabilitation court.

The Segregated Account has no cash or securities, but has the ability to demand payment from time to time to pay claims and other liabilities of up to \$2 billion under a secured note due 2050 issued by Ambac Assurance (the "Secured Note"). 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 policyholders is (or would be) less than \$100 million, 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 to the Segregated Account under the Reinsurance Agreement are not capped. In addition, the Plan of Operation (as defined below) provides that Ambac Assurance's 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.

Pursuant to the terms of the Plan of Operation, defined below, 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 business placed therein. 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 Ambac Assurance's 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 (as defined below) 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

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**NOTES TO FINANCIAL STATEMENTS**

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Account as those that appear in the Secured Note, as described in the preceding paragraph.

Policy obligations not transferred to the Segregated Account remain in the general account of Ambac Assurance (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.

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.

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 million (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 billion secured note due 2050 has been recorded in Other Invested Assets.
- 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.

#### **Outline of Proposed Settlement Agreement**

On March 24, 2010, Ambac Assurance reached a non-binding agreement (the "Proposed Settlement") with certain counterparties (the "Counterparties") to outstanding credit default swaps with ACP that were guaranteed by Ambac Assurance. The Proposed Settlement provides that Ambac Assurance will enter into a settlement agreement (the "Settlement Agreement") with the Counterparties, pursuant to which it will commute substantially all of the ABS CDO transactions insured by Ambac Assurance (the "Committed ABS CDO Obligations"). The Proposed Settlement is not a binding agreement, and there can be no assurance that a definitive agreement will be executed or that a definitive agreement will be reached with all Counterparties. In addition, the terms of the Proposed Settlement, as negotiated to date, may change prior to the Closing Date (as defined below), or the transactions contemplated by the Proposed Settlement may not be consummated at all. Pursuant to the terms of the Proposed Settlement, in exchange for the termination of the Committed ABS CDO Obligations, Ambac Assurance shall transfer to the Counterparties in the aggregate (i) \$2.6 billion in cash and (ii) \$2 billion of newly issued surplus notes of Ambac Assurance (the "Ambac Assurance Surplus Notes"). Each of the Counterparties, on the one hand, and Ambac Assurance and the Company, on the other hand, has agreed to provide a release of the other party relating to any credit default swaps or financial guaranty insurance policies commuted pursuant to the Proposed Settlement. In addition, each of the Counterparties, on the one hand, and Ambac Assurance and the Company, on the other hand, has agreed to negotiate in good faith a general release relating to all actions taken or omitted to be taken prior to the Closing Date, subject to certain exceptions. In addition to the commutation of the Committed ABS CDO Obligations, Ambac Assurance will also commute certain additional obligations (the "Additional Commuted Obligations").

The Ambac Assurance Surplus Notes shall have a maturity date of ten years from the Closing Date. Interest on the Ambac Assurance Surplus Notes shall be payable annually at the annual rate of 5.1%. All payments of principal and interest on the Ambac Assurance Surplus Notes shall be subject to the prior approval of 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 or otherwise. Ambac Assurance and the Counterparties have agreed to negotiate in good faith (but shall be under no obligation to agree to) bilateral redemption provisions applicable to the Ambac Assurance Surplus Notes. The parties to the Proposed Settlement shall also agree to consider in good faith any alternative proposal intended to mitigate the risk that the issuance of the Ambac Assurance Surplus Notes will adversely impact the preservation of Ambac Assurance's net operating losses (the "NOLs"), so long as implementation of such alternative proposal would not adversely affect the interests of the Counterparties.

The Settlement Agreement shall provide that Ambac Assurance's payment obligations relating to financial guarantee insurance policies on bonds, certificates, notes or other securities payable from certain specified student loan assets ("Student Loan Policies") shall be transferred to the Segregated Account. The Segregated Account Rehabilitation Plan will, if approved, provide that Ambac Assurance may, with the approval of the OCI, cause additional Student Loan Policies to be transferred to the Segregated Account.

Counterparties to credit default swaps with ACP with respect to which policies remain in the General Account have agreed to temporarily forbear from terminating or accelerating the obligations of ACP under such credit default swaps or asserting any claims against Ambac Assurance or any affiliate thereof based upon the Segregated Account Rehabilitation Proceedings or events relating thereto until the earlier of (i) May 23, 2010, unless otherwise extended, and (ii) the occurrence of certain termination events (the "Forbearance Period"). Effective on the date of the closing of the transactions contemplated by the Settlement Agreement (the "Closing Date"), the credit default swaps remaining in the General Account (primarily, credit default swaps with respect to certain collateralized loan obligations) will be amended to remove certain events of default and termination events, including those arising from the Segregated Account Rehabilitation Proceedings.

Assumed reinsurance obligations of Ambac Assurance (except for reinsurance assumed from Everspan) shall be allocated to the Segregated Account and, pursuant to the Segregated Account Rehabilitation Plan when it is approved shall be treated consistent with the junior priority of such obligations in liquidation.

It is expected that, on or prior to the Closing Date and the consummation of the Proposed Settlement, the articles of incorporation of Ambac Assurance shall be amended to provide that, not later than 120 days after the Closing Date, the board of directors of Ambac Assurance shall be reconstituted (whether by the appointment of additional directors, the resignation of current directors to be replaced with new directors, or a combination of the foregoing) so that at all times thereafter at least one-third of the total number of members of the board (and not less than three such members) are independent, qualified and unaffiliated with Ambac Assurance ("Unaffiliated Directors"), any Counterparty or any of their respective affiliates. Unaffiliated Directors will not include directors, if any, appointed by the holders of Ambac Assurance's Auction Market

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**NOTES TO FINANCIAL STATEMENTS**

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## Preferred Shares.

The Settlement Agreement is also expected to include covenants that shall remain in force until the redemption of all of the Ambac Assurance Surplus Notes as approved by OCI, and can be amended or waived with (i) the consent of 50% in face amount of the Ambac Assurance Surplus Notes that cast a ballot and (ii) the approval of OCI. The Settlement Agreement may include the following covenants (the "Covenants"):

- At all times after the 120th day after the Closing Date and prior to the expiration of the Covenants, at least one-third of the board of directors of Ambac Assurance shall be Unaffiliated Directors;
- Ambac Assurance shall not write new business or guarantee or reinsure any new Everspan business (including under any existing treaties) so long as any Ambac Assurance Surplus Notes held by Counterparties remain outstanding, unless approved by OCI and Ambac Assurance has a financial strength rating of at least A (and is not on negative watch for downgrade) from at least two nationally recognized rating agencies. New business may be undertaken by Everspan with an infusion of new outside capital, if approved by the board of directors of Ambac Assurance, including a majority of the Unaffiliated Directors;
- Except as expressly contemplated by the Settlement Agreement, Ambac Assurance shall not issue or assume any surplus notes, policies or other material obligations that are pari passu with or senior to the Ambac Assurance Surplus Notes (including, without limitation, debt instruments of affiliates that are structurally senior to the Ambac Assurance Surplus Notes), other than the Segregated Account Surplus Notes or any other surplus notes or other material obligations approved for issuance by the rehabilitation court in satisfaction or partial satisfaction of any liabilities of the Segregated Account;
- While the Ambac Assurance Surplus Notes are outstanding, all other surplus notes issued by Ambac Assurance shall be on terms no more favorable to the noteholder than the Ambac Assurance Surplus Notes;
- Ambac Assurance shall provide Counterparties who are holders of Ambac Assurance Surplus Notes with quarterly financial information, as specified in the Settlement Agreement;
- No mergers, sales, pledges or other transfers of 10% or more of Ambac Assurance's assets (in one transaction, a series of related transactions or a series of unrelated transactions that occur within a 6-month time period), dividends, cedes of material business, or investments shall be permitted, in each case, whether such transaction is with an affiliate or a third party, except as follows:
- Transactions by the Segregated Account approved by the rehabilitation court pursuant to a final and non-appealable order of the rehabilitation court or a plan of rehabilitation approved by a final and non-appealable order of the rehabilitation court;
- Dividends or loans (approved by OCI) in an amount (i) up to \$52 million per annum solely to pay interest on indebtedness outstanding as of March 15, 2010 (at the rate of interest applicable on March 15, 2010) that remains outstanding at the time of such dividend or loan, to the extent allowed by OCI, and (ii) up to \$7.5 million per annum solely to pay operating expenses of the Company, to the extent allowed by OCI; provided, that, concurrently with any such permitted dividend or loan, the total principal amount of all outstanding surplus notes shall be prepaid on a pro rata basis by an amount equal to the amount of such permitted payment;
- Investments in accordance with investment guidelines as required by statutory accounting principles and as approved by OCI, provided, that Ambac Assurance's investment plan and performance shall be reviewed at least annually by its board of directors and modified as necessary and approved by the board of directors of Ambac Assurance (including a majority of the Unaffiliated Directors);
- Calls or purchases of Ambac Assurance Surplus Notes on a non-pro rata basis or redemptions of Ambac Assurance Surplus Notes on a pro rata basis funded solely with new equity capital or Ambac Assurance funds, in each case subject to the approval of OCI;
- Transactions related to and arising from the ongoing RMBS liability remediation efforts and any other loss mitigation activities approved by the rehabilitation court;
- Bulk cession(s) of liabilities to direct or indirect subsidiaries together with a transfer of corresponding assets and necessary capital as approved by OCI; and
- Transactions otherwise not permitted by the Covenants if approved by OCI and if, after giving effect thereto, Ambac Assurance has a financial strength rating of at least A (and is not on negative watch for downgrade) from at least two nationally recognized rating agencies.
- With respect to any financial guarantee insurance policy commuted or credit default swap terminated pursuant to the Settlement Agreement, Ambac Assurance shall cooperate with any reasonable requests of the Counterparties to assist in the restructuring of the underlying insured transactions, including, without limitation, by transferring any voting or consent rights held by Ambac Assurance to such Counterparty to the extent permitted by the transaction documents;

**NOTES TO FINANCIAL STATEMENTS**

- Ambac Assurance shall not enter into any tax-sharing agreement with the Company or any of its affiliates adverse to Ambac Assurance. Without limiting the generality of the foregoing, immediately prior to the Closing Date, the existing tax sharing agreement among the members of the consolidated tax group of which the Company is the common parent shall be terminated as to Ambac Assurance and its subsidiaries, including Everspan (the “Ambac Assurance Subgroup”), and shall be replaced by an agreement that recognizes the consolidated NOL of the group as an asset of the Ambac Assurance Subgroup and that requires the Company to compensate Ambac Assurance on a current basis for use of any portion of that asset, except that the Company shall not be required to compensate Ambac Assurance for the Company’s use of net operating losses in connection with cancellation of debt (“COD”) income associated with restructurings of its bonds outstanding as of March 15, 2010;
- The Counterparties shall be entitled pursuant to the Settlement Agreement to specific enforcement of the foregoing covenants; and
- All transactions between Ambac Assurance and its affiliates shall be approved by a majority of the Unaffiliated Directors.

Depending upon the final terms of the Ambac Assurance Surplus Notes and the final terms of the Settlement Agreement, it is possible the Ambac Assurance Surplus Notes may be characterized as equity of Ambac Assurance for U.S. federal income tax purposes. If the Ambac Assurance Surplus Notes are characterized as equity of Ambac Assurance and it is determined the Ambac Assurance 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 affiliated subsidiaries (the “Ambac Assurance Consolidated Tax Group”).

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

If the Ambac Assurance Surplus Notes are characterized as equity of Ambac Assurance and it is determined the Ambac Assurance 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. In light of these potential exemptions, the parties to the Settlement Agreement have agreed to consider in good faith certain alternative proposals intended to mitigate the risk that the issuance of the Ambac Assurance Surplus Notes will adversely impact the preservation of Ambac Assurance’s NOL, so long as implementation of such alternative proposal would not adversely affect the interest of the Counterparties.

Furthermore, to the extent Ambac Assurance is no longer characterized as a member of the Company Consolidated Tax Group, the Ambac Assurance Consolidated Tax Group may not reconsolidate with the Company Consolidated Tax Group for a period of five years following such event, even if the Company 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 the Company Consolidated Tax Group, the acquisition by the Company 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 NOLs to the Company Consolidated Tax Group.

Since the commencement of the Segregated Account Rehabilitation Proceedings, several applications have been made to the rehabilitation court challenging the propriety of the allocation of certain policies to the Segregated Account. The first of these applications was brought by Wells Fargo Bank National Association, acting as Trustee for certain Las Vegas Monorail bondholders holding policies allocated to the Segregated Account. The rehabilitation court has set a hearing on this application for July 9, 2010. A second application was made on April 30, 2010 by certain policyholders of residential mortgage backed securities (“RMBS Policyholders”). The RMBS Policyholders claim that the Order for Temporary Injunctive Relief granted by the rehabilitation court on March 24, 2010 should be modified by enjoining Ambac Assurance from entering into the Proposed Settlement described above. The RMBS Policyholders also have requested that the rehabilitation court remove from the Segregated Account those policies held by the RMBS Policyholders and return those policies to the general account of Ambac Assurance, and that an order be entered declaring the establishment of the Segregated Account was invalid due to non-compliance with the Wisconsin Insurance Statutes and the Constitutions of the United States and Wisconsin. On May 5, certain Las Vegas Monorail bondholders filed an application in the rehabilitation court seeking relief similar to that sought by the RMBS Policyholders. Both the RMBS Policyholders and the Las Vegas Monorail bondholders’ applications will be heard before the rehabilitation court on May 25, 2010.

- b. There were no transactions with affiliates that were greater than ½ of 1% of admitted assets subsequent of the creation of the Segregated Account.
- c. At March 24, 2010, the Segregated Account established new transactions with affiliates.
- d. At March 31, 2010, the Company reported \$0 due to or from related parties.
- e. For the purposes of the Segregated Account Rehabilitation Proceedings, Ambac Assurance allocated Ambac Assurance’s limited liability interests in ACP, Ambac Conduit Funding LLC, Aleutian Investments LLC and Juneau Investments LLC to the Segregated Account.
- f. Effective March 24, 2010, the Segregated Account entered into a Management Services Agreement (the “Management Services Agreement”) and a Cooperation Agreement (the “Cooperation Agreement”) with Ambac Assurance. Pursuant to the Management Services Agreement, Ambac Assurance will provide certain management and administrative services to the Segregated Account and the rehabilitator 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.

Pursuant to the Cooperation Agreement, Ambac Assurance and the Segregated Account have agreed to certain matters related to decision-making,

**NOTES TO FINANCIAL STATEMENTS**

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 million (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.

- g. The Company, a Wisconsin domiciled insurance company, is a separate insurer from Ambac Assurance for purposes of the Segregated Account Rehabilitation Proceedings. Ambac Assurance is a wholly owned subsidiary of Ambac Financial, a publicly traded company whose common stock is listed on the New York Stock Exchange. The organization chart is included in Schedule Y.
- h. The Company owns no shares in an upstream intermediate or ultimate parent.
- i. The Company owns 100% of ACP and Ambac Conduit Funding LLC which owns 99% of Aleutian Investments LLC and Juneau Investments LLC at March 31, 2010. Additionally, the Company has a 1% direct ownership of Aleutian Investments, LLC and Juneau Investments, LLC. None of the Company's investments in subsidiary, controlled or affiliated companies exceeds 10% of the admitted assets of the Company at March 31, 2010.
- j. There were no write-downs for impairments of investments in subsidiary, controlled or affiliated companies during 2010.
- k. The Company does not have any foreign insurance subsidiaries valued using CARVM.
- l. The Company does not admit any downstream holding companies.

**Note 11 - Debt**

- a. The Company has no capital note obligations or any other debt outstanding.
- 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**

- a. The Company does not sponsor a defined benefit pension plan.
- b. The Company does not sponsor a defined contribution pension plan.
- c. The Company does not sponsor a multiemployer pension plan.
- d. The Company has no employees at March 31, 2010 and therefore does not participate in any holding company benefit plans.
- e. The Company has no employees at March 31, 2010 and therefore does not have any postemployment benefits or compensated absences.
- f. The Company has no employees at March 31, 2010 and therefore no impact from the medicare modernization act.

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

- a. The Company has no common stock outstanding.
- b. The Company has no preferred stock outstanding.
- c. Pursuant to the Rehabilitation Proceeding as noted in footnote #10, the Company must obtain the approval of OCI before any dividend is paid.
- d, e. The Company did not make any dividend payments during 2010.
- f. Restrictions on Unassigned Funds – There are no restrictions other than the limitations in paragraph c and the payments described in footnote #10.
- a. The Company is not a mutual company; as such, there were no mutual surplus advances during 2010.
- b. The Company holds no stock for special purposes.
- c. There are no special surplus funds as of March 31, 2010.
- d. Unassigned funds (surplus) includes the following at March 31, 2010:
 

Net unrealized gain (losses)	\$ 225,530
Non-admitted assets	\$ 0
- e. The Company has not issued surplus notes at March 31, 2010.
- f. The Company has not undergone a reorganization or a quasi-reorganization.

**Note 14 - Contingencies**

- a. The Company has no commitments or contingent commitments to any affiliates.
- b. The Company does not issue life insurance policies and therefore is not subject to guaranty fund assessments.

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## NOTES TO FINANCIAL STATEMENTS

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- c. The Company has not recognized any gain contingencies either prior to or subsequent to the balance sheet date.
- d. The Company did not have any claims related to extra contractual obligations or bad faith losses stemming from lawsuits.
- e. Ambac Assurance has been named in lawsuits filed by certain policyholders seeking to enjoin Ambac Assurance from entering into the Proposed Settlement Agreement discussed above in "Recent Developments" section contained in this Report and to request the rehabilitation court to remove from the Segregated Account certain policies and return these policies to the general account of Ambac Assurance.

**Note 15 - Leases**

- a. The Company has no direct lease obligations at December 31, 2009. 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, under the Ambac Assurance UK Limited ("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**

- a. 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 March 31, 2010 was \$68.5 million.

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

- a. The Company has not sold or transferred any receivables during 2010.
- b. The Company has not transferred or serviced any financial assets during 2010.
- c. 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**

- a. The Company does not serve as an Administrative Services Only ("ASO") provider.
- b. The Company does not serve as an Administrative Services Contract ("ASC") provider.
- c. The Company is not a party to any Medicare or similarly structured cost based reimbursement contracts.

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

- a. The Company did not write direct premiums through managing general agents or third party administrators.

**Note 20 - Other Items**

- a. The Company had no extraordinary items during 2010.
- b. The Company has no debt outstanding.
- c. The Company has no other disclosures.
- d. As of March 31, 2010, the Company had no uncollectible premiums receivable.
- e. The Company had no business interruption insurance recoveries during 2010.
- f. The Company does not have any state transferable tax credits.
- a. The Segregated Account has exposure to the U.S. sub-prime mortgage market as a result of the allocation of financial guarantee insurance policies for residential mortgage-backed securities ("RMBS") issued by Ambac Assurance.

Ambac Assurance insured RMBS transactions that contain first-lien mortgages. Ambac Assurance classifies first-lien mortgage borrowers into three broad credit risk classes: prime, mid-prime (including Alt-A) and sub-prime. The most common statistical metric that is used to determine the credit risk of a mortgage borrower is the FICO score (Fair Isaac Credit Organization). FICO credit scores are calculated by using information, which in Fair Isaacs' view, best predicts future credit performance. Predictive factors in the data have been considered by most market participants to be a reasonable indication of future credit performance. Credit scores analyze a borrower's credit history considering numerous factors such as late payments, the amount of time credit has been established, the amount of credit used versus the amount of credit available, length of time at present residence and negative credit information such as bankruptcies, charge-offs, collections, etc. FICO scores range from 300 to 850. Though there are no industry standard definitions, generally FICO scores are as follows: prime (FICO score over 710), mid-prime (FICO score between 640 and 710) and sub-prime (FICO score below 640).

Prime loans are typically made to borrowers who have a strong credit history and can demonstrate a capacity to repay their loans, sub-prime loans are typically made to borrowers who are perceived as deficient on either or both of these grounds. Compared with prime loans, sub-prime loans typically have higher loan-to-value ratios, reflecting the greater difficulty that sub-prime borrowers have in making down payments and the propensity of these borrowers to extract equity during refinancing. The mid-prime category includes "Alt-A" loans, which typically do not meet standard agency guidelines for documentation requirement, property type or loan-to-value ratio. These are typically higher-balance loans made to borrowers who might have past credit problems that are not severe enough to warrant "sub-prime" classification, or borrowers who chose not to obtain a prime mortgage due to documentation requirements. Additionally, this category includes loans with nontraditional amortization schedules such as interest only or option adjustable rate features.

The following tables provide current gross par outstanding by vintage and type, and underlying credit rating of the Segregated Accounts U.S. sub-prime RMBS book of business:

Total Gross Par Outstanding

**NOTES TO FINANCIAL STATEMENTS**

Year of Issue (\$ in millions)	At March 31, 2010
	Sub-prime
1998-2001	\$ 771.5
2002	720.0
2003	1,111.8
2004	571.2
2005	1,222.6
2006	913.4
2007	581.2
Total	\$5,891.7

Investments in RMBS Securities

The Segregated Account does not hold any investments in sub-prime mortgage loans or securities with underlying sub-prime exposures.

**Note 21 - Events Subsequent**

- a. There have been no material Type I or Type II events that have occurred subsequent to March 31, 2010 that require disclosure in accordance with SSAP No. 9, Subsequent Events. The date through which subsequent events have been evaluated was May 17, 2010.

**Note 22 - Reinsurance**

- a. The Company has no unsecured reinsurance balances in excess of 3% of policyholders' surplus with any one reinsurer.
- b. The Company has no reinsurance recoverables in dispute.
- c. The Company has no unearned premiums or accrued contingent commissions relating to assumed and ceded reinsurance at March 31, 2010. The Company has no protected cells at March 31, 2010.
- d. The Company has no uncollectible reinsurance.
- e. The Company did not commute any ceded reinsurance during 2010.
- f. 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.

During the quarter ended March 31, 2010, the Segregated Account assumed allocated liabilities from Ambac Assurance 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.

- g. 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**

- a. The Company does not issue retrospectively rated contracts or contracts subject to redetermination; none of the company's reinsurance contracts are retrospectively rated or subject to redetermination.

**Note 24 - Change in Incurred Losses and Loss Adjustment Expenses**

The Company has applied retroactive reinsurance accounting guidance contained in SSAP 62R "Property and Casualty Insurance" to account for the initial allocation of insurance policies to the Segregated Account and retrocession of the liabilities to Ambac Assurance. As such the company has not recorded any loss reserves.

**Note 25 - Intercompany Pooling Arrangements**

The Company has no intercompany pooling arrangements.

**Note 26 - Structured Settlements**

The Company has not purchased any annuities in 2010.

**Note 27 - Health Care Receivables**

The Company does not have any healthcare receivables at March 31, 2010.

**Note 28 - Participating Policies**

The Company had no participating accident or health contracts during 2010.

**Note 29 - Premium Deficiency Reserves**

The Company had no premium deficiency reserves during 2010.



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**NOTES TO FINANCIAL STATEMENTS**

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**Note 30 - High Deductibles**

The Company has not recorded any reserve credits during 2010.

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

Ambac Assurance generally discounts the liabilities for unpaid losses for financial guaranty claims on a non-tabular basis by application of a discount rate which approximates the average rate of return on admitted assets, in accordance with SSAP 60. Ambac Assurance does not discount unpaid loss expenses. The Wisconsin Insurance Commissioner has directed Ambac Assurance to utilize a prescribed discount rate of 5.10% for the purpose of discounting its March 31, 2010 loss reserves. Retroactive reinsurance reserves established by the Segregated Account are computed considering the discounted reserves of Ambac Assurance. Considering the claims-paying resources of the Segregated Account are reliant on Ambac Assurance's invested assets, such retroactive reinsurance reserves are discounted at Ambac Assurance's discount rate.

**Note 32 - Asbestos/Environmental Reserves**

The Company has not written any policies which have been identified as having the potential for the existence of a liability due to asbestos or environmental losses.

**Note 33 - Subscriber Savings Accounts**

The Company is not a reciprocal exchange and, therefore, does not have subscriber savings accounts.

**Note 34 - Multiple Peril Crop Insurance**

The Company does not write multiple peril crop insurance.

**Note 35 - Financial Guaranty Insurance**

As noted above in footnote 1.C above, pursuant to SSAP 62, the allocation of financial guaranty insurance policies to the Segregated Account as well retrocessions under the aggregate excess of loss reinsurance agreement have 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.

Pursuant to the Management Services Agreement, Ambac Assurance provides certain management and administrative services to the Segregated Account and the rehabilitator including credit exposure management, risk management, and loss management. The Segregated Account's allocated retroactive reinsurance liability is based on Ambac Assurance'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 loss reserves should be established by Ambac Assurance and accordingly a retroactive reinsurance liability in the Segregated Account should be established based on its terms. 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's Enterprise Risk Management Committee ("ERMC"), which is comprised of Ambac's senior risk management professionals and other senior management. For certain credit exposures, Ambac's additional monitoring and loss remediation efforts may provide information relevant to adjust this estimate of statistical expected losses. As such, ERMC-approved 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. Ambac Assurance has 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

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.

Loss reserves are established by Ambac Assurance for losses on guaranteed obligations that have already defaulted. Retroactive reinsurance liabilities are established based on such loss reserves of Ambac Assurance under the terms as more fully described in Note 10. All credits are assigned risk classifications by the Ambac Assurance Surveillance Group using the following guidelines:

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

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## NOTES TO FINANCIAL STATEMENTS

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

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

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

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

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

### **CLASS II – “Substandard Requiring Intervention”**

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

### **CLASS III – “Doubtful with Clear Potential for Loss”**

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

### **CLASS IV – “Imminent Default or Defaulted”**

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

### **CLASS V – “Fully Reserved”**

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

**GENERAL INTERROGATORIES**

**PART 1 - COMMON INTERROGATORIES**

**GENERAL**

- 1.1 Did the reporting entity experience any material transactions requiring the filing of Disclosure of Material Transactions with the State of Domicile, as required by the Model Act? Yes [ ] No [ X ]
- 1.2 If yes, has the report been filed with the domiciliary state? Yes [ ] No [ ]
- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes [ ] No [ X ]
- 2.2 If yes, date of change: .....
- 3. Have there been any substantial changes in the organizational chart since the prior quarter end? Yes [ X ] 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 [ X ]
- 4.2 If yes, provide name of entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 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 [ X ] No [ ] N/A [ ]  
If yes, attach an explanation.

Effective March 24, 2010, the Segregated Account entered into a Management Services Agreement (the "Management Services Agreement") and a Cooperation Agreement (the "Cooperation Agreement") with Ambac Assurance. Pursuant to the Management Services Agreement, Ambac Assurance will provide certain management and administrative services to the Segregated Account and the rehabilitator 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. Pursuant to the Cooperation Agreement, Ambac Assurance and the Segregated Account 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 million (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.

- 6.1 State as of what date the latest financial examination of the reporting entity was made or is being made. .....
- 6.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. .....
- 6.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). .....
- 6.4 By what department or departments?  
.....  
.....

- 6.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with Departments? Yes [ ] No [ ] N/A [ X ]
- 6.6 Have all of the recommendations within the latest financial examination report been complied with? Yes [ ] No [ ] N/A [ X ]

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

- 7.2 If yes, give full information:  
.....  
.....

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

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

- 8.3 Is the company affiliated with one or more banks, thrifts or securities firms? Yes [ X ] 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

# GENERAL INTERROGATORIES

## PART 1 - COMMON INTERROGATORIES

### GENERAL

- 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:

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- 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).

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

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

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### 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: .....

### 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:

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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.....	\$ .....0	\$ .....0
14.24 Short-Term Investments.....	\$ .....0	\$ .....0
14.25 Mortgage Loans on Real Estate.....	\$ .....0	\$ .....0
14.26 All Other.....	\$ .....0	\$ .....2,000,225,530
14.27 Total Investment in Parent, Subsidiaries and Affiliates (Subtotal Lines 14.21 to 14.26).....	\$ .....0	\$ .....2,000,225,530
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.

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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

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

## GENERAL INTERROGATORIES

### PART 1 - COMMON INTERROGATORIES

#### GENERAL

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

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

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

1 Central Registration Depository	2 Name(s)	3 Address

17.1 Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office been followed?

Yes [  ]      No [  ]

17.2 If no, list exceptions:

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## 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.

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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.

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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:

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

1 Line of Business	2 Maximum Interest	3 Disc. Rate	Total Discount				Discount Taken During Period				
			4 Unpaid Losses	5 Unpaid LAE	6 IBNR	7 Total	8 Unpaid Losses	9 Unpaid LAE	10 IBNR	11 Total	
						0					0
Total.....	XXX..	XXX.....	0	0	0	0	0	0	0	0	0

5. Operating Percentages:

5.1 A&H loss percent 0.0 %

5.2 A&H cost containment percent 0.0 %

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

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

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

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

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

**SCHEDULE F - CEDED REINSURANCE**

Showing All New Reinsurers - Current Year to Date

1 NAIC Company Code	2 Federal ID Number	3 Name of Reinsurer	4 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

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

### DETAILS OF WRITE-INS

5801. ....	XXX						
5802. ....	XXX						
5803. ....	XXX						
5898. Summary of remaining write-ins for Line 58 from overflow page.....	XXX	0	0	0	0	0	0
5899. Totals (Lines 5801 thru 5803 + Line 5898) (Line 58 above).....	XXX	0	0	0	0	0	0

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

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

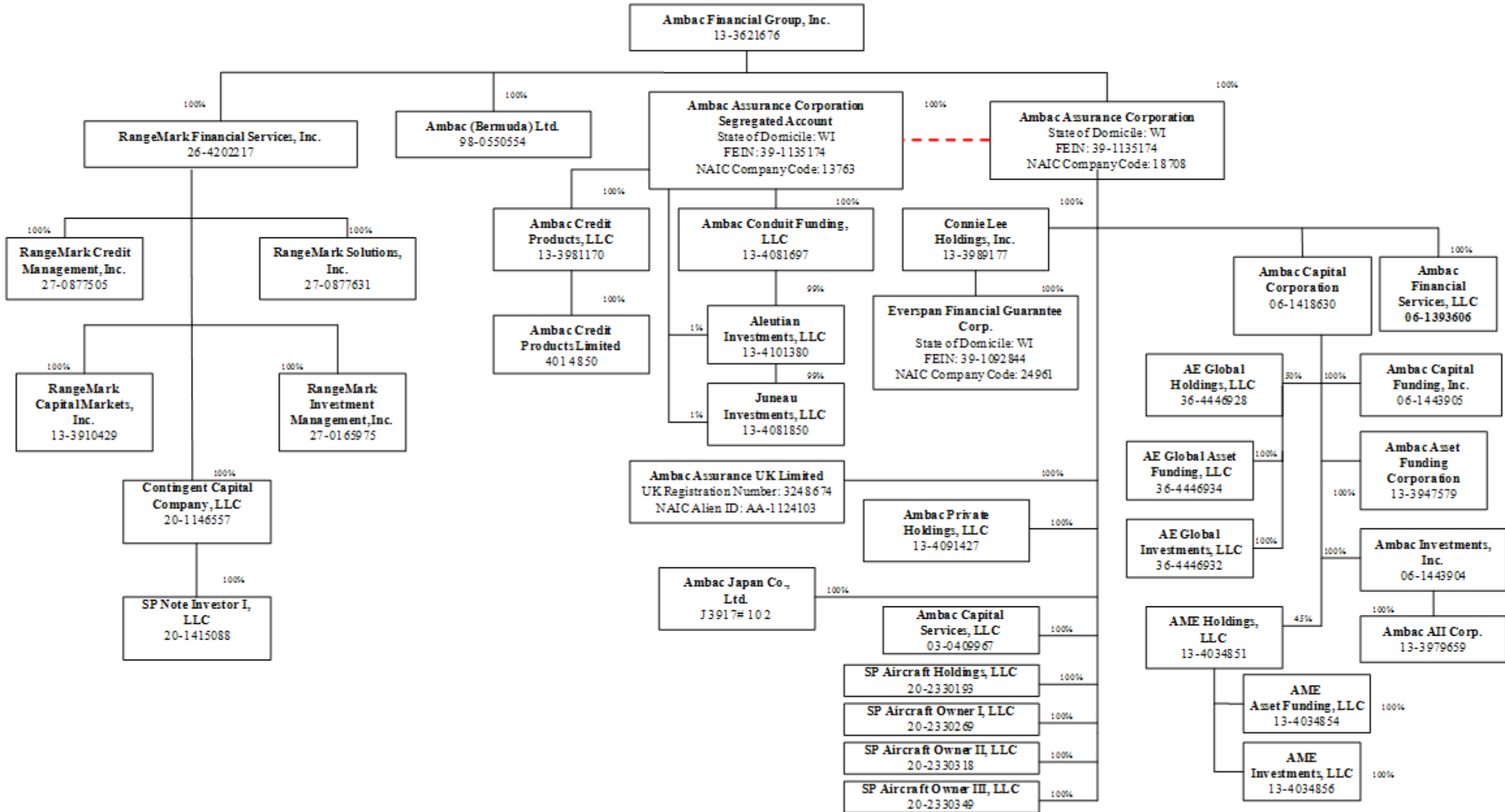
(a) Insert the number of L responses except for Canada and Other Alien.



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

PART 1 – ORGANIZATIONAL CHART

Q11



**Pt 1  
NONE**

**Pt 2  
NONE**

**Pt 3  
NONE**

**Q12, Q13**

Statement for March 31, 2010 of the **Ambac Assurance Corporation Segregated Account, in Rehabilitation**  
**SUPPLEMENTAL EXHIBITS AND SCHEDULES INTERROGATORIES**

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

	<b>Response</b>
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:**



**NONE**

Statement for March 31, 2010 of the **Ambac Assurance Corporation Segregated Account, in Rehabilitation**  
**SCHEDULE A - VERIFICATION**

Real Estate

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

**SCHEDULE B - VERIFICATION**

Mortgage Loans

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

**SCHEDULE BA - VERIFICATION**

Other Long-Term Invested Assets

	1 Year to Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value, December 31 of prior year.....	0	
2. Cost of acquired:		
2.1 Actual cost at time of acquisition.....	2,000,000,000	
2.2 Additional investment made after acquisition.....	225,530	
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 depreciation.....		
9. Total foreign exchange change in book/adjusted carrying value.....		
10. Deduct current year's other than temporary impairment recognized.....		
11. Book/adjusted carrying value at end of current period (Lines 1+2+3+4+5+6-7-8+9-10).....	2,000,225,530	0
12. Deduct total nonadmitted amounts.....		
13. Statement value at end of current period (Line 11 minus Line 12).....	2,000,225,530	0

**SCHEDULE D - VERIFICATION**

Bonds and Stocks

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

**Sch. D-Pt 1B  
NONE**

**Sch. DA-Pt 1  
NONE**

**Sch. DA-Verification  
NONE**

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

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

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

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

**Sch. DB-Verification  
NONE**

**Sch. E-Verification  
NONE**

**Sch. A-Pt 2  
NONE**

**Sch. A-Pt 3  
NONE**

**Sch. B-Pt 2  
NONE**

**Sch. B-Pt 3  
NONE**

### 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									
<b>Joint Venture or Partnership Interests That Have Underlying Characteristics of Other - Affiliated</b>												
	Ambac Conduit Funding, LLC.....	New York.....	NY.....	Ambac Assurance Corporation.....		03/24/2010....						100.0
	Ambac Credit Products, LLC.....	New York.....	NY.....	Ambac Assurance Corporation.....		03/24/2010....						100.0
	Juneau Investments, LLC.....	New York.....	NY.....	Ambac Assurance Corporation.....		03/24/2010....			154,984			1.0
	Aleutian Investments, LLC.....	New York.....	NY.....	Ambac Assurance Corporation.....		03/24/2010....			70,546			1.0
2099999. Total - Joint Venture or Partnership Interests That Have Underlying Characteristics of Other - Affiliated.....									0	225,530	0	XXX
<b>Collateral Loans - Affiliated</b>												
	Secured Note Due from Ambac Assurance Corporation.....	New York.....	NY.....	Ambac Assurance Corporation.....		03/24/2010....		2,000,000,000				100.0
2499999. Total - Collateral Loans - Affiliated.....									2,000,000,000	0	0	XXX
4099999. Subtotal - Affiliated.....									2,000,000,000	225,530	0	XXX
4199999. Totals.....									2,000,000,000	225,530	0	XXX

QE03

### 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)						
<b>NONE</b>																		

**Sch. D-Pt 3  
NONE**

**Sch. D-Pt 4  
NONE**

**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**

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

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